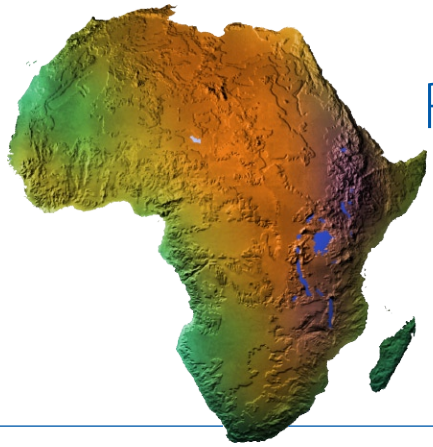


REGIONAL INTEGRATION IN AFRICA

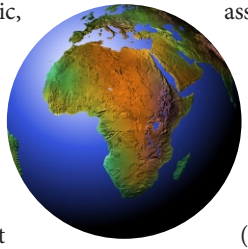
Stakeholder Consultations on Key Elements of a World Bank Assistance Strategy

October 20, 2007

THE WORLD BANK

REGIONAL INTEGRATION IN AFRICA

Summary and Points for Discussion



Global trends in international trade and economic, social, and political relations continue to forge closer integration among countries and regions and remain an important engine of economic growth throughout much of the world. The need to embrace these trends is nowhere more urgent than in Africa, where the combined impact of relatively small economies, international terms of trade, conflict and the legacy of colonialism has prevented the continent from realizing a presence in global markets commensurate with its needs and potential. Creation of a pan-African common market through regional integration has been a central vision of African leaders since the early years of independence. Undoubtedly regional integration can contribute strongly to key aspects of Africa's development: it can improve market integration, facilitate economies of scale and economic diversification, and, crucially, stimulate intra-regional and continental trade to strengthen growth. Regional integration can also assist management of the continent's shared natural resources and help improve human development outcomes.

Given the political vision of regional integration in Sub-Saharan Africa, hard-fought progress in recent years and the World Bank's increasing involvement to assist these efforts, it is timely to take a fresh look at the Bank's activities from a strategic perspective. The key objective of the new Regional Integration Assistance Strategy (RIAS) is to guide the Bank's assistance to regional integration in a coherent and effective manner. The RIAS is situated within the framework of the revised Africa Action Plan, which sets out the World Bank's overall assistance strategy to Africa, and aims to complement and leverage the Bank's traditional country-specific assistance strategies. The new strategy proposes a framework for Bank assistance focusing on a limited number of areas where the Bank has comparative advantage among development partners. The proposed strategy is thus organized around three main pillars of engagement: (i) cross border infrastructure, (ii) trade, investment and financial integration, and (iii) regional public goods. Bank assistance in these areas will be provided in manner that assists Africa with two important cross-cutting challenges: strengthening regional strategic planning and connections with national planning, and donor alignment and harmonization. The proposed assistance strategy has an open architecture, in which the Bank envisages continuation of extensive collaboration with existing and new development partners.

This note, prepared as a background note for the Stakeholders Consultations' Meeting on October 20th, 2007, briefly summarizes the key considerations and proposed elements of the Bank assistance strategy as they are currently reflected in the draft RIAS. The note is thus intended to stimulate discussion at the Stakeholder Meeting with the objective of providing guidance to the Bank in its work to finalize the strategy. To facilitate discussion at the meeting and to organize feedback to the Bank, this note and the Stakeholder meeting are developed around three clusters of issues set out below:

1. ***Does the discussion in section II capture the key challenges facing regional cooperation and integration in Sub-Saharan Africa?***
2. ***How can the donor community best assist Africa to strengthen regional strategic planning and linkages to national development programs?***
3. ***What is the Comparative Advantage of the World Bank in supporting Regional Integration?***

I. Integrating Africa—Globally and Regionally

1. Sub-Saharan Africa encompasses 741 million people: citizens of 48 countries speaking several hundred languages and living in cities, deserts, rainforests, grasslands, and mountain reaches. This mosaic of cultures, talents and resources is a unique global endowment. Harnessing this endowment for the betterment of African livelihoods is an equally unique development challenge. The role in this challenge of the levers of regional and global integration is the overriding theme of this note.

2. Global trends favoring closer economic, social, and political relations have forged closer integration among countries and between regions and spurred sustained and strong growth in international trade. This has been the mainstay of economic growth throughout much of the world - and for developing countries in particular. Globally, low- and middle-income economies doubled their market share of world merchandise exports between 1990 and 2005, from about 15 percent to almost 30 percent, with merchandise exports between developing economies growing on average at nearly 15 percent annually. In parallel, international private financial flows tripled as a share of world GDP, and net inflows of foreign direct investment (FDI) to developing countries soared tenfold, from less than $25 billion in 1990 to more than $275 billion in 2005. Regions and sub-regions around the world are continuing to extend the integration of their economies to create larger and more competitive regional economic blocs, leveraging additional growth through further expanding trade with the 'global society'.

3. Nowhere is the need for a shift towards regional and global integration more urgent than in Africa— a continent still, despite strong growth in recent years, largely marginalized in a global perspective. While home to almost 15 percent of the world's population (in 2006), Sub-Saharan Africa still accounts only for about 1 ½ percent of world income and 2 percent of global trade, down from about 4 percent in 1970. Africa's share in global agricultural exports has declined continuously; its share in global manufactured exports (about 0.5 percent) has hardly changed since 1970, while its share of textiles and clothing exports - the spearhead of an export push for many developing countries - has remained stagnant. And while FDI inflows tripled between 2000 and 2005, at $20 billion annually, receipts by Sub-Saharan Africa still barely account for 2 percent of the world total. Moreover, inflows are heavily skewed toward mining industries (especially petroleum) and telecommunications and are highly concentrated in just a few countries[1]. Africa's export prospects have improved with the recent commodity boom and rapidly growing economies, especially in Asia, offering new export markets of considerable potential. Nevertheless, the continent is lagging significantly behind other developing regions in terms of its progress towards achieving the Millennium Development Goals and in developing the competitiveness and facilities for trade to exploit this potential.

4. At the roots of Africa's marginal role in the world economy are factors such as the changing nature and attributes of exports, restrictions in market access to major developed economic blocs and a cluster of important supply-side constraints. Improved trading agreements with developed partners clearly would help Africa boost exports. But it is doubtful whether these alone will facilitate a breakthrough onto a higher trajectory of export-led growth. Analysis the Bank has undertaken shows that in key sectors factory gate production costs in Africa compare favorably with other developing countries, including India and China. However, indirect costs of business and trade facilitation sap Africa's competitiveness badly, effectively destroying comparative advantage in global markets where Africa should otherwise be a formidable competitor. To a considerable extent these internal competitiveness challenges can be traced back to the small size of many of Africa's economies, the large proportion of population which is landlocked (7 times the world average), limited economic diversification and crucially, a near exclusive focus hitherto on national programs of development. Limited regional integration has throttled opportunities to achieve economics-of-scale, diversify economic production and

1 More than 90 percent of FDI inflows are thus destined for the continent's main oil producers (Angola, Equatorial Guinea, Nigeria and Sudan) and South Africa. With new investors, including Chinese, Indian and Southern and Northern African operators, patterns of FDI have started to diversify into agriculture, manufacturing, construction and services. Still, Africa has not attracted many foreign investors because the prevailing business environment and the market conditions failed to attract even domestic investors.

open-up economies in the continent's vast interior. A more integrated Africa could help tackle some of the most stubborn constraints and unlock much more of the continent's potential for stronger export-led growth.[2]

5. Inadequate connectivity (transport and communications infrastructure) and costly and unreliable power emerge is a damning constraint to thousands of African enterprises that might otherwise be in a position to increase exports. While Africa has abundant energy resources (from oil, coal, hydroelectricity, natural gas, to biomass and other renewable sources) investment climate surveys indicate that unreliable power supply and poor access to power are major constraints to business and investment[3]. Similarly, though roads are the dominant transport mode in Africa (accounting for 90 percent of interurban transport) road density is less than 7 kilometers per 100 square kilometers of land. This compares with 12 kilometers in Latin America and 18 kilometers in Asia and is especially constraining in view of the high proportion of Africa's population in land-locked countries. Meanwhile, three railway gauges continue to coexist on the continent, exacerbating challenges to interconnect regions and open corridors to the sea. For landlocked countries, the overall impact is that transport costs can be as much as 75% of the value of exports. The weaknesses of physical interconnectivity in Africa combined with inadequate and unreliable power supplies raise the cost of doing business in Africa significantly, and likewise deter investment.

6. Adding to challenges presented by weak physical infrastructure, webs of 'behind the border' constraints further undermine Africa's competitiveness. These include poorly developed financial markets and limited financial integration at a regional level, complex and lengthy procedures regulating private business activity, high and unpredictable trade tariffs, complex customs arrangements and limited harmonization at a regional level of policies, regulations and procedures in each of these areas. Numerous informal road blocks along trade arteries present a further layer of challenge. Thus while better regional infrastructure is a sine qua non to strengthen Africa's competitiveness, improvements also depend in no small way on tackling 'behind the border' constraints to business efficiency and trade facilitation.

7. The most cost-effective solutions to meeting Africa's infrastructure needs, especially among small economies, are often regional—arterial transport corridors to connect landlocked countries to the sea and interconnect regional neighbors, power pools to achieve economies of scale in generation and strengthening supply reliability and multi-country fiber optic installations. There is broad agreement on this among Africa's leaders and strong political commitment to regional integration, manifest in the comprehensive institutional architecture which Africa has constructed to drive and coordinate regional initiatives. Today, regional economic communities (RECs) operate in West, East, Central, and Southern Africa and in total the continent is home to some 30 regional or sub-regional organizations (with each country on average belonging to four). The effectiveness of these bodies in driving priority regional programs has often been constrained by obligations arising from their overlapping memberships and responsibilities and by chronic shortages of professional capacity. Against the backdrop of increasing regionalism worldwide, slow progress in the ongoing Doha Round of multilateral trade negotiations and rising frustration with the slow pace of implementation of priority regional programs in Africa, the continent's leaders have in recent years renewed their efforts to broaden and deepen integration and spur the effectiveness of key regional and continental bodies. The New Partnership for Africa's Development (NEPAD) under the Africa Union has regional integration as a core objective and is encouraging the RECs to delineate their roles and responsibilities, with a focus on "open regionalism". However, for all this, Africans remain frustrated that progress has been hard in coming and that so much more of the continent's undisputed potential remains locked in the need to accelerate progress on regional integration. The main challenges Africa faces lie in how to do this.

2 Factory floor costs across African countries compare well with India and China. For example, direct costs per male shirt are $0.16 in Madagascar, $0.18 in Kenya, $0.12 in Ghana, $0.16 in Mozambique, $019 in Lesotho, $0.65 in South Africa, compared to $0.17 in India and $0.29 in export processing zones (EPZ) in China. Source: World Bank Indicators 2007

3 Around 40 percent of enterprises identifying deficient power supply as a major constraint to doing business and as many as 50 percent maintaining their own generation facilities to insulate themselves from unreliable public supplies. Surveys indicate that unreliable power supply is a major constraint. Around 40 percent of enterprises identify deficient power supply as a major constraint to business and as many as 50 percent maintains their own generation facilities.

II. Key Challenges for Greater Regional Cooperation and Integration

8. As briefly described in Annex I (which summarizes the consensus of the academic literature on the topic) the potential benefits to Africa of regional integration are extensive, including economies of scale, economic diversification, increased FDI inflows from reduced perceptions of political risk, improved intra-regional and continental trade through better competitiveness and (hence) stronger growth overall. Other gains include increased bargaining power in international relations, enhanced cooperation and greater security. To realize these benefits Africa must tackle challenges within the institutional architecture established to drive regional integration and thematic challenges related to priority areas for action.

Key Institutional Challenges

9. The full institutional architecture Africa has established to support processes of integration comprises strata of executive continental bodies, regional economic communities, regional sector technical bodies, and linkages to concerned national planning bodies. The responsibilities of each strata vis-à-vis its neighbor are not yet clearly defined. So in addition to complexities arising from overlapping memberships of regional bodies, functional responsibilities for strategy, program development, project development and financing are not yet fully clarified. This has slowed progress in translating the political vision of integration of Africa's leaders into clear regional strategies, defining realistic programs for priority aspects of integration (for example regional infrastructure and trade integration) and defining technical plans for specific projects. Particular areas of challenge have been in developing regional strategic plans and planning often complex regional projects – though there has been progress in both areas.

10. As regards planning, completion by ECOWAS and UEMOA of a regional Poverty Reduction Strategy for West Africa (in 2006) was a significant milestone. Other regions have also completed strategic planning exercises, for example the Regional Indicative Strategic Plan developed by SADC and the EAC Master Plan developed by the EAC Secretariat. Significantly, linkages between these regional plans and national programs as yet are limited. These linkages are key and will need to be developed to ensure coordinated implementation of regional programs, which is essential to leverage outcomes at country level. Unfortunately, while political declarations on regional integration convey clarity of vision, they mask the Herculean efforts that RECs will need to make to develop the needed institutional capacity and align regional and national planning.

11. As regards regional projects, Africa does not have readily available the considerable resources needed to simultaneously lead technical and financial preparation of a large number of complex regional projects. Neither are donor partners accustomed to providing assistance with project preparation on the required scale. The resulting slow pace of project development has slowed project implementation and raised political frustrations. This has led to pressures on RECs to supplant project development roles more usually shouldered by associations of technical bodies (such as power utilities). The shortages of resources for project development and unclear responsibilities between regional bodies have combined to aggravate progress in this critical area.

12. Through the Bank's first hand experiences of these issues as a partner in regional integration, overcoming the following four institutional issues have been identified as critical steps toward accelerating progress:

- Clarifying the roles and responsibilities of each strata of the institutional architecture Africa has established to drive regional integration, and delineating overlapping membership of regional bodies;
- Strengthening the professional capacity of key regional bodies to improve regional strategies and achieve required policy harmonization in areas considered priority;
- Strengthening concerned national planning organs, to strengthen linkages between regional strategies and national development plans;
- Strengthening delivery mechanisms for regional initiatives (for example regional infrastructure) to underpin confidence in integration through early tangible results.

13. Africa's effort to bring about strengthened regional integration has primarily focused on the last challenge. Yet national support for regional programs overall has been limited in the face of governments' national priorities. Limited reflection of regional priorities in national plans has slowed progress in priority programs, sapping governments' willingness to cede sovereignty to other regional initiatives—a vicious circle. The Bank's experience—along with that of the Africa Union, the United Nations Commission for Africa and others—suggests that faster progress on integration is feasible through a re-balancing of effort among the four institutional challenges. The proposed Regional Integration Assistance Strategy aims to position Bank assistance to regional integration so as to contribute to this effort strongly.

Key Thematic Challenges

14. Regional integration is not an end in itself, but rather a means to an end. As a complement to national development programs, it is a means to achieve superior economic growth and poverty reduction through leveraging outcomes at the country level in specific areas. In Sub-Saharan Africa, the main areas of opportunity lie in improving cross-border physical connectivity, expanding trade and investment, promoting financial integration and in the provision of regional public goods and management of regional commons. Macro-economic stability is of course a necessary pre-condition for regional integration to be able to provide growth and poverty reduction dividends in these areas. While mostly a national concern, some groups of countries (for example UEMOA and EAC) are pursuing regional macroeconomic convergence to strengthen this bedrock of development.

15. Improved ***cross-border physical connectivity*** can contribute to growth and poverty reduction by enlarging markets, facilitating economies of scale and promoting economic diversification – all of which extend opportunities for the poor to participate in production and trade. Cross-border infrastructure programs - principally transport, energy and telecommunications - are prerequisites to speed movements of goods, services, people, and information across borders and (hence) lower the burden which transport costs impose on Africa's competitiveness. Such programs enlarge market access, reduce economic distance and facilitate trade, investment, and labor mobility. The resulting intensification of cross-border economic activities also helps to generate employment, particularly in labor-intensive sectors, further contributing to poverty reduction.

16. Expanding ***trade and investment*** through integration of markets, free trade agreements and customs unions can likewise spur growth and poverty reduction. Trade openness and FDI inflows can connect developing economies with global markets with demand for developing country products. As developing economies have comparative advantage in labor-intensive products, creating demand for such products can increase demand for labor and small plots of land, which are typically the only assets the poor own. Trade and investment at the regional level has a similar, and even greater, impact on poverty reduction by alleviating the great difficulties small, poor countries have in accessing global markets. These countries usually need physical connectivity, market expertise, and distribution networks. By integrating these economies with neighboring, larger economies, they become better positioned to participate in regional and global supply chains.

17. To advance economic integration and to create an enabling environment for sustainable growth, regional economic communities have established new institutions to ***support financial sector integration***. Increased capital flows to African countries will likely place additional burdens on a mostly fragmented and fragile banking sectors. Banking regulation and supervision need to be strengthened while financial structures need to modernize to reflect the rapidly changing needs among businesses operating in regional and global markets. The development of capital markets and deepening of financial intermediation are crucial to the mobilization of resources for growth and sustainable development. Main challenges include considerable needs for capacity development, harmonization of policies and procedures across countries and the development of new types of cross-border and medium and long term financial instruments.

18. ***Regional public goods and regional commons*** are critical to underpin the foundations of growth and to support poverty reduction efforts by limiting vulnerability. The impacts of diseases such as HIV/AIDS and malaria on labor force productivity can be considerable, while agricultural output is periodically vulnerable to migratory pests such as locusts to an alarming degree. Both impacts damage growth but also disproportionately fall on the shoulders of the poor. Similarly, the poor are most vulnerable to water shortages, and have the most to gain from collaborative management of shared water resources which are vital to subsistence agriculture and basic consumption. And while mitigation strategies for negative regional commons such as weather catastrophes and climate change have yet to be elaborated, examples from other regions suggest there can be cautious optimism that regional approaches can help limit impacts on growth and the vulnerability of the poor.

19. ***Programs of macroeconomic convergence*** and monetary unification can be strong policy measures to underpin stability, growth and poverty reduction among groups of countries politically committed to deep integration. RECs, such as UEMOA and EAC have established macroeconomic convergence criteria to orient member states towards structural reforms and have enhanced macroeconomic stability through mutual interdependence in a unified economic space. These are ambitious programs even among developed economies. Intermediate stages of integration, including effective free trade areas and customs unions are important stepping stones which in themselves present considerable challenges

III. The World Bank's Support for Regional Integration to Date

20. The Bank's long-standing support for global priorities and region-wide programs gained considerable momentum in 2003 with launch of the IDA Regional Pilot Program[4]. Created in recognition of the increasing importance of regional integration for growth and poverty reduction in poor countries, especially in Africa, the Regional Pilot strengthened the ability of IDA to support regional actions in Africa by leveraging its country-based engagements. Resources earmarked for this mobilizing nearly US$1.3 billion of IDA assistance to regional programs under IDA13 and IDA14[5]. Following commitment of US$375 million to assist five operations in FY04-FY05, the Pilot leveraged financing for five projects of US$480 million in FY06 and more than US$700 million for four projects in FY07. So far in FY08 (by October 1, 2007), two projects have been approved with a commitment of US$280 million, thereby virtually exhausting the Pilot funding envelope almost a year ahead of schedule.

21. Strategically positioning the Bank's regional assistance has been challenging. Despite extensive political commitments, reflections of regional priorities in national planning have been limited. Regional plans largely have focused on setting investment priorities, for example the NEPAD Short Term Action Plan (STAP) of 2002. For the Bank, and other partners, the challenge has been to identify among groups of countries strategic confluences of willingness to work regionally. This proxy approach of revealed preferences was used to develop four sub-regional interim strategies that have guided the Bank's engagement under the Pilot. Overall, the Bank has had three main objectives: (i) scale-up assistance to priority programs of regional integration; (ii) fold this assistance into the mainstream of the Bank's Africa program, specifically in the context of the Africa Action Plan (AAP) and; (iii) deliver this assistance within the Bank's country-based approach; to avoid regional assistance being viewed as a separate activity.

22. As of September 1, 2007, the Regional Integration Department's project portfolio contains 29 projects, with a total commitment of almost US$2.2 billion, making it the largest portfolio in the Africa Region in terms of number of projects and second in terms of net commitments. Regional infrastructure (power, transport corridors and communications) make up nearly two-thirds of this portfolio with the remainder divided between water resources management and environment (20 percent), financial sector integration (about 10 percent), and HIV/AIDS and regional agriculture. By sub-region, West Africa with 15 projects has received most assistance followed by Central Africa (10 projects) Eastern Africa (nine projects) and Southern Africa (seven projects).[6] *The Regional Integration Department's portfolio of projects is listed in attached Table I.*

23. Partnerships and coordination are critical levers for the Bank's regional integration assistance. The African Development Bank has become a particularly close partner, sharing in the development of complex infrastructure programs and co-financing most large investments. Other significant partners include the EC as well as the IDB, the DBSA, DFID, AfD, USAID, Germany, Japan and Nordic countries. An important Bank contribution to partnerships has been support of regional policy alignment, through the Bank's engagements in country policy dialogue. Increasing Bank internal coordination and consultations among Bank country teams, sector teams and the Regional Integration Department are leading to improving recognition of regional priorities in CAS and sector strategies. Partnerships with IFC and MIGA have also been significant in leveraging private financing for regional infrastructure.[7]

24. Assisting regional capacity building is problematic for IDA. The Regional Pilot does not include the possibility to provide grants to supra-national bodies. This has throttled possibilities for the Bank to support capacity development of regional bodies and their ability to drive regional policy debate. Limited support has been provided through partnerships and bilateral trust funds. The fragmentation of resources and

4 The World Bank's first involvement in global programs dates back to the establishment, in 1972, of the Consultative Group on International Agricultural Research. Since then, the Bank's participation in global programs has steadily grown, reaching over 160 global programs and partnerships by FY06. Specifically concerning Africa, the Bank provided assistance to 10 regional projects with total IDA commitment of US$315 million between 1979 and 2002.

5 To anchor ownership of the regional effort within the national IDA program of participating countries, the Regional Pilot Program requires that country IDA allocations cover one-third of the regional project costs attributable to each country; the remaining two-thirds of project costs come from the separate Regional Pilot Program funding envelope. The Regional Pilot thus provided separate funding to top-up country resources to the tune of about US$580 million for the last two years of IDA13 and nearly US$1 billion under IDA14. Combined with country contributions, the total envelope available for regional projects under IDA14 amounted to about US$1.3 billion, of which more than 80 percent is made available for projects in Africa.

6 Of the total Africa Regional Integration Portfolio, 16 projects committing US$1.9 billion have been funded through the IDA Regional Pilot Program, and 13 projects committing US$297 million have been funded through GEF, HIV/AIDS funds or pre-dates the Pilot Program.

7 An example is the Regional Communications Infrastructure Program (US $424 million). The Program supports development of a telecommunications system for Eastern Africa which may interconnect up to 24 countries. Considerable private financing for the submarine cable system was mobilized by IFC, facilitated by complementary financing for essential terrestrial linkages and transmission provided by the IDA Regional Pilot.

limited funding has made it difficult for the Bank to provide assistance commensurate with the strategic importance of regional capacity development.

25. The Bank's support for regional integration in Africa has been largely activity-based. An activity-based approach can secure interests, sense of ownership, and generate tangible results—through enlarged economic space, reduced economic distance, and regional public goods—to create initial momentum for cooperation. This approach is particularly relevant in sub-regions where confidence among participating countries was limited at the outset. However, activity-based arrangements tend to be fragmented, and sometimes uncoordinated, because of the lack of a region-wide strategic perspective. Although the sub-RIAS', particularly in West Africa, have provide a guiding framework for some sub-regional activities, they have been very uneven in nature and construct and have, thus, only to a limited extent served as a coherent and strategic instrument for the Bank's Africa-wide support for regional integration. In developing a comprehensive strategy, implementation experience to date suggests a number of important lessons related to the design and implementation of regional projects, the most important of which are summarized in Box I.

IV. An Emerging World Bank Strategy

A. Key Principles of Engagement

27. Regional integration offers significant "win-win" possibilities for the region's economies, particularly those which are land-locked. To a large extent these advantages arise because integration offers possibilities to leverage and extend economic comparative advantage at a regional level in ways not accessible through national development programs. Advantages in managing regional 'commons' and in creating new regional public goods are similarly accessible. To focus Bank assistance in ways that help countries unlock these advantages, the new strategy has been developed within a conceptual boundary set by three guiding principles:

- **Open Regionalism**: Promotion of an outward-oriented approach to integration, to contribute to reducing obstacles to trade and investment through a market-driven integration process. Collaboration to expand markets and encourage competition across borders will help sharpen competitiveness and comparative advantage.
- **Subsidiarity**: Regional bodies should be responsible only for those activities that are not more effectively handled at national level. Respecting subsidiarity avoids overloading scarce regional capacity and will help strengthen interconnection between regional and national planning, together with ownership of regional initiatives at the national level to underpin implementation.
- **Pragmatism and Gradualism***:* Moving methodically and emphasizing measurable and pragmatic gains will help build constituencies of support for further steps in integration and strengthen implementation mechanisms. Targets need to be credible and realistic, and activities underpinned with adequate regional knowledge and analyses.

28. In shaping the strategy these principles have been applied to identify aspects of the Africa Action Plan where outcomes at country level can be leveraged through assistance to regional integration. In planning for implementation of the strategy, a fourth guiding principle is that the Bank's assistance to regional integration should reinforce rather than weaken country assistance programs

29. Development of the Regional Integration Assistance Strategy has benefited from extensive inputs from stakeholders: regional bodies, national governments, academia, private sector representatives, civil society representatives and development partners. In addition to numerous meetings with individual stakeholder groups, a first Stakeholder Consultation held in Nairobi in January 2007 provided a valuable forum in which the Bank was able to reveal and test its early thinking on how to re-position and re-balance assistance to leverage Africa's leadership[8].

30. The Bank plans that the new strategy will have an open architecture, to facilitate partnerships and leverage the comparative advantages of other multilateral and bilateral agencies assisting regional integration. A continuation of extensive collaboration with partners is envisaged across all aspects of the strategy and the Bank looks forward to extending partnerships with important new actors, for example China and India.

8 Reference to minutes of the Stakeholder Consultation

B. Key Pillars of the Strategy

31. The inputs received from stakeholder consultations have helped the Bank distill proposed main features of the new strategy, which are organized around three main pillars of engagement: (i) cross border infrastructure, (ii) trade, investment and financial integration, and (iii) regional public goods. Bank assistance in these areas will be provided so as also to assist Africa with two important cross-cutting challenges in regional integration: strengthening regional strategic planning and connections with national development plans, and donor alignment and harmonization in regional programs. Assisting Africa to maintain regional macroeconomic and financial stability will be an important ancillary objective, with which the Bank will assist through its country programs in parallel with the specific assistance to regional integration. In this regard particular attention will be given to groups of countries pursuing macro-economic convergence and monetary union.

Cross-Border Infrastructure

32. Physical connectivity is the foundation for many of the world's economic communities. Transport and communication connections are essential for the movement of goods, services, capital, and people across countries and borders while integrated power systems lower costs and improve reliability. In Africa, stronger and better-connected platforms of infrastructure will unlock economies of scale and help sharpen competitiveness. This will facilitate more intra-regional trade and exports from the continent, supporting Africa's growth agenda strongly.

33. However, new physical structures are only part of the challenge. Equally important is accompanying 'software' to enable infrastructure systems to be utilized effectively. Such accompanying 'software' includes harmonization of technical standards and development of common regulations, procedures and legal codes. Crucially it also includes developing the capacity in national and regional agencies to drive the harmonization agenda and design and implement cross-border regulatory arrangements.

34. Bank support for cross-border infrastructure and related software will focus on: (i) expanding and upgrading selected trade corridors and transport networks; (ii) improving access to clean energy and improving supply reliability; and (iii) improving telecommunication connectivity. Financing for infrastructure hardware will be complemented with significant assistance for related capacity development.

Trade, Investment and Financial Integration

35. In addition to the direct benefits of stronger intra-regional trade, more integrated regional markets offer other significant advantages. They facilitate economies of scale to hone competitiveness, promote diversification to avoid that African firms themselves competing against each other in global markets and provide learning-by-exporting experiences that help African firms launch successfully into global markets. Regional markets can also assist in mobilizing FDI, through enabling potential investors to manage perceived political risks by limiting exposure to separate and mostly small domestic markets.

36. Connecting markets to improve the environment for private business, investment and trade is a multi-faceted challenge. Together with strengthened cross-border infrastructure, developing more integrated and deeper financial markets is of fundamental importance. Other challenges include the need for trade policy reform and harmonization, simplification and standardization of customs arrangements and improved 'behind

Box 1: Lessons from Implementation Experience of Bank Projects

- Ensuring ownership among regional and national stakeholders is essential for successful implementation. This requires coordination among sector agencies in each country and between regional and national agencies.
- It is critical to carry out project planning with a regional perspective while implementation is typically best managed at a national level. This leverages the strength of national institutions and limits performance risks of comparatively weak regional institutions. Capacity development of Regional Economic Communities and member country institutions is key to supporting regional programs.
- Weaknesses in regional M&E systems hamper efforts to track project impacts against outcomes targeted in regional strategies. This requires considerable capacity development of regional institutions.
- Procurement responsibility for supranational project components is particularly challenging and places special emphasis on harmonizing national systems.
- In terms of Bank instruments, the Adaptable Program Loans (APLs) have proven to facilitate the implementation of regional projects when concurrent effectiveness is not required, allowing countries to enter project arrangements only when they are ready, and limiting the lending commitment of the Bank to components and countries that are ready to borrow. As a consequence, six out of eleven regional integration projects supported over the past two years have used the APL instrument.
- Because of their complexity, regional projects should routinely be subject to quality reviews of preparation and supervision to capture learning from other regional operations, drawing from across Bank regions.
- Continuing efforts are needed to strengthen coordination across country units and teams. Development of management information systems to show regional projects within country programs has been a key step.

the border' trade logistics to speed the movement of goods and services, especially removal of informal road blocks.

37. Bank assistance to trade, investment and financial integration will be organized in four main areas of work: (i) improving regional environments for business, investment and industrial cooperation, including through capital markets development and integration, (ii) assisting regional efforts to reduce tariff and non-tariff barriers to intra-regional trade; (iii) assisting implementation of customs unions and free trade agreements and (iv) contributing to analytical work and technical assistance related to new trade agreements.

Regional Public Goods

38. Some important development challenges cut across national boundaries and can be addressed more effectively through collective action. National campaigns against HIV/AIDS, for example, are reinforced by action along regional trade corridors. Campaigns against malaria and avian influenza likewise are more effective when organized on a regional basis. Similarly considerations apply to controlling migratory pests, for example locusts. Collective action is also needed for sustainable management of shared natural resources, water and sensitive ecosystems in particular. The forty seven countries of Sub-Saharan Africa share sixty nine international water basins. Africa is also moving to create new types of regional public goods based on improved regional knowledge, for example more effective agricultural research and dissemination through developing regional centers of excellence. Conversely, collaborative approaches are also being developed to tackle some types of negative public goods, such as food insecurity from flooding or drought and the impacts of climate change.

39. Bank assistance with regional public goods will focus on: (i) improved management of trans-boundary water resources, (ii) research and knowledge-sharing on likely implications for Sub-Saharan Africa of climate change and assistance in developing mitigation strategies; (iii) increased access to HIV/AIDS prevention methods along main transport corridors, and improved preparedness to respond to trans-boundary pandemics, other infectious diseases and pests; and (iv) regional rationalization of research and tertiary education to strengthen regional knowledge assets and technical capacity.

C. Cross Cutting Themes

Connecting Regional and National Planning

40. Successful regional initiatives are rooted in coordinated national actions: in harmonizing policies, developing complementary institutional capacity and knowledge and in coordinating implementation and management of shared programs at national levels. Presently, convergences of political willingness to work regionally largely reflect constituencies developed through cross-border technical associations, for example regional associations of national power utilities or river basin authorities. Thus regional initiatives to date – while individually important – have tended to be activity-based rather than strategically selected at the regional economy level. This opportunistic approach has been pragmatic while regional strategic planning has been in a nascent stage. However, it exploits only partially the leveraging of outcomes feasible through more strategic approaches to regional integration. Since activity-based initiatives tend to be championed by national technical agencies the approach does not naturally evolve into strategic engagement at the level of whole economies. In the absence, hitherto, of coherent statements of regional priorities it can make only limited progress towards the vision of integration set out by Africa's leaders.

41. The opportunity to further leverage regional integration is thus inextricably linked with the challenges to strengthen regional strategic planning and build stronger interconnections with national development planning. These, in turn, are linked with the challenges to develop the capacity of key regional bodies and the national planning organs to which they relate. Under the new strategy the Bank aims to step up its assistance to regional strategic planning, in particular for development of regional poverty reduction strategies. Through its country engagements the Bank will also strive to strengthen linkages with national planning bodies. Assistance to regional planning, however, to a considerable extent depends upon availability of a suitable regional grant instrument.

Donor Alignment and Harmonization

42. Africa's regional investments, knowledge activities and capacity development are assisted by a broadening platform of donor engagement. Some partners have been working regionally with Africa for a considerable time. Others, including the Bank, are relative newcomers. Most face challenges of working regionally through country-based business models using mostly national financial instruments. And like the Bank, partners have been challenged to arrange assistance strategically in advance of Africa's clear articulation of strategies for regional integration. Limitations in the capacity of regional economic communities has added to challenges, both by over stretching possibilities for clear and strong client leadership on alignment and by frustrating development of management and fiduciary arrangements to facilitate harmonization of assistance using client systems. As a result, donor alignment and harmonization in regional programs has yet to mirror the

impressive progress in country programs spurred by the Paris Declaration. While there have been encouraging initiatives among groups of donors, alignment and harmonization in regional programs generally will benefit further from stronger client leadership set within clearer strategic frameworks.

43. The Bank will participate strongly in efforts among donors to strengthen client leadership of engagements by donor partners, including through needed institutional development of regional bodies. In this regard, the Bank would support extension of the Paris Declaration to cover alignment and harmonization in regional programs.

44. *The current pipeline of regional integration projects for FY08 thru FY11 is presented in the attached Table II.*

D. The World Bank in Different Roles

45. In implementing the new strategy the Bank will play four distinct roles to assist regional integration: (i) a source of funding, (ii) a knowledge partner, (iii) a partner in capacity development, and (iv) a facilitator and honest broker.

46. In the role of financier, the Bank will continue to provide financial resources for regional integration projects of high priority, together with related capacity development and technical assistance. An important aspect of this role will be to continue to assist in mobilizing needed private financing and co-financing. The Bank will make a concerted effort to mobilize additional regional financing from IFC and explore options for increased use of MIGA guarantees for infrastructure and financial sector integration.

47. As a knowledge partner, the Bank will assist regional bodies to create and disseminate knowledge on integration opportunities and challenges, particularly as regards strengthening regional strategic planning, developing regional policies and creating and managing regional public goods. The Bank's analytical program will have an emphasis on learning from integration experience in other regions.

48. To assist capacity development the Bank will help regional economic communities and selected other regional bodies strengthen their institutional capacity to drive regional policy debate. Work will have a particular focus on trade policy, regional infrastructure, trade facilitation, financial sector integration and regional public goods. This will call for further strengthening of the Bank's partnership with the ADB and enhanced coordination with the G8 Capacity Building Initiative on Infrastructure and the NEPAD Infrastructure Project Preparation Facility.

49. Finally, implementation of the new strategy will require substantial cooperation and more effective coordination between a large number of international and regional organizations. The Bank aims to play an active role as an honest broker to facilitate agreements among regional bodies and with donor partners where there are needs to de-bottleneck important initiatives.

V. Discussion Points

To develop the Regional Integration Assistance Strategy further, the World Bank would value stakeholders' views on the three sets of issues set out below. Stakeholders' views will deepen the Bank's understanding of challenges Africa must overcome to bring regional integration more fully into the mainstream of continental and national development. This, in turn, will assist the Bank in framing the strategy to assist these efforts effectively, having regard to the comparative advantage of the Bank among development partners.

1. **Does the discussion in section II capture the key challenges facing regional integration in Sub-Saharan Africa?** What is the relative priority among these? Would it be realistic to address all these challenges in the near-term; if not, which ones take priority?
2. **How can development partners best assist Africa to strengthen regional strategic planning and linkages to national development programs?** What is the balance of effort between clarifying roles and responsibilities of regional bodies and developing capacity of the RECs and national planning bodies?
3. **What are the areas of comparative advantage for the World Bank to assist regional integration?** Are the proposed elements of a Bank strategy discussed in section IV the right ones? Do the proposed three pillars and two cross-cutting themes provide the right focus?

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Benefits and Costs of Regional Integration Arrangements (RIAs)

Benefits of/Rational for Regional Integration:

- *Increased returns and increased competition*—the notion that bigger markets (through integration of small economies): (a) allows larger firms with greater productive efficiency in industries with economies of scale and (b) increased competition induces firms to cut prices, expand sales and reduce internal inefficiencies.
- *Trade and location effects*—as a result of preferential reduction in tariffs within the regional agreements inducing a switch in both demands and supplies, with the net-effect on national income depending on the costs of alternative sources of supply and trade policies toward no-member countries.
- *Investments*—increased regional cooperation and established agreements may attract more FDI, both from within and outside the region, as a result of (a) market enlargement (particularly for "lumpy" investment that might only be viable above a certain size), and (b) reduced distortion and lower marginal cost in production.
- *Coordination and Collective Bargaining Power*—the idea that RIA may enable countries to coordinate their negotiating positions in international fora, which could result in more visibility and possibly stronger bargaining power;
- *Lock-in and Commitment Mechanism*—relates to the effect of the regional agreement on domestic politics and the view that a regional agreement can provide a "commitment mechanism" for trade and other policy reform measures; it can be a way of raising the cost, and thereby reducing the likelihood of policy reversal. This argument can apply to political as well as economic reform. A necessary condition for a RIA to serve as a commitment mechanism is that the benefit of continued membership is greater than the immediate gains of exit and that enforcement mechanisms within the RIA are credible.
- *Insurance*: RIAs can also be seen as providing insurance to its members against future hazards (macroeconomic instability, terms of trade shocks, trade war, resurgence of protectionism in developed countries, etc.). With asymmetric external shocks related to climatic conditions and terms-of-trade shocks for commodity exporters, 'insurance' seems to be an important rationale for integration or continued membership of particularly the larger RIAs.
- *Security*—related to the perceived benefits from RIA as a basis for increasing security against outsiders as well as in relationships with insiders driven by mechanisms such as improved intra-regional confidence and trust, common defense arrangements, and by increasing socio-economic interdependence among members, regional integration may reduce the risk of internal conflict.

Potential Costs of Regional Integration:

- *Trade diversion*—the displacement of lower cost production from nonmembers by higher cost production from partner countries due to reduced barriers within a regional integration arrangement, has been a major problem in several regional integration arrangements. The arrangements generate welfare gains if trade creation dominates trade diversion, but this outcome cannot be known in advance.
- *Revenue Loss*—RIAs reduce government revenue from tariffs, both directly through tariff cuts among members and indirectly through a shift away from imports from nonmembers subject to tariffs. The cost of this loss depends on how easily members can switch to alternative means of raising funds. But it can be quite high in developing countries that rely heavily on tariff revenue.
- *Indirect costs*—arising from the free movement of people across national borders—for example, the extra vigilance required to prevent crime across borders. In addition, there could be some diminution of national sovereignty and culture due to integration. On balance, however, regional integration is likely to bestow more benefits than costs.

Table I: World Bank Regional Integration Department's Project Portfolio—US$ millions (As of September 2007)

		IDA Regional Pilot		GEF & HIV/AIDS Funds & Pre-Pilot		Total Regional Projects	
Project	**Instrument**	**No**	**$ mls**	**No**	**$ mls**	**No**	**$ mls**
FY01			**0.0**	**1**	**122.5**	**1**	**122.5**
Trade Facilitation Project SIL	SIL				122.5		
FY03		**1**	**14.5**	**1**	**2.9**	**2**	**17.4**
GEF - Lake Chad Basin	#		.		2.9		
BEAC Reg Payment System	TAL		14.5				
FY04		**2**	**275.0**	**4**	**87.7**	**6**	**362.7**
GEF - Senegal River Basin	SIL		.		5.3		
Southern Afr Power Mrkt APL 1	APL		178.6				
GEF - Niger River Basin	SIL		.		6.0		
WAEMU Capital Markets Dev FIL	FIL		96.4				
HIV/AIDS Abidjan Lagos Trnspt	SIL		.		16.6		
Regional HIVAIDS Treatment Prj	SIL		.		59.8		
FY05		**2**	**99.5**	**3**	**37.0**	**5**	**136.5**
GEF - Grndwtr & Drght Mgmt TAL	TAL				7.0		
WAPP Phase 1 APL 1	APL		40.0				
HIV/AIDS ARCAN SIL	SIL		.		10.0		
HIV/AIDs Great Lakes Init APL	APL		.		20.0		
Afr Emergency Locust Prj	ERL		59.5				
FY06		**5**	**477.6**	**1**	**5.7**	**6**	**483.3**
GEF - 'W Africa Stockpiles 1	SIL		.		5.7		
E Afr Trade & Transp Facil	SIL		199.0				
West &Central Afr Air Tran TAL	APL		33.6				
SRB M. Water Res. Dvpt. APL	APL		110.0				
WAPP APL 2 (OMVS Felou HEP)	APL		75.0				
WAPP APL 1 (CTB Phase 2) Project	APL		60.0				
FY07		**6**	**986.2**	**3**	**23.0**	**9**	**1,009.2**
GEF - 'Africa Stockpiles1 MMT	APL		.		9.4		
GEF - Africa -Ethiopia Stockpiles 1					2.6		
GEF - WIO Marine Highway Dev SIL	SIL				11.0		
W.Af Agric Prod Prgm APL WAAPP	APL		45.0				
Telecommunications APL	SIL		164.5				
Regional & Domestic Power Market Dev	SIL		296.7				
APL2 S Afr Power Market	APL		93.0				
CEMAC Transp Transit Facil	SIL		201.0				
Niger Basin Water Resources	SIL		186.0				
Overall Status as of September 1, 2007		**16**	**1,852.8**	**13**	**278.8**	**29**	**2,131.5**

Table II: World Bank Regional Integration Department's Project Pipeline—US$ millions (As of September 2007)

			IDA Regional Pilot		
		Total	Pillar I: Economic Cooperation on Cross-Border Infrastructure	Pillar II: Trade and Investment Cooperation & Integration	Pillar III: Cooperation in Regional Public Goods
Project	**Instrument**		***US$ Millions***		
FY08		**755**	**420**	**215**	**120**
East Africa Power Market APL1	APL		200		
Southern Africa Power Pool APL1 - Additional Financing	APL		100		
Telecommunications RCIP II (APL 2)	APL		120		
CEMAC Financial Sector Integration/Reg Inst Support	SIL			40	
Regional Trade Facilitation SIL 2	SIL			100	
Nacala Corridor	SIL			75	
Lake Victoria Environmental Project II	SIL				90
Southern Africa Technical Advisory Services Project	SIL				30
FY09		**1004**	**724**	**0**	**280**
West & Cent. Air Transport Safety APL 3	APL		50		
West Africa Road Transport	SIL		135		
POWER - NELSAP Rusumo Falls MP SIL	SIL		119		
West Africa Power Pool - Phase III - 1	APL		100		
SRB Multi-Modal Transport Project - Phase II	APL		130		
Southern Africa - Trade & Transport Corridor	SIL		150		
ICT -Central Africa Backbone (CAB)	SIL		40		
AGRIC. - WA Reg. Project for Fisheries	SIL				
Africa Science Technology	SIL				80
Senegal River Basin APLII	SIL				100
RECs Capacity Building	SIL				100
FY10		**742**	**482**	**0**	**260**
West Africa RCIP	APL		80		
Transport - Abidjan-Lagos Trans.& Transit-ALTTFP	SIL		242		
West AFr. Power Pool - Phase IV	APL		90		
South Africa Power Pool - APL III	APL		150		
West Africa Multi Disease Surveillence Project	SIL				60
Water -Zambezi Project	SIL				120
EN Watershed MMgt Program SIL	SIL				35
West Africa Agricultural Productivity Prog - APLII	APL				45
FY11		**760**	**410**	**75**	**275**
East Africa Power Market APL - Phase II (EAPP)	APL		200		
West Africa Power Pool - Phase III - 1	APL		60		
West Africa Power Pool - Phase IV -2	APL		50		
Telecommunications RCIP III (APL 3)	APL		100		
Southern Africa Agricultural Productivity Project	APL			75	
Eastern Nile ENSAP Flood Preparedness SIL	SIL				35
Southern Africa Corridor HIV/AIDS Project	SPL				120
Niger River Basin - APL2	APL				120
Total Pipeline FY08-FY11		**3261**	**2036**	**290**	**935**

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