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AND

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REGIONAL INTEGRATION ASSISTANCE STRATEGY

FOR

SUBSAHARAN AFRICA

March 18, 2008

World Bank
Regional Integration Department
Africa Region

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Regional Integration Assistance Strategy for Sub-Saharan Africa

ACRONYMS

AAA	Analytical and advisory activities
AAP	Africa Action Plan
ACGF	The Africa Catalytic Growth Fund
ACP	African, Caribbean and Pacific Group of States
ADB	African Development Bank
AFCRI	Africa Regional Integration Department (AFR)
AFR	Africa Region
AfT	Aid-for-Trade
AFTQK	Operational Quality and Knowledge Services (AFR)
ACGF	Africa Catalytic Growth Fund
AGOA	Africa Growth Opportunity Act (US)
APL	Adaptable Program Loan
APN	Agriculture Policy Network
APRM	African Peer Review Mechanism (AU)
ARCAN	African Regional Capacity Building Network for HIV/AIDS Prevention, Care, and Treatment Project
ATI	African Trade Insurance
AU	African Union
BCEAO	West African Central Bank
BDEAC	Banque de Développement des Etats de l'Afrique Centrale
BEAC	Regional central bank
BOAD	West African Development Bank
CADAP	Comprehensive Africa Agricultural Development Program (NEPAD)
CAEMC	Central African Economic and Monetary Community (see CEMAC)
CAS	Country assistance strategy
CDMAP	Capacity Development Management Plan
CEEAC	Communauté Économique des États de l'Afrique Centrale (Economic Community of Central African States)
CEMAC	*Communauté Économique et Monétaire de l'Afrique Centrale* (see CAEMC)
CEN-SAD	Community of Sahel-Saharan States
CER	See REC
CET	Common external tariff
CGIAR	Consultative Group on International Agricultural Research
CILSS	*Comité Inter-Etats de Lutte contre la Sécheresse*
CMU	Country management unit
COMESA	Common Market for Eastern and Southern Africa
CPS	Country Partnership Strategy
DBSA	Development Bank of South Africa
DFI	Development finance institution
DfID	Department for International Development
DPL	Development policy loan
DTIS	Diagnostic Trade Integration Study
EAC	East African Community
EARPN	*East Africa Road Network Project*
EASSy	Eastern Africa Submarine Cable System
EBA	Everything But Arms (EU)
EC	European Commission
ECCAS	See CEEAC
ECOWAS	Economic Community of West African States
EITI	Extractive Industries Transparency Initiative
EPA	Economic partnership agreement
ECDPM	European Centre for Development Policy Management

ESW	Economic and sector work
ETIDP	Sudan Emergency Transport and Infrastructure Development Project
EU	European Union
FDI	Foreign direct investment
FSAP	Financial sector assessment program
GDP	Gross domestic product
GEF	Global Environment Facility
GSP	Generalized System of Preferences
HNP	Health nutrition population
IBRD	International Bank for Reconstruction and Development
IDA	International Development Agency
IDB	Islamic Development Bank
ICA	Investment climate assessment
ICR	Implementation Completion Report
ICT	Information and communications technology
IDF	Institutional Development Fund
IDP	Internally displaced population
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IGAD	Inter-Governmental Authority on Development
IGADD	Intergovernmental Authority on Drought and Development
IOC	Indian Ocean Commission
IPPF	Infrastructure Project Preparatory Fund (NEPAD)
ISI	Import-substitution industrialization
ISN	Interim Strategy Note
LDC	Least developed country
LVEMP	Lake Victoria Environmental Management Program I and II
M&E	Monitoring and evaluation
MDC	Maputo Development Corridor
MDG	Millennium Development Goals
MFA	Multifiber Arrangement
MFN	Most favored nation
MIGA	Multilateral Investment and Guarantee Agency
MIC	Middle-Income Country
MIS	Management information systems
MMA	Multilateral Monetary Agreement
Mmst	Million short tons
NAFTA	North American Free Trade Agreement
NBA	Niger Basin Authority
NEPAD	New Partnership for Africa's Development
NPV	Net present value
NTB	Nontariff barrier
OAU	Organization of African Unity
OMVS	Senegal River Valley Authority
OPE	Overall Performance Evaluation
OURES	Open, unified regional economic space
QAG	Quality Assurance Group
PA	Protected area
PBA	Performance-Based Allocation
PDIU	Project Development and Implementation Unit
PEAC	*Pool Energétique de l'Afrique Centrale*
PHRD	Policy and Human Resources Development
PPIAF	Public-Private Infrastructure Advisory Facility
PPP	Public-private partnership
PRS	Poverty reduction strategy
PSD	Private sector development

PTA	Preferential Trade Area for Eastern and Southern Africa
RBO	River basin organization
REC	Regional Economic Community (*Communauté économique régionale*)
REP	Regional Economic Program
RIAS	Regional Integration Assistance Strategy
RIPP	Regional Communications Infrastructure Program
RISDI	Regionally Integrated Spatial Development Initiative (AU/NEPAD)
RTA	Regional trade agreement
SACU	Southern Africa Customs Union
SADC	Southern African Development Community
SAP	Strategic Action Program
SAPP	Southern African Power Pool
SARS	Severe acute respiratory syndrome
SASOL	African petroleum giant
SME	Small and medium-size enterprise
SSA	Sub-Saharan Africa
STAP	Short-Term Action Plan (NEPAD)
TA	Technical assistance
TB	Tuberculosis
TDA	Transboundary Diagnostic Assessment
TTL	Task team leader
UDEAC	*Union Douanière et Economique de l'Afrique Centrale*
UEMOA	*L'Union Economique et Monétaire Ouest Africaine* (West African Economic and Monetary Union)
UMA	Arab Maghreb Union
UNComtrade	United Nations Commodity Trade Statistics Database Statistics Division
UNECA	United Nations Economic Commission for Africa
USAID	United States Agency for International Development
VAT	Value-added tax
WAEMU	West African Economic and Monetary Union
WAGP	West Africa Gas Pipeline
WAPP	West African Power Pool
WITS	World Integrated Trade Solution
WTO	World Trade Organization

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EXECUTIVE SUMMARY

The overarching objective of this paper is to provide a coherent strategic framework to guide the World Bank's assistance in support of regional integration and regional programs in Sub-Saharan Africa (SSA). Reflecting the priorities and flagships of the revised Africa Action Plan (April 2007), the proposed strategic framework builds on experiences gained in implementing the IDA Regional Pilot Program since 2003 and distills key elements of current thinking regarding the economics of integration, including the (forthcoming) *World Development Report 2009*. Activities to be implemented through the SSA-portion of the IDA15 Regional Program constitute the core purview of the proposed strategic framework. However, the strategy also aims to ensure increasingly systematic reflection of regional priorities in the Bank's country assistance strategies and in Africa-wide sector strategies. In addition, the strategy proposes areas for enhanced World Bank Group collaboration to leverage support for Africa's regional programs and integration.

Regional integration and the creation of a pan-African common market has been a central vision of African leaders since the early years of independence. Early experiences with regionalism in the 1970s and 1980s largely failed, largely because their policy focus was toward import-substitution. More recently, African leaders have moved toward consensus on three points: (i) strengthening and broadening Africa's growth requires policies that are more outward-looking; (ii) regional integration is indispensable for Africa to meet the competitiveness challenges of global markets; and (iii) policies for regional and global integration are complementary and need to be pursued with equal vigor. This vision of integration underpins most regional initiatives underway in Africa, notably those under the auspices of the African Union (AU), including NEPAD. However, progress toward the vision has been challenging, with significant disconnects between stated regional priorities and national policies, and variable follow-through on regional commitments.

The World Bank has had a long-standing commitment to global priorities and region-wide programs. In Africa, the thrust of this commitment was through region-wide sector strategies and programs, plus limited direct support for multicountry projects. With the launch of the IDA Regional Pilot Program in late 2003, the ability of IDA to assist regional integration in Africa received a significant boost. Design of the regional pilot provided strong incentives to IDA-recipient countries to leverage their national development efforts through regional collaborations. The result was a dramatic increase in requests for IDA to provide financial support for regional projects and programs. Establishment of the Regional Integration Department in the Africa Region in 2004 bolstered the Bank's ability to respond and provide lending and nonlending assistance to regional integration. From 2004 through the end of FY07, total IDA commitments for regional projects in Sub-Saharan Africa amounted to nearly US$1.9 billion. The 15th replenishment of IDA, agreed in December 2007, increases the funding available for regional programs in Africa from approximately US$810 million under IDA14 to US$1.44 billion over the IDA15 period of FY09–FY11 (equivalent to nearly US$2.1 billion in total funding when the one-third country allocations are included).

The proposed Regional Integration Assistance Strategy (RIAS) is presented in three main parts: (i) strategic framework to guide Bank engagement in assisting regional integration and

cooperation, structured around 3 pillars and 1 cross-cutting theme; (ii) key guiding principles and selectivity criteria to crystallize trade-offs and choices (and to guide selectivity in the face of demand far exceeding resources); and (iii) modalities for implementing the strategy, including through subregional implementation plans.

Strategic Framework for Regional Integration and Cooperation: Pillars of Support

Pillar I: Regional Infrastructure. Stronger and better-connected infrastructure platforms can help unlock economies of scale and sharpen competitiveness in Africa, not least for Africa's 15 landlocked countries. Regional infrastructure will facilitate more intraregional trade and exports from the continent, thus strongly supporting Africa's growth agenda. Bank support will focus on three areas: (a) expanding and upgrading selected trade corridors and transport networks, (b) improving access to clean energy and improving supply reliability, and (c) improving telecommunication connectivity. Assistance to trade corridors and transport networks will have a special focus on improving the connectivity of landlocked countries. Current resource needs far exceed the development assistance and fiscal resources Africa is likely to be able to mobilize. Thus, mobilizing *private* financing is critical to accelerate Africa's pace of infrastructure development. Infrastructure programs assisted under RIAS will partner with IFC and MIGA to unlock more of the potential to leverage private financing for regional infrastructure development.

Pillar II: Institutional Cooperation for Economic Integration. The benefits of strengthened economic integration include enhancing economies of scale facilitated by regional infrastructure, promoting trade diversification, and providing learning-by-exporting experiences. Combined with improved regional economic and political stability, closer economic integration will enhance incentives for both domestic and foreign investment, spurring existing industries and new business start-ups. Bank assistance will focus on six areas: (a) reducing Africa's external trade tariffs toward the rest of the world; (b) reducing tariff and nontariff barriers to intraregional trade; (c) implementing customs unions and free trade agreements, including analytical work related to new trade agreements and ongoing WTO-led multilateral trade negotiations; (d) improving regional environments for business, investment and industrial cooperation; (e) developing regional financial markets and related institutions; and (f) developing regional dimensions of initiatives to improve governance and financial management.

Pillar III: Coordinated Interventions to Provide Regional Public Goods. Bank assistance will focus on (a) improving management of shared water resources, (b) raising agricultural productivity (including research and knowledge-sharing on likely implications for SSA of climate change and assistance in developing mitigation strategies); (c) regional and subregional programs to address the cross-border dimensions of malaria prevention and treatment; (d) increased access to HIV/AIDS prevention methods along main transport corridors, and improved preparedness to respond to transboundary pandemics, other infectious diseases, and pests; and (e) regional rationalization of research and tertiary education to strengthen regional knowledge assets and technical capacity. In addition, the Bank will explore potential avenues to enable it to assist with regional dimensions of conflicts and emergency responses.

Cross-cutting theme: Strengthening Regional Strategic Planning and Connections with National Development Plans. Bank assistance will focus on three areas: (a) SSA-wide themes

centered on capacity development of the AU (including NEPAD), (b) capacity development of selected Regional Economic Community (RECs) and subsidiary regional bodies, and (c) strengthened connection between regional policy commitments and national planning.

Guiding Principles of Engagement and Selectivity Criteria

In addition to broad selection criteria that will be used to determine whether and how the Bank will support regional integration activities and the specific eligibility criteria embedded in the IDA Regional Program, the Bank's assistance and advocacy for regional integration in Africa will observe the following guiding principles:

1. *Open Regionalism* concerns both regional and global integration, which as complements need to be pursued in parallel and with equal vigor.
2. *Start Small and Build on Success.* The larger the number of participants and/or areas in a regional program, the more complex are coordination challenges, making failure more likely. Build on success and take on new challenges incrementally.
3. *Credible Mechanisms to Compensate Losers (or Redistribute Benefits).* Participants of regional programs often do not share equally in benefits. Mechanisms for benefit redistribution or compensation are critical to achieve political consensus in many integration programs.
4. *Attention to the Neighborhood.* Neighborhoods of countries have important implications for the focus and sequencing of strategies toward regional integration, particularly for landlocked countries.
5. *Champions of Integration.* Realizing the benefits of regional integration requires strong, sustained commitment from member countries. Having the leading countries of Africa as "champions" for regional integration would provide an important impetus to the process.

Implementation Modalities

Lending and nonlending programs of Bank assistance will be developed in four subregional implementation plans, covering West, Central, East, and Southern Africa, respectively. These plans will tailor Bank assistance to reflect the varying political and economic integration priorities of different country groupings. They also will ensure needed ownership of regional programs at the national level, and within the Bank Group itself (among Bank Country Teams, IFC, and MIGA). The implementation plans will have rolling two-year time horizons. The first set of four plans will be developed and finalized in FY09. The plans will outline both regional and national program activities that support regional integration. They thus will enable country teams to coordinate CAS objectives and business plans in areas in which regional solutions can strengthen outcomes at the national level, or which facilitate creation of important regional public goods not achievable through national action alone. The implementation plans also will devote particular effort to capacity development as an integral component of Bank work under each of the strategy's three pillars. Particular objectives will be to strengthen the policy functionality of selected RECs in areas related to trade policy, regional infrastructure, and trade facilitation and to improvement alignment and harmonization in regional programs. Each

implementation plan is expected to place considerable emphasis on building and maintaining strategic partnerships, thus leveraging assistance able to be provided directly by the Bank Group.

Development of this strategy has benefited from an extensive consultation process. Valuable inputs were received from a variety of African stakeholders—notably, regional economic communities and other regional bodies, national governments, academia, private sector representatives, and representatives of civil society organizations—as well as development partners. In addition to numerous meetings with individual interest groups, two major stakeholder consultations were undertaken, the first in Nairobi in January 2007, and the second in Washington, DC in October 2007. Both were valuable fora in which the Bank was able to test evolving thinking and receive feedback on how to reposition and rebalance the assistance strategy to best leverage Africa's leadership.

The close engagement with stakeholder groups during the preparatory phase of the strategy will be continued during implementation, with the objectives to (i) leverage impact by involving African stakeholders in developing regional implementation plans, (ii) extend debate on regional and global integration issues through active dissemination of this document, and (iii) obtain continuous feedback on strategy implementation to inform needed course adjustments and other adaptations in light of client and stakeholder experiences.

The strategy includes a set of Key Performances Indicators to help monitor and evaluate progress in implementation, along with a risk matrix. The strategy also sets out a proposed results matrix to be developed for each of the subregional implementation plans. It is expected that the regional results matrices progressively will be aligned with those in the CASs to fully align country and regional results matrices by the end of IDA15.

The proposed strategy covers FY09–FY11, corresponding to the IDA replenishment cycle. It is proposed that a mid-term implementation review be discussed with the Board in FY10 and that the first generation of regional implementation plans be attached to the package for information.

I. AFRICA IN CONTEXT: GLOBALLY AND REGIONALLY

A. Global Perspective

1. Over the past three decades, the continued expansion of the global marketplace for goods, capital, labor, and ideas has forged ever-closer integration among countries and regions. Global markets have served as the mainstays of economic growth throughout much of the world, particularly for developing countries. Between 1990 and 2005, low- and middle-income economies doubled their market share of world merchandise exports from approximately 15 percent to almost 30 percent. Trade among developing economies grew even faster, at nearly 15 percent annually, to reach approximately 8 percent of world merchandise exports. Over the same period, international private financial flows tripled as a share of world GDP. Meanwhile, net inflows of foreign direct investment (FDI) to developing countries soared 10-fold: from less than US$25 billion in 1990 to more than $325 billion in 2006.

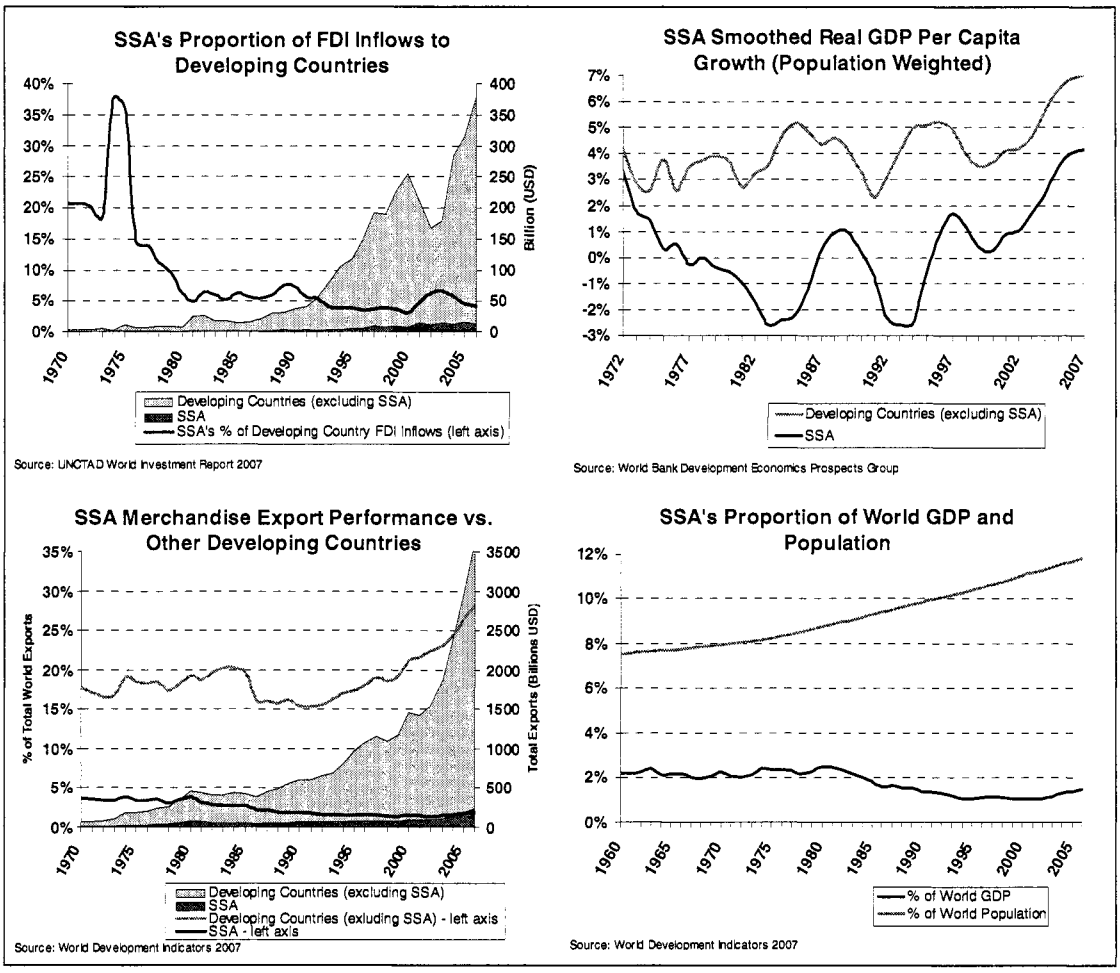
2. The increased flow of people across national borders—as tourism and migration—has been another prominent feature of global integration. International tourist arrivals in SSA have nearly doubled since 1990, bringing revenue exceeding US$800 million in 2005. The destinations of one-third of these travelers are developing countries, which are attracting new visitors at faster rates than developed-country destinations. Similarly, the rising force of international migration is reflected by the $200 billion-plus in recorded remittances repatriated by developing economy migrants in 2006.

3. The forces of globalization have dramatically increased the consequences of countries' domestic economic policy choices. Opportunities offered through the expansion of global markets have enabled developing countries that have embraced integration—most notably in East Asia and the Pacific and more recently South Asia—to achieve unprecedented economic growth and lift hundreds of millions of people out of poverty. Other developing countries have been more reluctant to embrace opportunities from global and regional integration. Among them, particularly landlocked countries and those saddled with the disadvantages of small domestic markets typically have made much less progress in accelerating growth and poverty reduction.

4. Nowhere is the need for a shift toward greater integration more urgent than in Africa—a continent still, despite strong growth in recent years, largely marginalized globally. Home to approximately 12 percent of the world's population, Sub-Saharan Africa accounts for less than 2 percent of world income and 2 percent of global trade, down from approximately 4 percent in 1970 (figure 1). Africa's share in global agricultural exports has declined continuously since 1970. At the same time, its share in global manufactured exports (approximately 0.5 percent) has hardly changed and its share of textiles and clothing exports—the spearhead of an export push for many developing countries—has remained stagnant. Net foreign direct investment (FDI) flows to SSA have doubled since the 1990s; they averaged US$10 billion during 2001–06. Nevertheless, this doubling pales compared to the 10-fold increase in total FDI inflows to all developing countries during the same period. Moreover, FDI inflows to SSA are heavily skewed

toward mining industries, especially petroleum, and telecommunications are highly concentrated in just a few countries.[1]

Figure 1. Sub-Saharan Africa compared economically



5. Africa's export performance has risen with the boom in commodity prices. Rapidly growing economies, especially in Asia, are offering new export markets of considerable potential. As a result, since 2000, Africa has experienced exceptionally strong real economic growth. The oil-exporting countries are growing at an average rate of approximately 8.5 percent, and the rest of SSA at a more modest 4 percent. Nonetheless, Sub-Saharan Africa overall has trailed other low-income regions in economic growth and poverty reduction—and for a considerable time. On average, from 1970–2007, population-weighted per capita annual GDP growth in Africa was barely 0.5 percent, compared to 4.3 percent in 64 developing countries in

[1] More than 90% of FDI is destined for the continent's four 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. Nevertheless, Africa has not attracted many foreign investors due to the prevailing business environment and market conditions. The continent continues to face challenges to mobilize domestic investments for the same reasons. In 2006, virtually all FDI inflows went to the aforementioned five countries.

other regions. *See appendix I for a brief discussion of this comparative analysis and of the implications of using population-weighted growth rates.*

6. Not surprisingly, therefore, Sub-Saharan Africa lags significantly behind other developing regions in progress toward achieving the Millennium Development Goals (MDGs). Sadly, while over the last 20 years the incidence of absolute poverty (measured as below US$1/day) in the world has been falling, in Sub-Saharan Africa, it has been growing. Today, SSA is home to more than 30 percent of the world's poor, compared to 10 percent in the early 1980s.[2]

7. Sub-Saharan Africa is too large and diverse a region to be treated as an aggregate. Its defining physical and economic geography is its massive but sparsely populated land area divided into 42 countries and 6 island states[3] with very different natural resource endowments. Geographically, the continent's 770 million people (2006) are approximately evenly spread over 3 distinctly different types of countries: resource-rich, coastal resource-scarce, and landlocked resource-scarce. Globally, these three categories have had distinct growth performances. The best-performing category has been the coastal, resource-scarce countries; the worst performing category has been the landlocked, resource-scarce countries.[4]

8. Africa has broadly followed this global pattern, with three important differences. First, Africa's coastal resource-scare countries have under-performed significantly compared to other developing regions. During 1980–2007, population-weighted, per-capita growth in non-African economies in this category exceeded that of their African counterparts by nearly 4 percent per year. The second difference has been in the category of resource-rich countries. These have been the fastest growing group in Africa but consistently under-perform compared to other developing regions. The third major difference is that nearly one-third of Africa's population lives in landlocked countries, compared to less than 1 percent of other developing regions. This fact results in Africa's population being heavily skewed toward the globally slow-growing category of landlocked, resource-scarce countries. In the developing world other than Africa, nearly 90 percent of the population lives in the coastal, resource-scarce countries; approximately 10 percent in the resource-rich countries; but barely 1 percent in the landlocked, resource-scarce countries. Indeed, and disregarding political borders, nearly 80 percent of Africa's population lives more than 100 kilometers from the coast compared to approximately 30 percent in the OECD countries and 60 percent in Latin America. The importance of distinguishing the three categories highlights Africa's unique combination of challenges and underscores the importance of regional approaches to counteract the disadvantages of being landlocked. *See appendix I for a brief discussion of this comparative analysis.*

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[2] François Bourguignon, Francisco H. G. Ferreira, Branko Milanovic, and Martin Ravallion, *Global Inequality and Poverty*, World Bank, January 2007.

[3] Cape Verde, Comoros, Madagascar, Mauritius, São Tomé and Príncipe, and Seychelles.

[4] See Paul Collier, "Growth Strategies for Africa" (Centre for the Study of African Economies, Department of Economics, Oxford University; January 2007) for discussion of how Africa's physical, economic, and social geography has affected the continent's economic performance, and implications for policy options.

B. Africa's Connectivity and Regional Integration

9. Inadequate access and connectivity to global markets and insufficient scale economies are at the root of Africa's marginal role in the world economy, which in turn is intrinsically linked to the limited strides made in regional integration. As noted earlier, to a large extent, the considerable challenges of integration can be traced back to the continent's particular human and political geography. Africa has more countries per square area than any other developing region, and its population density is lower than any other developing region. Nineteen African countries have fewer than 5 million people. As a result, except for the two dominant economies—South Africa and Nigeria—the continent comprises countries that have small domestic markets, limited economic diversification, and generally poor connectivity with neighboring countries.

10. Inadequate connectivity (transport and communications infrastructure) and costly and unreliable power are severe constraints to thousands of African enterprises. While Africa has abundant energy resources (oil, coal, hydroelectricity, natural gas, biomass and other renewable sources), investment climate surveys indicate that unreliable power supply and poor access to power are the major constraints to business and investment.[5] Similarly, although roads are the dominant transport mode in Africa (accounting for 90 percent of interurban transport), road density is less than 7 kilometers (km) per 100 sq km of land. This figure compares with 12 km in Latin America and 18 km in Asia. Lack of roads is especially constraining for the high proportion of Africa's population in landlocked countries. Rail transport is made difficult by the coexistence of three different railway gauges, inhibiting interconnections among regions and corridors to the sea. For landlocked countries, the overall impact is that transport costs can be as much as 75 percent of the value of exports. These weaknesses in connectivity combined with poor power supplies significantly raise the cost of doing business in Africa, constrain trade, and undermine competitiveness.

11. Africa's connectivity to global markets is further challenged by high-cost, low-efficiency air and maritime transport, which carries more than 95 percent of Africa's international trade. Africa has approximately 80 major ports with facilities ranging from conventional berths to terminals for containers, white and crude oil, and bulk cargo. However, only one seaport is owned by a globally recognized top port operator. Most container terminals are nearing or have reached capacity limits and are under-equipped. Air transport received a major breakthrough in 1999 with the adoption of the Yamoussoukro Declaration, which liberalized access to air transport markets in Africa. Nevertheless, only four airports (Cape Verde, Ethiopia, Ghana, and South Africa) have attained US Federal Aviation Administration (FAA) Category I status, required to implement open skies. Moreover, while Africa accounts for just 4.5 percent of global air traffic, sadly it suffers 25 percent of air accidents (2004).

12. Compounding the challenges due to weak physical infrastructure, webs of "behind-the-border," "on-the-border," and "between-the-border" constraints further handicap private business and trade. These realities undermine efforts to attract private (foreign and domestic) investments, increase scale economies in production, and expand markets to improve competitiveness and

[5] Surveys reveal that roughly 40% of enterprises identified deficient power supply as a major constraint to doing business. As many as 50% maintain their own generation facilities to insulate themselves from unreliable public supplies.

expand opportunities to strengthen export performance and economic growth. Constraints include poorly developed financial markets; the absence of cross-border financial instruments; complex and lengthy procedures regulating private business activity; high trade tariffs; complex customs arrangements; and limited regional harmonization of policies, regulations, and procedures. Poor transit systems and numerous informal roadblocks along trade corridors create additional obstacles. Thus, while better regional infrastructure is a sine qua non to strengthen Africa's global competitiveness, improvements also depend in no small way on tackling "behind-on-and-between-the-border" constraints to business efficiency and trade.

13. Limited regional integration clearly has stifled Africa's opportunities to accelerate export-led growth. A more integrated Africa could tackle some of the most stubborn supply-side constraints, facilitate stronger integration in the global economy, and unlock more of the continent's economic growth potential. There is broad agreement on this among Africa's leaders, who have maintained strong political commitment to regional integration. This commitment is manifest in the comprehensive institutional architecture that Africa has constructed to drive and coordinate regional initiatives. Today, regional economic communities (RECs) operate in West, East, Central, and Southern Africa. In total, the continent is home to some 30 regional or subregional organizations. The effectiveness of these bodies in driving priority regional programs often has been constrained by obligations arising from their overlapping memberships and responsibilities and by chronic shortages of resources and professional capacity.

14. The international backdrop of integration in Africa is increasing regionalism worldwide and slow progress in the ongoing Doha Round of multilateral trade negotiations. On the continent, there is rising frustration with the slow pace of implementation of priority regional programs. To respond, Africa's leaders have renewed 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 (AU) has regional integration as a core objective. NEPAD is encouraging the RECs to delineate their roles, responsibilities, and membership based on a focus on "open regionalism." However, progress has been hard to win. Consequently, much of the continent's undisputed potential remains locked by the need to accelerate progress on global and regional integration.

II. INTEGRATING AFRICA: OPPORTUNITIES AND CHALLENGES

15. Regional integration is not a panacea that will enable Africa to leapfrog challenges posed by its fundamental physical, economic, and human geography. However, appropriately conceived and accompanied by sound national policies, regional integration well may be the stepping-stone for Africa's meaningful integration in the global economy and the missing building block for stronger, more broad-based economic growth and poverty alleviation. Summarizing the consensus of the academic literature, Box 1 lists the extensive potential benefits to Africa of regional integration as well as some of the pitfalls and potential costs.

16. Regional and global integration are not substitutes. In Africa more than anywhere, they are complements needing to be pursued in parallel and with equal vigor. Regional integration policies can help to achieve economies of scale and build the supply capacity and competitiveness of Africa through targeted regional infrastructure to interconnect the continent; and reforms to facilitate cross-border trade, investments and financial flows, and migration. Global integration and accompanying policies are essential, first, to scale up demand by securing market access that matches a growing supply capacity. Second, these policies would provide access to efficient intermediate goods suppliers, often an important element in improving African countries' international competitiveness.

17. Regional integration holds a particularly strong promise for Africa's 15 land-locked countries since their economic potential is inherently linked to the particular interests and conditions of their surrounding countries. Most obviously, they are dependent on coastal neighbors for access to the sea. Landlocked countries also have an interest in the economic governance of neighboring countries. If the latter forgo opportunities of integration, possible benefits to landlocked countries automatically are expunged. For example, Niger's prospects for economic development are linked in no small way to Nigeria's success in harnessing its massive opportunities for growth. Similarly, landlocked countries cannot integrate in subregional markets unless their neighbors desire this and implement policies aimed toward doing so. These unreciprocated dependencies effectively confine the extent of national sovereignty of a landlocked, resource-scarce nation and highlight the importance of regional solutions. The challenge is to create strong neighborhoods in which regional considerations increasingly are reflected in national policies combined with a regional political-institutional architecture that wields the credibility required to influence national policies.

Box 1. Rationale for regional integration arrangements

Potential benefits of regional integration

- *Increased returns and increased competition.* Enlarging markets through integration of small economies (a) promotes possibilities to achieve economies of scale, (b) improves efficiencies, and (c) increases competition, leading to lower prices and expanded supply.
- *Trade and location effects.* Preferential reductions in tariffs within regional agreements can induce shifts in both demand and supplies. Net effects on national income depend on costs of alternative supply and trade policies toward nonmember countries.
- *Investments.* Regional cooperation and established agreements can attract more FDI by (a) enlarging markets (particularly for "lumpy" investment viable only above a certain size) and (b) reducing distortion and lowering marginal cost of production.
- *Coordination and collective bargaining power.* Regional integration agreements may enable countries to coordinate negotiating positions in international fora, thus raising visibility and possibly leveraging bargaining power.
- *Management of shared natural resources.* Many watersheds, mineral deposits, fisheries, and sensitive natural environments are shared among countries. No country acting alone can ensure sustainable management, which depends on collaboration.
- *Management of "regional commons."* Effective action to combat migratory diseases, such as HIV/AIDS and malaria, and vulnerabilities arising from climate change depend on collaborative efforts among groups of countries.
- *Policy lock-in and commitment mechanism.* Regional agreements can provide a "commitment mechanism" for countries' domestic trade and other policy reforms, reducing the likelihood of policy reversals. Such mechanisms apply to political as well as economic reforms.
- *Insurance.* Integration agreements provide insurance to members against exogenous shocks (terms of trade shocks, conflict, protectionism in developed countries, and impacts from climate change).
- *Security.* Risks of conflict are perceived to be lowered through integration agreements as a result of improved intraregional confidence and trust, common defense arrangements, and interdependence in key aspects of countries' national development.

Potential costs of regional integration

- *Trade diversion.* Displacement of low-cost products from nonmembers by higher cost products from countries within a regional integration arrangement has been a major problem with several regional integration arrangements. Welfare gains are realized if trade creation dominates trade diversion, but this outcome cannot be ensured in advance.
- *Revenue loss.* Trade integration agreements reduce governments' tariff revenues, both directly through tariff cuts and indirectly through shifts away from imports subject to tariffs from nonmembers. Net costs depend on how much new trade is generated from the integration agreement but can be high when trade facilitation is difficult.
- *Indirect costs.* Arising from the freer movement of people and capital across national borders (capital flight and losses of skilled human resources, for example) and the extra vigilance required to prevent cross-border crime.

18. Africa's middle-income countries (MICs)[6] occupy a unique position in the continent's economic and political geography—and for the regional integration agenda as well. These 7 countries generate approximately 40 percent of SSA's income and are endowed with significant institutional capacity and, in the case of South Africa, world-class education systems. Thus, Africa's MICs are uniquely placed to influence and promote the continent's economic development and progress toward regional integration. Dominated by South Africa, the MICs are a significant source of direct investments and entrepreneurial experience for the rest of Africa.

[6] Botswana, Equatorial Guinea, Gabon, Mauritius, Namibia, Seychelles, South Africa, and Swaziland.

They also offer indigenous African capacity in areas critical to many of their low-income neighbors (for example, higher education system, administration, infrastructure, financial systems). Moreover, some MICs hold a particularly strong position of influence in key RECs (South Africa in SADC/SACU and Mauritius in COMESA). Furthermore, South Africa is in a position of influence in powerful global fora that include not only WTO but also in the context of G8 and G24 and with other large emerging countries such as Brazil and India. Due to this positioning, South Africa is able to be the champion of Africa on global issues affecting the continent at large. Finally, MICs also stand to benefit significantly from regional solutions in a number of critical areas, notably in addressing contagious diseases such as HIV/AIDS and malaria and in pooled regional infrastructure. Leveraging the particular strengths of Africa's MICs to strengthen regional integration, and ensuring that they are brought into regional solutions are important challenges in advancing the regional agenda.

19. In considering the opportunities and associated challenges of regional approaches, one size does not fit all. Economic geography, national politics, and the neighborhoods of countries have critical implications for the focus and sequencing of strategies to advance regional and subregional integration. Effective institutional mechanisms and capacities are central ingredients of successful integration. The regional economic communities (RECs) and their member states have major roles to play in developing and sustaining such effectiveness through appropriate policies and the provision of necessary political support, materials, and human resources. Obviously, their uneven levels of capacity to drive this process have implications as well.

A. Regional Integration for Sustained Growth and Poverty Reduction

20. Regional integration is not an end in itself.[7] Rather, as a complement to national development programs and global integration, it is a means to achieve superior economic growth and poverty reduction. In Africa, achieving these superior outcomes will depend on expanding trade and investment through economic integration, improving regional infrastructure and connectivity, promoting macroeconomic stability, and extending financial integration. Moreover, strengthened regional cooperation offers possibilities to improve sustainable management of shared natural resources—water and sensitive ecosystems, in particular—and to more effectively address "regional commons," such as migratory diseases and climate change.

Economic Integration

21. Waves of regionalism initiated in the 1970s and 1980s engaged in inward-looking, import-substitution industrialization policies to protect regional markets. These introspective approaches failed to spur factor integration and FDI, and hence failed to expand export growth opportunities. It is critically important for Africa to advance regional and global integration in parallel through "open regionalism." Important markers of this approach will be moves toward relatively low external tariffs and suppression of internal tariffs. In addition to ensuring access to additional opportunities for export-led growth, "open regionalism" promotes inclusive growth through broadening participation among the poor. This participation is especially important for landlocked, resource-scarce countries that need physical connectivity, market expertise, and

[7] This section builds significantly on the findings and terminology developed in Souleymane Coulibaly, "On the Complementarity of Regional and Global Trade," background analysis carried out for the WDR09 chapter on Regional and Global Integration, 2008.

distribution networks. As developing economies have comparative advantage in labor-intensive products, increasing demands for such products increase demand for labor and small plots of land, which typically are the only assets of the poor. By integrating with neighboring, larger economies, smaller and less developed countries become better positioned to participate in regional and global supply chains, thereby expanding and broadening the base of their growth opportunities.

22. Economic integration typically requires action on three fronts: behind-the-border, at-the-border, and between-the-borders. First, *behind-the-border reforms* involve mutual recognition agreements on technical standards and business procedures, regional trade agreements, and logistics and transport facilitation initiatives. These all expand the size of regional markets, and are increasingly important. Domestic and foreign firms increasingly assess investment opportunities and related government policies and behavior (property rights, regulation, taxes, finance, infrastructure, corruption and macroeconomic stability) as a regional rather than national package in deciding whether a particular country is attractive. By aligning domestic reforms with international standards, a neighborhood can increase its trade opportunities and at the same time improve its FDI attractiveness. The adoption of international standards is particularly important for countries trying to connect to global production networks—the situation of most SSA countries.

23. Second, *at-the-border reforms* liberalize the movement of production factors (capital, labor, intermediate goods and services) so can help develop cross-border production networks. WTO provides the multilateral frameworks within which these liberalization initiatives are discussed, and almost all new regional trade agreements include provisions on service liberalization. Financial and monetary cooperation can improve capital mobility and regional attractiveness to FDI. All of these "at-the-border" reforms in a neighborhood of countries also will enhance the diffusion of knowledge and information, further stimulating development of cross-border production structures and markets. (See box 2 for a brief discussion of key multilateral and regional trade agreements affecting Africa.)

24. Finally, *between-the-borders reforms* are critical to address the underlying causes of the high cost and unpredictability of infrastructure. These reforms are particularly important for transport services and power. Inefficient logistical services, over-regulation of the transport sector, oligopolistic behavior among freight forwarders, and informal roadblocks along international corridors sap competitiveness by adding to costs and physically throttling trade facilitation. Likewise, reforms in power sector planning and regulation to promote regional approaches are essential to lower costs and improve supply reliability. These reforms will be key to develop Africa's global-scale energy resources. Similarly, regional collaboration in telecommunications and information and communications technology (ICT) development is indispensable to strengthen regional interconnectivity and drives down costs. Regional approaches to manage Africa's 69 shared water basins also can provide superior levels of water security and more sustainable management of these resources than achievable through national action.

Box 2. Multilateral and regional trade arrangements affecting Africa

Under the auspices of WTO multilateral trade negotiations, the global trading system has evolved significantly in the last 20 years with the consensus that free trade is good for growth. Progress in the Doha Round of trade talks has been disappointing. Nonetheless, Africa stands to benefit from more vigorous implementation of the agreements reached to date and needs to prepare itself for additional changes in the trading regime as they occur. Tariff rates in Sub-Saharan Africa are still the highest among developing regions. However, some progress has been achieved: average rates have fallen from 22 percent in 1997 to 15 percent in 2006. The continent's trade policies would gain credibility from binding tariffs at levels closer to WTO-applied rates.

The lack of progress in the Doha Round is particularly disappointing for Africa. A successful outcome would reduce barriers to market access in developed countries by lowering tariffs, reducing tariff escalation and cutting subsidies on goods that African farmers produce competitively, such as cotton, groundnuts, fruits, and clothing. Moreover, by ushering in freer trade globally, African producers would gain access to growing markets in Asia, which maintain higher tariffs than North America and Europe. If Africa is to make the greatest possible gains from the Doha Round, all WTO members—developed and developing—will need to open their markets.

Meanwhile, Africa has benefited from several existing preferential arrangements, notably the Everything-But-Arms (EBA) initiative extended by the European Union to African least-developed countries and the Africa Growth Opportunity Act (AGOA) extended by the United States. Apparel benefits under AGOA have been particularly visible. A surge in production and exports of textiles and apparel followed reductions in tariffs and quota barriers maintained under the Multifiber Arrangement (MFA). However, expiration of the MFA in January 2005 enabled China to dominate global textile trade and has significantly reduced AGOA's apparel benefits. African apparel exports dropped dramatically in both 2005 and 2006. The full effects of China's global textile domination probably remain to be seen. However, it is still possible that African textile exports could recover from the current setback if production capacity in African countries can be sustained or, more probably, if niche rather than mass markets are targeted.

Founded with the specific objective to bring trade relations between the EU and ACP countries into compliance with WTO-rules (which prohibit discrimination among member countries), the economic partnership agreements (EPAs) with the European Union were meant to provide a broader and more comprehensive approach to economic relations between Africa and the EU. Negotiations of EPAs in Africa, undertaken through four RECs, commenced in 2001 but made little headway in resolving fundamental disagreements, both between African countries and the EU, and among African countries themselves.[8] In October 2007, this stalemate prompted the EU to adopt a new approach to the EPAs. It added additional flexibility in three areas: (a) geographic scope (by introducing variable geometry, in which negotiations are undertaken pragmatically at whichever level has the willingness to proceed); (b) policy coverage (with WTO-compatible market access arrangements for merchandise trade as the only minimum requirement); and (c) timing of EPAs (countries may elect to revert indefinitely to the EU's basic Generalized System of Preferences (GSP) or its Everything-But-Arms arrangement). Following these adjustments, agreements were reached on several interim EPAs by end-2007, including with the EAC, ESA, a subgroup of SADC, and a number of individual countries (with SADC, covering Botswana, Lesotho, Namibia, Swaziland, and Mozambique; and individual agreements with Cameroon, Cote d'Ivoire and Ghana).

Several factors determine the effectiveness of an EPA in promoting development. These include the degree of additional most-favored-nation (MFN) status, liberalization in goods and services; restrictiveness of rules of origin; and the extent of trade diversion that could occur in the event of no reduction in MFN border protection. Because tariffs in Africa are relatively high and internal barriers within country groupings still prevalent, enacting EPAs without prior action on these issues could result in hub-and-spokes patterns of trade integration, trade diversion, and—in a worst-case scenario—net losses of income. Without action on external and internal barriers, giving EU firms preferential access to African markets well could divert trade from more efficient producers in non-EU countries to EU producers. African governments will need to show strong commitment to implement required complementary supply-side reforms to meet these challenges. The EU will need to support these reforms—even if they may conflict with its near-term commercial interests.

[8] Key contentious issues included the geographic configuration of the regional EPA-groups (inability to reach agreements on a common external tariff), strong opposition among some countries to the proposed comprehensive policy coverage of EPAs. Other countries opposed the envisaged WTO-compatible reciprocal liberalization of merchandise imports (with continued demand from some for an extension of the Cotonou preferences and WTO waiver, or for a special category of improved trade preferences for the ACP under the EU's GSP).

Cross-Border Connectivity and Regional Infrastructure

25. Improved cross-border physical connectivity can strengthen growth and reduce poverty by enlarging markets; promoting economic diversification; and reducing transport, energy, and communications costs. All of these expand opportunities for the poor to participate in production and trade. Cross-border infrastructure such as transport, energy, and telecommunications are essential to move goods, services, people, and information across borders and can reduce high penalties currently imposed on Africa's competitiveness. Such linkages also expand market access; reduce economic distance; and facilitate trade, investment and labor mobility. The resulting intensification of cross-border economic activities can help to generate employment, particularly in labor-intensive sectors, thereby providing additional opportunities to the poor.[9]

26. Strengthening physical connectivity requires a combination of cross-border hard infrastructure and related software: harmonization of regulations, procedures, and standards. Technical, project-related software is always inseparable from hard infrastructure, but the concept of software is broader. Improvements in roads and railways can reduce transport and logistics costs, but they are not sufficient to encourage cross-border trade. Differing legal and regulatory frameworks, inefficient systems of customs clearance, and other barriers also need to be targeted. In this sense, greater physical connectivity requires regional collaboration in both hard infrastructure and related software.

27. Regional collaboration to develop financial infrastructures also can increase capital mobility in a neighborhood, which is vital when national financial systems are small and lack instruments and systems for cross-border transactions. Small financial markets tend to be less competitive and less efficient, often lacking economies of scale, and are less able to diversify investment and operational risks. Likewise, financial regulations in small markets tend to result in higher costs and lower quality than in larger markets. Furthermore, in the former, ancillary components of financial infrastructure such as credit information services are likely to be absent.[10] Developing capital markets and deepening financial intermediation are crucial to mobilize resources for growth and sustainable development. The RECs have been working to establish new regional institutions to support financial cooperation and integration. These will become progressively indispensable, as increasing capital flows place ever-higher burdens on Africa's fragile and fragmented banking sectors. Banking regulation and supervision need to be strengthened in parallel, at both national and regional levels.

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[9] A recent study by Soulemane Coulibaly and Lionel Fontagne ("South-South Trade: Geography Matters," *Journal of African Economies* 15 (2):313–41, 2006) estimates that a regional investment initiative to pave all unpaved portions of interstate roads in West Africa would triple the intraregional trade performance and positively impact these countries' global trade. Another recent study by Piet Buys, Uwe Deichmann, and David Wheeler ("Road Network Upgrading and Overland Trade Expansion in Sub-Saharan Africa," World Bank Policy Research Working Paper 4097, 2006) extended this analysis to the whole SSA region and found that a continental network upgrading would expand overland trade by approximately $250 billion over 15 years. The upgrade would have major direct and indirect benefits for the rural poor. Initial upgrading would require approximately $20 billion and maintenance, $1 billion annually.

[10] Regional and global trade in financial services is the best way to cope with these problems created by small size. Trade in financial services can be achieved by (a) opening national markets to the flow of capital to and from foreign markets; (b) opening national markets to foreign financial intermediaries by facilitating the purchase of local banks; or (c) fully or partially integrating the regional financial system.

28. Combining considerations of location, inherent economic potential, and agglomeration effects provides a promising framework to guide and focus Africa-wide efforts to improve cross-border connectivity and expand trade and investment. Historical cross-country evidence suggests that spatial disparities in average incomes often relate to a single dominant factor: distance from ports. Reliable and cheap connectivity to international ports is significant in explaining differences between landlocked regions that have been able to exploit inherent economic potential (in Africa, primarily from natural resources, chiefly minerals, and agriculture) and regions that have not. Given reliable and cheap connectivity to ports, and hence global markets, and given an improved environment for economic activity at large (trade, investments, labor) resource-rich regions have tended to become the natural anchors for related upstream and downstream investments. They become poles of growth with catalytic effects for neighboring countries, including through opening opportunities beyond minerals and agricultural sectors. By attracting capital, entrepreneurs, labor, and new ideas, these regions provide the basis for development of new markets in intermediate and final goods, thus entering a virtuous circle of cost savings and efficiency gains.

29. With these considerations in mind, under its "Regionally Integrated Spatial Development Initiatives" (RISDI) of 2006, the NEPAD Secretariat adopted *development corridors* as a key framework for configuring, prioritizing, and promoting interrelated infrastructure and large-scale investments in defined geographic areas (box 3). Based on preliminary findings, in addition to already identified development corridors in Southern Africa, NEPAD has identified and ranked 12 such corridors. They were selected based on four criteria: their potential to (a) promote trade and investment-led economic growth, (b) optimize the use of private and public sector investments in infrastructure, (c) encourage value-added processing, and (d) enhance the competitiveness of African economies. The development corridor is a promising framework to guide and focus development and regional integration efforts.[11]

[11] This development corridor approach figures centrally in the October 2007 draft, "Strategic Business Plan in Support of Regional Integration, Trade and NEPAD," ADB Regional Integration Department.

Box 3. NEPAD's Regionally Integrated Spatial Development Initiatives

NEPAD's Regionally Integrated Spatial Development Initiatives (RISDI), or "development corridors" are an instrument to configure, prioritize, and promote interrelated infrastructure and large-scale economic and sector investments in defined geographic areas. The objectives are to promote trade and investment-led economic growth, optimize infrastructure use, encourage value-added processing, and enhance competitiveness. Economic potential rather than political borders is the guiding principle for locating development corridors, with the focus on maximizing a corridor's aggregate economic benefit. Twelve prospective development corridors have been identified. Each will be vetted to validate economic potential by the African Development Bank (ADB) and NEPAD. This work will be completed in 2009.

RISDIs build on the successful experiences with several spatial development initiatives in Southern Africa, including the initial Maputo Development Corridor (MDC) between South Africa and Mozambique. Launched in 1995, MDC is serving as a model for replication across the region. It successfully rehabilitated under-used and out-dated transport infrastructure and linked it with energy, minerals processing, and industrial park investments, both private and public, domestic and foreign.

RISDIs generally are anchored by a large-scale investment, typically in resource extraction. Coordinated investments in infrastructure (power, transport, and communications) and related upstream and downstream services and industries along the corridor help ensure value-added to raw materials prior to export, agglomeration effects (knowledge spillovers and cost savings), and promotion of economic diversification. By focusing scarce resources on coordinated and spatially tied investments, the cost effectiveness of infrastructure is greatly increased through more intensive use. Upgrading infrastructure also provides opportunities for jobs, investments, and diversification beyond those associated with the anchor industry, such as tourism.

Given Africa's current commodity boom, a focus on RISDIs is timely. They provide opportunities to leverage benefits from the anchor industry in value-added processing, infrastructure upgrading, and economic diversification. All of these are critical to ensure that, should currently high commodity prices eventually begin to drop, Africa will have a broader economic platform to underpin continued growth.

30. However, the development corridor approach also poses several challenges. Not the least of these relate to its scale and complexity. Equally challenging are the present implementation capabilities of the regional bodies that would take lead roles in coordinating activities regionally to leverage development from the national "anchor" partner. The approach likewise requires robust justification of the proposed anchor investment and associated investments along a development corridor (in relation to the opportunity costs of resources employed—power, for example); strong buy-in from stakeholders; and credible mechanisms to ensure coordination, implementation, and compensation (for countries or regions that will not benefit).

31. As the spearheads to accelerate growth, the effectiveness of the development corridor approach depends fundamentally on two conditions: (a) progress to improve investment climates to attract the required anchor investment, typically in resource extraction, and (b) legal arrangements capable of ensuring equitable sharing of benefits among sponsors and involved host country agencies. Effective corridors also require standards of governance and fiscal systems adequate to protect intermediate rents from the anchor investment to underpin infrastructure development throughout the corridor and promote linkages and diversification. Finally, the approach requires adequate prior progress with integration to facilitate mobility of capital, human resources, and services to leverage the broadest development possible.

32. Thus, while an appealing intellectual construct, the considerable advantages of the development corridor approach do not offer shortcuts in tackling the fundamental issues of

regional integration. Whether they can provide adequate incentives for breakthroughs in collaboration will depend on whether the anchor investments secure at the outset tangible benefits for all country participants, directly or indirectly.

Macroeconomic Stability and Convergence

33. Macroeconomic stability is important in promoting regional economic integration and a sine qua non to develop robust regional financial and capital markets. Maintaining stability will require strengthened policy coordination and macroeconomic convergence, which over time and with varying speed, depending on the subregion, can become building blocks toward deep integration and monetary unification. The transition toward a monetary union can be gradual or fast. The gradual strategy involves a long transition of macroeconomic convergence among prospective members, along the lines of the European Monetary Union. A "big bang" strategy entails a much faster transition without convergence, as evidenced in the monetary unification in Germany in 1990.

34. Whereas the traditional optimal currency area analysis does not point to the inevitability of a single African currency,[12] the strongest argument for monetary unification in Africa might well come from the benefits of increased macroeconomic stability.[13] The record of macroeconomic mismanagement in several African countries suggests that a monetary union, functioning as an agent of fiscal restraint, could produce large gains for its members. However, the success of monetary integration also depends on the interplay of various political economy factors, notably the ability to design and create strong supranational institutions (regional central bank, supervisory institutions, and regulatory bodies) that are able to take into account political economy constraints.

35. While a single currency and a common central bank in Africa may remain aspirations for quite some time, strengthened policy coordination and macroeconomic convergence are entirely within the realm of the feasible in most subregions of Africa. Five regional economic communities have set macroeconomic convergence criteria and deadlines to guide the transition toward the realization of monetary unions.[14] The WAEMU Commission has a good record in conducting macroeconomic surveillance over each government's public policies by setting convergence criteria covering specific public finance indicators. The ECOWAS Commission is planning to scale up this experience to the whole West Africa region. While this could be a unique opportunity to establish a stable and growth-friendly West African neighborhood, the endeavor hinges critically on Nigeria's commitment to deep integration and willingness to compromise national priorities for regional imperatives.

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[12] The traditional view on optimal currency areas is that a high degree of trade integration between prospective members and a strong positive correlation of shocks across countries are the two preconditions for monetary union. On these grounds the case for monetary unions in Africa is not particularly strong as trade flows within African regional economic communities are still relatively small.

[13] Mundell, Robert. 2002. "Does Africa Need a Common Currency?" Keynote Presentation, African Development Forum III, March 3–8, United Nations Economic Commission for Africa, Addis Ababa.

[14] The West African Economic and Monetary Union (UEMOA), the Economic Community of West African States (ECOWAS), the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), and the Central African Economic and Monetary Community (CEMAC) have established convergence targets for macroeconomic policies and for monetary, fiscal, and financial integration.

36. Nevertheless, critical issues remain unresolved. They include the definition of mechanisms for bank supervision and lending of last resort, the design of decision-making procedures to prevent big economies from dominating the union, and the realization of a regional surveillance system to monitor national economic policies. The success of any monetary union in Africa will depend on the ability of policymakers to take efficient actions to address these issues and on the commitment by national leaders to monetary integration.

37. Although separate processes, financial and monetary integration are intrinsically linked. The degree of financial market integration affects the transmission of monetary policy as well as monetary (and other) shocks across countries in a monetary union. Moreover, well-developed regional financial markets and institutions facilitate the exchange of goods and services, the mobilization of resources, and their efficient allocation to profitable investment projects, as well as the diversification of risks. To make progress on this front, Africa needs to further strengthen and harmonize banking regulation and supervision, while financial structures will have to adapt more rapidly to the changing international environment.

Provision of Regional Public Goods

38. Effective cooperation in the provision of regional public goods and management of regional commons is critical to ensure that economic growth in Africa is sustainable; vulnerability is reduced; and remaining risks are pooled. Coordinated interventions can help address market failures that characterize regional public goods. Due to their transboundary nature, many of the critical environmental, natural resource, and disease challenges facing Africa cannot be tackled effectively by national governments alone. Individual countries also are unlikely to be willing to bear the full cost burden of public goods if benefits are shared with noncontributing neighbors. Even if such unilateral willingness does exist, the effectiveness of any initiative likely will be blunted by restricted freedom of operation outside the country's sovereign borders. For all of these reasons, regional cooperation is imperative to capture the mutual benefits, and mitigate the negative externalities, associated with the provision of regional public goods and management of regional commons.

39. A good understanding of the types of regional public goods better able to be provided effectively through joint action can help to address coordination failures. Table 1 presents a typology of regional public goods that incorporates their three essential properties: *nonrivalry, excludability,* and *aggregation of contributions.* The third property, which informs the way that individual contributions combine to form the overall level of a public good, is crucial in the provision of a regional public good. If the contributions of countries are perfect substitutes, such as the cleansing of a shared river, there is more room for free-riding, making it harder to coordinate the provision of such goods. If the good to be provided can disproportionately benefit a subset of participating countries, such as those with the highest energy deficit in a power pool, these latter have sufficient incentives to push to provide the regional good.

Table 1. Regional public goods: Typology and examples

Impact of countries' contributions on quality and quantity of good	Pure public goods	Impure public goods	
		Goods for which exclusion is easy	Activities generating various public goods
Each contribution is the same.	Cleansing a lake	Transnational park	Preserving the rainforest
Some countries have an interest in contributing more.	Curbing the spread of HIV/AIDS and malaria	Power grid	Eliminating transnational terrorist threats
Contribution of the weakest member sets the quantity and quality of the good.	Implementing international financial standards	Airport hub-spoke network	Prevention and mitigation of natural disasters
Contributions of the weaker members set the quantity and quality of good.	Forestalling the spread of pests	Transportation infrastructure	Internet connectivity
Contribution of the leading country sets the quantity and quality of the good.	Curing a disease	Satellite launch facility	Regional peace-keeping
Contribution of the leading countries set the quantity and quality of the good.	Discovering an effective treatment	Biohazard facility	Agricultural research and bioprospecting

Source: *WDR* 2009/Todd Sandler, "Demand and Institutions for Regional Public Goods," in *Regional Public Goods: From Theory to Practice*, ed. Antoni Estevadeordal, Brian Frantz, and Tam R. Nguyen (Washington, DC: IADB and ADB, 2002).

40. The range of issues concerning regional public goods and regional commons facing Sub-Saharan Africa is quite broad. However, a few specific challenges and opportunities deserve special attention because they reflect areas in which collaborative management can be especially effective. Diseases such as HIV/AIDS and malaria do not respect political boundaries and devastate human development and labor force productivity. National efforts at prevention and treatment easily can be undermined by cross-border transmission through migrating vectors and movement of people and goods along regional transport corridors. Restrictions along these corridors would severely harm much needed trade development. Similarly, agricultural output periodically is alarmingly vulnerable to migratory pests such as locusts. Both impacts damage growth but also fall disproportionately on the poor.

41. Management of water resources is critical for environmental protection, basic consumption, and agriculture. The majority of Africa's water resources are part of international basins; therefore, management inherently requires a regional approach. Effective management is all the more urgent given the potentially disruptive impact of climate change on rainfall and increasing demands for water and potential conflicts arising from limited supplies. Similarly, fisheries and mineral resources that lie across borders require regional cooperation to ensure sustainable harvesting, and to prevent conflicts.

42. Not all efforts need to focus on mitigation. Regional provision of public goods also can proactively assist development. For example, regional centers of excellence have proved to be an effective tool to promote research, knowledge-sharing, and dissemination of best practice in agriculture; and offer similar opportunities in the rationalization and provision of tertiary education.

B. Regional Institutional Architecture

43. To leverage opportunities through regional integration Africa needs the strong impetus of coordinated domestic policy reforms combined with collective regional actions. Therefore, getting the institutional architecture right—regional institutions to push integration, their roles, responsibilities, capacities, and linkages to national governments and planning bodies—is a major challenge for Africa to realize benefits from integration.

44. The institutional architecture that Africa is establishing to support integration processes comprises strata of executive continental bodies, regional economic communities (RECs), regional sector technical bodies, and linkages to relevant national planning bodies. In all, there are more than 30 such entities (appendix II). The responsibilities of each stratum vis-à-vis its counterparts are not yet clearly defined. In addition to complexities arising from overlapping memberships, functional responsibilities for strategy, program development, project development, and financing also are not yet clearly delineated. This lack of clarity has slowed progress in translating Africa's leaders' political vision of integration into clear regional strategies, realistic programs for integration priorities (such as regional infrastructure and trade integration), and technical plans for specific projects.

45. As regards planning, completion by ECOWAS and UEMOA of a regional Poverty Reduction Strategy for West Africa (2006) was a significant milestone. Other regions also have completed strategic planning exercises, for example, the Regional Indicative Strategic Plan developed by SADC and an EAC Master Plan. As yet, linkages among these regional strategic plans and countries' national programs are limited. Improved linkages are critical to ensure coordinated implementation of regional programs, which is essential to leverage outcomes at the country level. While political declarations on regional integration convey clarity of vision, they mask the Herculean efforts required of RECs and other regional bodies to align regional and national planning, including by first developing the needed capacity.

46. In terms of regional projects, Africa does not have readily available the considerable resources simultaneously to undertake technical and financial preparation of a large number of complex regional operations. Nor have donor partners been accustomed to providing assistance with project preparation on the scale required. The resulting slow pace of project development has slowed project implementation and raised political frustrations. These have led to pressures on RECs to supplant project development roles normally shouldered by associations of technical bodies (such as power utilities). Shortages of resources for project development and unclear responsibilities among regional bodies have combined to exacerbate progress in this critical area.

47. In short, overcoming the following four institutional issues are critical steps in further developing an effective institutional architecture to accelerate regional integration:

a. Clarifying the roles and responsibilities of each stratum of regional bodies concerned with regional integration, and delineating overlapping memberships

b. Strengthening the professional capacity of key regional bodies to strengthen regional strategies and champion policy harmonization in priority areas

c. Strengthening concerned national planning organs to strengthen linkages between regional strategies and national development plans

d. Strengthening delivery mechanisms for priority programs (for example, regional infrastructure) to underpin confidence in integration by delivering tangible results.

48. Africa's efforts to strengthen regional integration have focused largely on the fourth 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 priority programs, sapping governments' willingness to cede sovereignty to other regional initiatives—a vicious circle. Better progress requires rebalancing effort among the four institutional challenges. More emphasis is needed on strengthening linkages between regional strategies and national development plans, clarifying the roles and responsibilities of regional bodies, and strengthening their professional capacity.

49. Efforts to rationalize the RECs should focus on addressing the overlapping regional communities and their multiple memberships. Rationalization would make it easier for member countries to meet financial obligations to their REC and, above all, would help these important institutions develop the improved effectiveness they need to lead the integration, growth, and trade agendas within and outside Africa. However important the process of rationalization, it is bound to be politically complex and most likely gradual. These realities underscore the need for pragmatism in the approach to capacity development to support regional integration by accepting a "variable geometry" based on existing structures but with built-in levers to support parallel efforts to bring about rationalization.

C. Basic Principles for Regional Integration

50. Regional integration offers significant "win-win" possibilities for the region's economies, particularly for landlocked economies. Integration offers possibilities to leverage and extend economic comparative advantage at a regional level in ways not accessible through national development programs. Regional integration also can become a tool for countries to facilitate and manage their globalization. Advantages in managing regional "commons" and in creating new regional public goods are similarly accessible through strengthened regional integration. However, the process toward integration is inherently complex and fraught with pitfalls that can easily stall or block progress. As noted above, not all countries stand to gain equally from integration or commensurately with the costs they incur. Some countries or subregions are more advanced and politically prepared than others. Furthermore, large economies inherently are more self-reliant than small economies. These are just two examples among webs of realities in the geography and political economy of Africa that countries must navigate in moving forward to integrate regionally.

51. Past experiences, experiences from other regions, and the emerging consensus in academia suggest five basic principles to guide Africa's regional integration:

- **Open Regionalism—Think Global**. The market to conquer is outside, not inside. Thus, the ultimate goal of any regional integration policy should be an outward-looking policy effective in increasing Africa's share of global markets. Promotion of an outward-oriented approach to integration is critical to reduce obstacles to trade and investment

through market-driven integration. Collaboration to expand markets and encourage competition across borders will sharpen competitiveness and comparative advantage.

- **Start Small and Proceed in Increments.** Regional integration implies a coordination of policy actions of many countries. The larger the number of participants, the more complex is the coordination, making it the more likely that integration will fail. Most of the successful regional integrations to date (EU, North America, East Asia) highlight this principle. Moreover, regional economic integration does not necessarily require full political integration. Experiences in Latin America and Sub-Saharan Africa demonstrate that adopting very ambitious, comprehensive agreements at an early stage of integration may result in poor implementation. In contrast, modest, specific agreements based on areas of mutual interest can incrementally build regional integration by providing a platform for mutual trust and further institution building. Specific cooperative initiatives in both trade and nontrade areas can slowly build a stronger neighborhood and subregion.[15]

- **Credible Mechanisms to Compensate Losers (or provide incentives for those with no immediate gains).** Regional trade integration of asymmetric countries is likely to lead to winners and losers.[16] Establishing credible mechanisms to compensate losers (or ensure the redistribution of unequal gains) is critical for a more ambitious integration to take hold and eventually succeed. Building on Africa's existing institutional architecture, this principle underscores the importance of rationalizing and strengthening the RECs. Moreover, strategies should include a transparent, equitable, rules-based system for sharing gains and resolving disputes.

- **The Neighborhood Matters.** The economic geography and neighborhood of countries have critical implications for the focus and sequencing of strategies toward regional integration. For landlocked countries in particular, integration considerations are intrinsically sensitive to the particular neighborhood of countries that surrounds them.

- **Champions of Integration.** Realizing the benefits of regional integration requires strong, sustained commitment from member countries. Having the natural lead countries of Africa in the role as "champions" for regional integration would provide an important impetus to the process. Political leaders should view these arrangements as more than good "sound bite" economics and politics, dedicating the effort required to make them work.

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[15] Examples of a focused and incremental approach include the EU, which began by pooling coal and steel resources. Similarly, East Asia's regionalization began with Japan exporting equipment, technology, and construction materials to China in return for coal and crude oil. The North American Free Trade Agreement (NAFTA) started with bilateral free trade agreements between the US and Canada.

[16] For example, regional integration among low-income countries tends to lead to income divergence between the least developed and the relatively more advanced member countries. Moreover, small countries tend to be more in favor of integration while large countries prefer integrating with countries of equal size because the gains from scale economies exceed the political cost of integration. Finally, when countries with different levels of domestic infrastructure integrate, the countries with the best domestic infrastructure tend to attract a larger share of industrial activities. The deeper the integration, the more this uneven spread of economic activities will increase.

III. TAKING STOCK OF PAST BANK SUPPORT FOR REGIONAL INTEGRATION

52. The World Bank's long-standing commitment to global priorities and region-wide programs gained considerable momentum with the launch of the IDA Regional Pilot Program (Regional Pilot or The Pilot) in 2003.[17] Until then, Bank support for regional priorities in Africa had been limited largely to region-wide sector strategies and the occasional support for multicountry projects.[18] The "Southern Africa Strategy" paper, discussed by the Bank's Board in April 1998, marked a turning point. It explicitly argued the benefits of integration in the subregion and became the first in a series of subregional interim assistance strategies developed for West, Central, and East Africa in ensuing years. However, only with the launch of the Regional Pilot did the Bank obtain a lending instrument and resources geared specifically to support regional projects and programs.

53. This chapter reviews the implementation experience of the Regional Pilot to date, and discusses key lessons learned thus far and implications for the regional integration assistance strategy going forward. The chapter also summarizes issues and strategic directions of relevance to regional integration emanating from the Africa Action Plan and from key sector strategies adopted over the past 5–6 years, and highlights key Africa regional programs that are not part of the regional integration portfolio. Finally, the chapter briefly reviews collaboration experiences with IFC and MIGA.

A. IDA Regional Pilot Program and Status of Loan Portfolio

54. Created in recognition of the increasing importance of regional integration for growth and poverty reduction in poor countries, the IDA Regional Pilot significantly strengthened the ability of IDA to support regional actions in Africa by leveraging IDA's country-based engagements (box 4). Resources earmarked for this mobilized nearly US$1.6 billion of IDA assistance to regional programs under IDA13 and IDA14, leveraging total IDA commitments for regional projects of nearly US$2.4 billion over FY04–08. Of these, US$1.9 billion went to Sub-Saharan Africa.[19] Following the commitment of US$375 million to assist 5 operations in FY04–05, the Pilot leveraged financing for 5 projects of US$480 million in FY06 and more than US$730 million for 7 projects in FY07. So far in FY08 (by March 1, 2008), 3 projects have been approved with a commitment of US$326 million, thereby virtually exhausting the Pilot funding.

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[17] The World Bank's involvement in global programs dates back to the establishment, in 1972, of the Consultative Group on International Agricultural Research (CGIAR). Since then, the Bank's participation in global programs has grown steadily, reaching over 160 global programs and partnerships by FY07.

[18] During the period 1979–2002, the Bank provided assistance to 10 regional projects in Africa totaling US$315 million. Included was support to the West African Development Bank (BOAD) for capacity building and infrastructure development and for the launch of Africa Trade Insurance (ATI), still the only trade insurance agency able to operate continent-wide.

[19] 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 come from the separate Regional Pilot Program funding envelope. The Regional Pilot thus provided separate funding to top-up country resources of approximately US$580 million for the last 2 years of IDA13, and nearly US$1 billion under IDA14. Combined with country contributions, the total envelope available for regional projects under IDA13 and IDA14 amounted to approximately US$2.4 billion. Of that, more than 80%, or US$1.9 billion, went to projects in Africa.

Box 4. Brief on IDA's Regional Pilot Program

Based on the general conviction that regional integration can be a strong engine of growth and poverty reduction in poor countries, IDA's Regional Pilot Program was designed to address issues that had emerged in earlier regional development projects. The most important among these issues are summarized below.

To anchor ownership of regional efforts within the national IDA programs of participating countries, the Regional Pilot Program requires that country IDA allocations cover one-third of the regional project costs attributable to each country. In recognition of the significant positive externalities of regional projects, the remaining two-thirds is provided from a separate Regional Pilot Program funding envelope.

In cases in which project costs or benefits are not able to be split into country components, a legally eligible regional entity can take on the IDA credit on behalf of the region. An important caveat is that experience with regional projects has shown that the least successful projects have relied on new institutions. More successful regional projects have built on existing ones.

For regional projects to qualify for funding, the Pilot requires that they must demonstrate four criteria: (a) at least three countries need to participate; (b) participating countries and the relevant regional entity must demonstrate strong commitment; (c) economic and/or social benefits of the investments must "spill over" country boundaries; and (d) projects are expected to provide a platform for policy harmonization among countries and be priorities within a well-developed and broadly supported regional strategy.

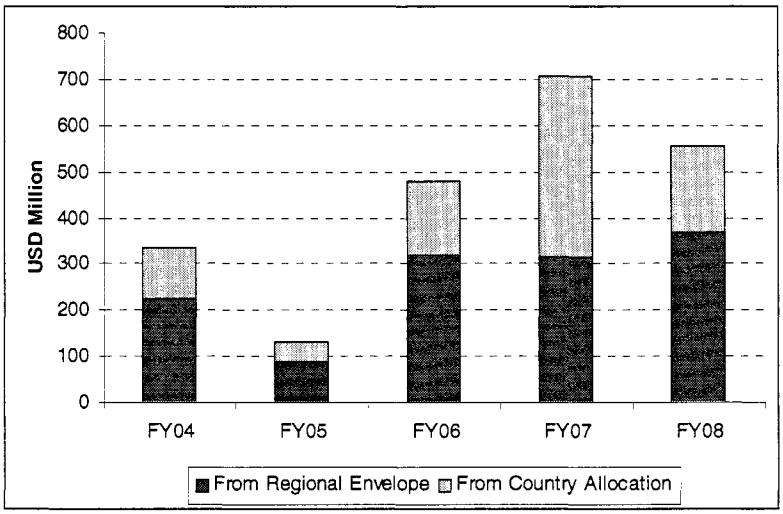
While the Pilot requires participation by at least three IDA countries, it does not oblige countries to take on investments simultaneously or for identical purposes. Pilot funding for a regional project through an adaptable program lending (APL) instrument, either "horizontally" to support the different pace of preparation for regional members or "vertically" to support different investments for a given member, can be considered when the project is part of a regional program to which all members have committed (for example, a regional power pool).

55. Overall, implementation of the Regional Pilot in Africa has been guided by three main objectives: (a) to scale up assistance to priority regional programs in line with the strategic priorities emanating from the NEPAD Short-Term Action Plan (STAP); (b) to fold this assistance into the mainstream of the Bank's Africa program, specifically in the context of the Africa Action Plan (AAP); and (c) to deliver this assistance within the Bank's country-based approach to ensure the national ownership needed to underpin implementation. Requests for regional assistance from IDA clients have greatly increased, to the point that the funding envelope available for Africa under the IDA14 Pilot Program has been virtually exhausted almost a year early (figure 2).

56. To implement the increased availability of IDA regional financing, the Bank established the Regional Integration Department (AFCRI) in the Africa Region in 2004. In addition to projects financed by the IDA Pilot Program and a preexisting Regional Trade Facilitation Project (FY01), the department also assumed responsibility for six regional projects funded by GEF grants. Four HIV/AIDS grant-funded projects also were transferred to the department's portfolio.[20]

[20] These GEF and HIV/AIDS grant-funded projects added approximately US$275 million in commitments to the department's portfolio.

Figure 2. IDA regional commitments, FY04-08



57. As of February 1, 2008, the Regional Integration Department's project portfolio contained 31 IDA/GEF projects, with a total commitment of almost US$2.1 billion. It is the largest portfolio in the Africa Region in number of projects and third in net commitments. In line with priorities set out by NEPAD and AAP, regional infrastructure (power, transport corridors, and communications) make up nearly two-thirds of the portfolio. The remainder is divided among water resources management and environment (20 percent), financial sector integration (approximately 10 percent), and HIV/AIDS and regional agriculture. By subregion, West Africa with 18 projects has received the most assistance, followed by East Africa (10 projects), Central Africa (7 projects), and Southern Africa (6 projects).[21, 22]

58. In addition, AFCRI manages an Inter-Governmental Authority on Development (IGAD) HIV/AIDS project financed by the Africa Catalytic Growth Fund,[23] several multidonor trust-funds for agricultural research and promotion activities,[24] a MIGA guarantee project assisting the West Africa Gas Pipeline, and the Nile Basin Initiative trust-funded umbrella program. To date, the Nile Basin Initiative has funded over 20 subprojects for over US$81 million, many of them focused on institutional strengthening of basin organizations.

59. As to lending instrument, the portfolio is dominated by projects that are structured as Adaptable Program Loans (APLs). Sixteen of the 31 projects, or more than 80 percent of total commitments, use the APL instrument. Its dominance aligns well with findings of the FY06 Africa Regional Integration Portfolio Review: APLs are well suited for the complex and multicountry nature of regional integration projects because they are able to accommodate the

[21] Of the total Africa Regional Integration Portfolio, 18 projects committing US$1.9 billion have been funded through the IDA Regional Pilot Program, and 15 projects committing US$297 million have been funded through GEF or HIV/AIDS funds, or predate the Pilot Program.
[22] Note that projects are not additive since 1 project may cover more than one subregion.
[23] The IGAD Regional HIV/AIDS Partnership Program, USD14.5 million grant, FY07.
[24] Including one that supports the Forum for Agricultural Research in Africa (FARA) and one for the Association for Strengthening Agricultural Research in Eastern and Central Africa (ASARECA).

sequential nature of many regional programs and enable countries to time their participation accordingly (appendix III).

60. Implementation experience of the regional portfolio is limited, with an average project age of 2.2 years. Nevertheless, recent portfolio reviews suggest reasons to be cautiously optimistic that a large proportion of regional projects will achieve satisfactory development outcomes.[25] Appendix III updates the portfolio's performance and discusses actions being taken to maintain good performance. Low disbursement is a general concern for the portfolio. The complex nature of regional projects and the requirement for coordination among multiple countries has tended to delay effectiveness and implementation. (Box 5 discusses the effects of the complexity of regional projects). Procurement and M&E challenges are other common issues within the portfolio. Actions are underway that will systematically address these issues.

Box 5. Complexity of operating environment for regional projects

- **Low capacity** is common in regional economic communities and other regional institutions.
- **Country ownership** of regional integration initiatives varies depending on each country's interpretation of regional protocols, priority and timing given to these protocols, availability of funding, and the level of coordination among ministries.
- **Coordination challenges** within regional projects are significant. Typically, projects include RECs, other regional institutions, national ministries, multiple donors, project implementation units, implementation partners, civil society, and multiple internal World Bank departments.
- **Legal issues** for countries involved in regional projects are more complex. They often involve negotiating legal frameworks among countries, defining international legal relationships, defining the legal status of regional organizations, and ensuring compliance during implementation.
- **Safeguards issues** for regional projects include (a) linking safeguards requirements to, and verifying whether they are already covered by, national programs; (b) designing mechanisms to deal with future environmental matters; and (c) ensuring that safeguards requirements are met in situations in which project implementation roles and responsibilities are unclear.
- **Procurement and financial management issues** include reconciling multiple procurement and financial management systems and complex arrangements to ensure appropriate division of responsibilities.
- **Monitoring and evaluation systems** across countries and regions often differ greatly, and in some cases render measuring and monitoring outcomes difficult if not impossible.

61. The portfolio has benefited from recent institutional reviews of Bank-wide and Africa Region experiences with regional integration programs, including the FY06 IEG report, "The Development Potential of Regional Programs: An Evaluation of World Bank Support of Multi-Country Operations," and the FY06 Africa Regional Integration Portfolio Review conducted by the Africa Region Quality and Knowledge Services Unit (AFTQK). These reviews distilled valuable lessons learned for regional integration programs going forward, and are discussed in detail in appendix III. The main lessons are:

a. ***Strategic alignment.*** The importance of a continent-wide strategic framework for regional integration to ensure coherence among subregional strategies, sector strategies, and country programs and to guide choices and trade-offs and facilitate monitoring and evaluation of progress.

[25] Reviews conducted by IEG in FY06, the Africa Region's Operational Quality and Knowledge Services unit (AFTQK) in FY06, and an internal review conducted specifically for preparation of RIAS cautiously draw similar conclusions; that regional projects can be comparably successfully as single-country projects.

b. ***Ownership and accountability.*** Ensuring ownership among regional and national stakeholders is essential for successful implementation. Improved governance structures to clarify accountability among governments, the concerned REC, implementing agencies, and donors are essential to project success. Partnerships are particularly important to the success of regional projects.

c. ***Financing and instruments.*** Countries with small IDA allocations have difficulties in financing their participation in regional projects in IDA14, but this concern was addressed by provisions in IDA15 that cap the one-third country contributions at 20 percent of a country's total IDA resources. IDA can finance only projects in IDA countries. Hence, innovative solutions and partnerships will be crucial to facilitate regional projects that require the participation of IBRD countries. The lack of a grant window for regional projects in IDA also presents challenges to financing supranational organizations that cannot borrow from IDA and financing regional HIV/AIDS projects for which many countries are not willing to borrow. For large infrastructure projects, MIGA and IBRD/IDA partial risk guarantees and enclave project structures will be instrumental in facilitating private sector investment and PPP arrangements to mobilize the needed financing.

d. ***Bank organization, resources, and skills.*** Continuing efforts are needed to strengthen coordination across country units. Regional projects require more resources for preparation and supervision than do single-country projects. Budget and staff time need to be allocated accordingly. Given the additional workload required to prepare and implement regional projects, extra incentives are necessary to encourage staff with the required skills to manage and work on them.

B. Knowledge Program, Partnerships, and Capacity Building

62. In addition to an extensive lending portfolio, the Regional Integration Department has a sharp focus on regional knowledge creation, which will assist Africa to strengthen the analytical base underpinning regional policy debate and policy formulation. In addition to sector-wide work undertaken in the Africa Region, the department carried out some 15 regional diagnostic studies during FY03–07. Thematically closely aligned with the priorities of NEPAD and the relevant REC, the ESW portfolio has prioritized work on regional financial and trade integration. This work has included reviews of implementation of customs unions along with financial sector integration diagnostics (for EAC, SADC, and ECOWAS) and analyses of gaps in regional infrastructure (for EAC; Central African Economic and Monetary Community, or CEMAC; and SADC). Other work has assisted development of collaborative plans for managing shared natural water resources (in the Nile, Niger, Zambezi, and Senegal river basins), shared fisheries (in West Africa and East Africa), and sensitive environments (wetlands in the Niger Basin and watersheds in southern Africa). Other analyses have explored opportunities for rationalizing specialized service provision regionally (agricultural research in West, East, and Southern Africa; tertiary education in Southern Africa; and capacity development in East and Southern Africa). Notwithstanding these efforts, the analytical and advisory activities (AAA) portfolio needs scaling up considerably to respond effectively to the regional priorities outlined above. More work is needed to address knowledge gaps in infrastructure (power pool and transport corridor development); environmental challenges (climate change adaptation and mitigation, disaster

response, and water basin management); financial sector integration; regional health solutions (migratory diseases and health worker training); regional opportunities in education and agriculture (regional centers of excellence and specialized training programs); and governance (regional aspects of the Extractive Industries Transparency Initiative, or EITI; agenda; governance structures for RECs and regional projects; and the African Peer Review Mechanism or APRM). Appendix III discusses the regional AAA program in detail.

63. The demands of working regionally have been no less pronounced for the Bank's analytical products than for its investment projects. A comprehensive quality review is planned during the remainder of FY08 and early FY09. Meanwhile, a cursory examination of the regional AAA program suggests mixed results, mostly reflecting generic issues identified by the FY06 QAG Review of Africa Region AAA. Main challenges include weaknesses in internal governance and quality management of AAA, and insufficient attention to dialogue around, and dissemination, of AAA.[26] A particular issue related to regional AAA has been the Bank's limited ability to undertake such work jointly with RECs due to their capacity constraints. A significant scaling up of REC capacity is needed to leverage the effectiveness of Bank regional AAA. During FY06, the Africa Region Office of the Chief Economist established a fund to sponsor cross-cutting analytical work on regional issues. The objective has been to advance thinking and public debate continent-wide on core issues of regional integration. The resulting "flagship" products are presented in broad international fora. Within the Bank, these products are distilled subregionally to inform the more operations-oriented, analytical program administered by the Regional Integration Department.

64. Partnerships are critical levers for the Bank's regional integration assistance. Nearly all Bank regional integration projects have joint financing or implementation partners. The African Development Bank (ADB) has become a particularly close partner, sharing in the development of complex infrastructure programs and cofinancing many large investments. A new partnership of the AU Commission, United Nations Economic Commission for Africa (UNECA), World Bank, and ADB will assist the AU Commission to explore practical options to improve REC effectiveness through rationalizing overlapping memberships. This work will build on existing UNECA analyses and options assessments. A promising trilateral partnership among the Bank, ADB, and European Commission (EC) also is taking shape, focusing on REC capacity development, trade integration, and development of regional development banks and regional infrastructure. Other partners have included the Development Bank of Southern Africa (DBSA), DfID, Islamic Development Bank (IDB), as well as France, 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.

65. Since IDA14, and now in IDA15, it has been agreed that the criterion for IDA making resources available on grant terms is the country's risk of debt distress. This agreement poses a challenge in providing direct financing on grant terms to regional organizations. It has hampered possibilities for the Bank to complement capacity development assistance provided by other partners in areas of key importance to the Bank, particularly REC abilities to create and drive

[26] "Quality of Global and Regional AAA: A QAG Assessment," November 2006. The QAG panel reviewed 37 regional ESW delivered between July 1, 2004 and December 31, 2005 of a total of 102 (or 36 % of tasks) and comprising 77 % of their cost ($23 million of a total of $30 million). For TA, the panel reviewed 32 of 86 regional tasks (37 %), which comprise 74 % of the total cost.

regional policy debate in critical areas such as trade integration. The Bank has provided limited support through partnerships and bilateral trust funds. However, this fragmented and limited funding has made it difficult for the Bank to provide assistance commensurate with the strategic importance of developing capacity in key regional bodies. More work in developing innovative partnerships will be key to finance the capacity development program needed in supranational bodies to facilitate progress in regional integration.

C. Sector Development Plans and Other Regional Initiatives

66. Bank-wide and Africa Region sector strategies, Africa Region Governance and Anti-Corruption (GAC) Implementation Plan, and Africa Action Plan each was reviewed for sector inputs to RIAS (appendix IV). These strategies share some common cross-sector themes. Important among these are (a) the need for innovative financing structures and instruments to assist infrastructure development and leverage private sector investment, particularly as regards participation by MICs; (b) spillover from development in one sector can beneficially impact other sectors, including agriculture, environment, private sector development, trade, education, and health—indicating that cross-sector coordination and collaboration on regional projects is beneficial; (c) harmonization of sector policies and frameworks across countries and implementation of existing protocols generally are slow and require acceleration; (d) capacity development of regional organizations is a priority; and (e) regional aspects of the governance agenda need to be addressed, including demand-side accountability, nonrenewable natural resource management (the "EITI-plus" agenda), public finance management, and procurement.

67. Even though the IDA Regional Pilot is the main source of financing assistance for regional integration, the Africa Region does manage several umbrella regional programs that have indirect and direct benefits for regional integration (box 6). Although not managed by the Africa Regional Integration Department, the department will continue to coordinate with these programs to ensure leverage into the regional programs assisted by the Regional Pilot.

Box 6. Africa Region-wide programs

- *Multi-Country HIV/AIDS Program:* The program assists SSA countries to provide increased access to HIV/AIDS prevention, care, and treatment (PCT) programs, with emphasis on vulnerable groups.
- *Roll Back Malaria:* The program coordinates the international fight against malaria among more than 90 partners.
- *TerrAfrica*: A partnership among SSA countries, donor countries and agencies, civil society, and the research community with the collective goal of scaling up and harmonizing support for effective and efficient country-driven sustainable land management.
- *Sub-Saharan Africa Transport Policy Program:* A long-standing international partnership to facilitate transport sector policy development and related capacity building with a focus on safe, reliable, and cost-effective transport.

D. Emerging Alignment of Regional and Country Programs

68. As mentioned above, implementation of the Regional Pilot Program in Africa has been guided by the strategic priorities emanating from the NEPAD Short-Term Action Plan (STAP),

Bank's Africa Action Plan (AAP), and Bank sector strategies. The FY06 review of regional programs by IEG concluded that the Bank's regional engagement in Africa was strategically well aligned with the priorities of the IDA Pilot Program and with NEPAD, particularly the infrastructure-focused STAP, notwithstanding that strategic priorities have extended beyond infrastructure.

69. To guide the Bank's regional assistance, and following the first subregional strategy for Southern Africa completed in 1998, the Bank produced similar strategies for Central Africa, East Africa, and West Africa. The last was produced in parallel with the joint development in 2006 by UEMOA and ECOWAS of a regional poverty reduction strategy (PRS). Although broadly similar in thrust, the subregional strategies have significant variations in rationale, objectives, and priorities; guiding principles; and methodology. Most of these differences arise from specific conditions in each of the four subregions, including geography, neighborhood, and the political economy of regional integration among groups of countries.

70. Implementation experience working through the subregional strategies has highlighted how the Bank's assistance to regional integration in Sub-Saharan Africa could be enhanced by a continent-level strategy. This strategy would link Bank assistance—and its outcomes—more explicitly with AAP priorities and CAS and would provide a coherent framework for neighboring country teams to develop regional plans for implementation. A comparative review of the four subregional strategies (appendix V) suggests a framework that a continental strategy––RIAS—should systematically take into account:

- Typology or hierarchy of integration options, with appropriate benchmarks to facilitate monitoring and evaluation (M&E) of progress
- Distributions of benefits and costs in regional activities, and the importance of credible mechanisms to ensure equitable distribution among participating countries
- Risks of trade diversion through regional blocs to help ensure that commitments to global trade agreements (offering potentially more powerful gains) are not undermined
- Risks of geographic polarization of economic activities, which could occur with or without integration but could be mitigated more effectively through regional arrangements
- Needs for full and early involvement of country (and sector) departments in preparing regional implementation plans—critical for success and sustainability
- Ongoing needs for broad consultation with external stakeholders to validate the Bank's approach and receive feedback on implementation experiences
- Needs for regular follow-up to address implementation issues as they arise and share lessons learned across subregions.

71. Closer internal coordination and consultations among Bank country teams, sector teams, and the Regional Integration Department are leading to increased explicit recognition of regional priorities in country assistance and sector strategies. The proportion of CASs reflecting regional

integration considerations has increased noticeably since the launch of the Regional Pilot in FY04 (appendix VI). Almost 70 percent of CASs brought to the Board during FY04–FY08[27] included considerations of regional integration, compared to only 30 percent during FY00–03. Almost 40 percent of CASs brought forward during FY04–FY08 included regional integration projects in lending programs and associated results matrices, compared to barely 10 percent in FY00–FY03. Regional integration concerns also are beginning to inform country programs and CASs more broadly. Nevertheless, only 5 of 43 CASs considered by the Board from FY04 to FY08 focused explicitly on regional issues beyond regional integration projects financed under the Pilot. Thus, while progress has been encouraging, the challenge of mainstreaming regional integration in CASs and country dialogue remains considerable.

E. World Bank Group Collaboration (IFC and MIGA)

72. Partnerships with IFC and MIGA have been significant in leveraging private financing for regional infrastructure.[28] For example, over the last two years, the Bank has collaborated with IFC and MIGA to organize infrastructure finance workshops for governments, private sector investors, and the development community in Southern Africa. The East Africa Trade and Transport Facilitation Project, Regional Communications Infrastructure Program, and Lighting Africa are three recent examples of programs in which IFC and the Bank have collaborated on financing and implementation. Often, IFC advisory services on structuring infrastructure PPPs build on earlier reforms by the Bank, sometimes with regional impact, such as the successful concession of the Kenya-Uganda Railway. Underlying these collaborations is a shared conviction that Africa's needs for regional infrastructure to spur export growth cannot possibly be provided, and certainly not expeditiously, without stronger leverage of private investment and know-how. Likewise, the Bank and IFC recognize that initiatives to expand markets, deepen trade integration, and attract additional FDI—all with the objectives of sharpening export competitiveness and growth—must be centered on the needs of private business. In its most recent Strategy for Sub-Saharan Africa (IFC/R2006–0297), IFC explicitly added a cross-border component to emphasize the importance of regional projects in infrastructure and other areas.

73. Beyond additional collaborations to assist regional infrastructure development (focusing on power, ports, and telecommunications), the Bank and IFC collaborate in a number of areas related to development of regional markets. In support of regional dialogue on private sector development, IFC and the Bank plan joint work at the regional level related to policy harmonization bearing on private sector development including, for example, through developing REC partnerships with regional chambers of commerce. IFC also is providing technical advisory services to help implement IDA-sponsored initiatives on improving trade logistics and trade facilitation in a number of countries (Rwanda, for example). IFC and the Bank also are working to improve the functioning of capital markets and their ability to serve subregional markets.

74. Importantly, IFC also continues to target assistance to companies establishing regional production and service networks. It is through these companies that the benefits of regional

[27] As of end-December 2008.

[28] An example is the Regional Communications Infrastructure Program (US$424 million). The program supports development of a telecommunications system for Eastern Africa that may interconnect up to 24 countries. IFC provided $33 Million of the total $115 Million financing for the submarine cable system, supplemented by complementary financing for essential terrestrial linkages. Transmission was provided by the IDA Regional Pilot.

integration can be captured as economies of scale and better products and services for regional markets and exports beyond Africa. Notable recent examples include banks having subregional and regional networks, such as Standard Bank of South Africa and Ecobank Transnational in West Africa; an East African steel producer expanding into Southern Africa; a Malian hotel operator expanding in several other West African countries, and continuing support to Celtel as it develops a continental network of cellular telephone service.

75. MIGA has worked with the Bank to provide guarantees to regional infrastructure projects, including the West Africa Gas Pipeline project, SASOL, and institutional support for West African Development Bank (BOAD), while providing TA to the NEPAD Secretariat to develop databases of priority regional programs.

F. Implications for Future Work on Regional Integration

76. The foregoing discussions provide important guiding principles for Bank work to advance regional integration:

a. The Africa Regional Integration Department (AFCRI) will proactively and systematically work with country management units (CMUs) and sector units to ensure incorporation of regional integration issues and solutions in future CAS and sectors strategies.

b. AFCRI will work proactively with project teams and relevant corporate units to ensure that regional project teams receive adequate professional support, clear processing guidelines, and assistance to develop adequate reporting systems for regional projects. Additional incentives (such as increased weight in OPEs) will be considered to encourage staff with desired skills to manage and work on regional projects. Support to project teams will be provided to ensure that design and implementation lessons from reviews of regional programs are incorporated in ongoing and future projects and lead to improved portfolio quality.

c. AFCRI will continue to explore with relevant World Bank Group departments options to adapt relevant IDA and IBRD instruments. These would facilitate capacity development of regional organizations, creation of regional public goods in joint IDA and IBRD country neighborhoods, and participation of MICs in regional projects.

d. To strengthen monitoring and performance of the project portfolio, AFCRI will (a) with a view to improve disbursement ratios, work with the Africa Region's procurement team and management to perform a procurement portfolio review, and recommend and implement follow-up actions where needed; (b) finalize portfolio M&E; and (c) work closely with project and country teams to accelerate the process in cases of delayed effectiveness. Appendix III elaborates on these actions.

IV. PROPOSED REGIONAL INTEGRATION ASSISTANCE STRATEGY

77. The overarching objective of this strategy is to provide a coherent and strategically focused framework to guide the Bank Group's assistance in support of regional integration and regional programs in SSA. With a point of departure in the experiences gained over the past four years under the Regional Pilot Program, the strategy focuses on the priorities and flagships of the revised Africa Action Plan (AAP). The recent agreements on the 15th replenishment of IDA doubled the topping-up funding available for regional programs to nearly US$1.5 billion over FY09–FY11. This increase significantly boosts the Bank's ability to assist regional integration efforts in Africa (box 7) and underpins the importance of a strategic framework to focus and guide that support.

Box 7. IDA15 Regional Program

As part of the IDA15 replenishment agreement reached on December 14, 2007, donors decided to allocate SDR400 million per year, or SDR1.2 billion for the 3 years FY09–FY11, for the IDA Regional Program. This total represents a 100 percent increase compared to the initial allocation under the IDA14 Pilot Program (SDR200 million) and a 60 percent increase compared to the increased allocation of SDR250 that donors retained at the IDA14 mid-term review. As previously mentioned, 80 percent of this allocation is envisaged for Africa, amounting to SDR320 million per year, or SDR960 million in total for IDA15. Taking into account the required one-third funding contributions from country allocations, the total envelope of IDA financing available for regional projects in Africa during IDA15 will be SDR1.44 billion, or approximately US$2.1 billion.

As with IDA14, regional projects will be financed under the 1/3:2/3 formula. One-third of funds will be contributed from the individual countries' IDA performance-based allocation (PBA) envelope, and two-thirds will be met with funds from the regional envelope. This split has proven to both provide incentives for regional integration and ensure country buy-in and commitment to regional projects. While the 1/3:2/3 split generally has worked well, in several instances, the 1/3 contribution requirement has constrained the participation of countries with a small PBA envelope. To alleviate this problem, for countries with small national IDA allocations, IDA15 limits aggregate national contributions to regional projects to a ceiling of 20 percent of the country's PBA envelope. Additional national contributions will be covered 100 percent from the regional envelope.

The IDA15 mid-term review will present an opportunity to reflect on the scaling-up of the Regional Pilot Program and experience with the 20 percent contribution ceiling aimed at countries with small IDA allocations to determine whether any adjustments are necessary.

78. The proposed regional integration assistance strategy is set out below, in three main parts. First, the strategic framework of the strategy is presented, structured around three strategic pillars (regional infrastructure, institutional cooperation for economic integration, and coordinated interventions to provide regional public goods) and one cross-cutting theme (strengthening regional strategic planning and connections with national development plans). Reflecting this structure, a second part outlines key principles and criteria to guide the Bank's lending and nonlending engagements within the three pillars (and the cross-cutting theme). A third part outlines how implementation of the strategy will be undertaken through subregional plans, in parallel with continent-wide assistance to capacity building and efforts to strengthen donor coordination and harmonization. These implementation plans will be developed in FY09. In the interim, a brief discussion of the proposed FY09 lending and AAA program is provided. In addition, a number of implications for Bank-internal process and issues related to Bank-instruments are summarized. Finally, key performance indicators related to the principal actions

in the roll-out of the strategic framework are presented with a discussion of the most important risks associated with the proposed strategy.

79. The core purview of the proposed strategic framework is the IDA Regional Program and its associated lending and nonlending activities. However, the aim is gradually to enlarge the scope and reach of the strategic framework to ensure a more systematic reflection of regional priorities in the Bank's country assistance strategies and in Africa-wide sector strategies. Moreover, the strategy aims to strengthen synergies among IDA, IBRD, IFC, and MIGA by enhancing collaboration and coordination.

80. The architecture of the proposed strategy is deliberately open and flexible. In this way, it will be able to facilitate a gradual enlargement of its scope over time and facilitate adjustments to the strategic framework in the face of partnerships and the comparative advantages of other multilateral and bilateral agencies assisting regional integration. Ongoing changes in external trade and economic agreements as well as the fast-evolving field of bilateral and multilateral donors, private sector investors, and regional institutions will shape and reshape the political and economic landscape in which Africa integrates and in which the Bank Group provides its assistance to regional integration. In conjunction with the institutional challenges involved in gradually moving toward a comprehensive Bank Group strategy, these considerations underscore the importance of an open architecture that allows adaptations and alignments in response to external developments and implementation experience.

81. Development of the 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, stakeholder consultations held in Nairobi in January 2007 and in Washington, DC in October 2007 were valuable fora in which the Bank was able to test evolving thinking and receive feedback on how to reposition and rebalance its assistance strategy to best leverage Africa's leadership.

82. The engagement with stakeholder groups commenced during the development of the strategy will be continued, with the objective to (i) leverage impact by involving African stakeholders in developing regional implementation plans, (ii) extend the debate on regional and global integration issues through active dissemination of this document, and (iii) obtain continuous feedback on strategy implementation to inform needed course adjustments and other adaptations in light of client and stakeholder experiences.

A. Strategic Framework for Regional Integration and Cooperation: Pillars of Assistance

83. The proposed strategic framework for the Bank's assistance to regional integration is closely aligned with the revised AAP[29] and is organized around three main pillars: (a) regional

[29] Seven of the 8 flagships of the revised AAP are embedded in the 3 pillars of the proposed RIAS: (a) strengthen the African private sector; (b) build skills for competitiveness in a global economy; (c) raise agricultural productivity; (d) improve access to, and the reliability of, clean energy; (e) expand and upgrade road networks and transit corridors; (f) increase access to safe water and sanitation; and (g) strengthen health care systems and combat malaria and HIV/AIDS.

infrastructure, (b) institutional cooperation for economic integration, and (c) coordinated interventions to provide regional public goods. Bank engagement also will aim to assist Africa with the important cross-cutting challenge of strengthening regional strategic planning and its connections with national development plans.

84. Helping Africa to maintain regional macroeconomic and financial stability is an important ancillary objective, as is the longer-term aim of gradually moving toward monetary integration and, ultimately, unification. While assistance to national macroeconomic stability is provided primarily through the Bank's country programs, assistance to regional mechanisms pursuing macroeconomic convergence will be considered in the context of Bank assistance to RECs and other regional bodies.

Pillar I. Regional Infrastructure

85. Physical connectivity is the foundation for many of the world's economic communities. Transport and communication connections are essential to move goods, services, capital, and people across countries and borders. Integrated power systems lower costs and improve reliability. In Africa, stronger and better-connected infrastructure platforms will unlock economies of scale and sharpen competitiveness. Improving connectivity through regional infrastructure is especially important for Africa's many landlocked countries, doubly challenged by their small economic size and geographical isolation. Regional infrastructure will facilitate more intraregional trade and exports from the continent, strongly supporting Africa's growth agenda and offering new opportunities to broaden the base of pro-poor growth.

86. However, new physical structures are only part of the challenge. Equally important is the accompanying "software" to enable effective use of infrastructure systems. This "software" encompasses 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. This complementary aspect to connecting infrastructure is especially important for landlocked economies—for the reasons highlighted above.

87. In line with the revised AAP flagships, Bank assistance to regional infrastructure will focus on three areas: (a) expanding and upgrading selected trade corridors and transport networks, (b) improving access to clean energy and improving supply reliability, and (c) improving telecommunication connectivity. As a priority, Bank assistance for trade corridors and transport networks will seek to improve the connectivity of landlocked countries, especially in the context of regions or areas of high economic potential. In this regard, close coordination will be maintained with the NEPAD (and ADB) Spatial Development Initiatives. (See box 8 for further discussion of the three focus areas.)

88. Financing for infrastructure hardware will require significant complementary assistance for related capacity development. At the planning stage, good strategic planning and policy harmonization are essential to maximize benefits from a financing pool that is limited compared to the continent's immense needs for infrastructure. Likewise, constructing regional infrastructure requires sound management to ensure quality and efficiency in complex projects that involve multiple owners and stakeholders. Likewise, operations able to fully leverage

benefits from new infrastructure "hardware" require accompanying technical support to develop the required software, trade, and investment facilitation measures; and to coordinate and harmonize sector regulations, procedures, and standards. Therefore, the Bank's assistance to regional infrastructure will be accompanied by programs to develop capacity in concerned technical and policy bodies at both regional and national levels. While assistance to technical bodies usually can be provided within an investment operation, assistance for policy bodies, particularly for REC capacity building, often demands grant funding. For these purposes, the Bank will seek to mobilize grant funds and to leverage the NEPAD Infrastructure Project Preparatory Fund (IPPF).

Box 8. Focus Areas in Regional Infrastructure

Assistance to trade corridor and transport networks development will continue to combine extension and rehabilitation of physical links along arterial corridors with parallel investment in trade facilitation. Physical investment will focus on highways, ports and border-crossing facilities. Additional opportunities will be sought to leverage private financing and investment, for example, in concession agreements for railway operations and road maintenance. Assistance to trade facilitation will span countries' efforts to accelerate implementation of customs unions and to deal with arrays of issues hindering trade processing, including harmonization of customs procedures and 'behind-the-border' issues such as informal roadblocks. Other assistance will help Africa modernize regulation and security in air transport, a critical mode for high-value exports.[1]

Support for power sector development will remain a priority, reflecting both the pressing power shortages that many countries are experiencing and the importance of integrating mostly small national power systems to lower costs and improve supply reliability. Africa has opportunities for clean power development that are global in scale—in both absolute size and potential economies of scale. Assisting efforts to unlock more of the continent's potential for hydropower will be a special focus. In the near term, assistance will emphasize accelerating preparation of these large and complex projects for financing while establishing needed transmission interconnections.

Assistance to telecommunications will continue to concentrate on strengthening Africa's international interconnections and access to broadband internet. These are essential elements of the business infrastructure that African firms need to access international markets and compete. IDA assistance will be used to complement private financing of international cables and other facilities able to be provided commercially. Additional opportunities to assist e-government initiatives, including through connecting tertiary education and specialized health facilities regionally, also will receive priority

Pillar II. Institutional Cooperation for Economic Integration

89. While less visible than physical connectivity constraints, the policy, operational, and institutional barriers to the free movement of goods, services, and people in and among countries are equally problematic to the development of larger and more efficient markets. Institutional cooperation and integration at the regional level are essential to surmount the wide array of "behind," "between," and "at-the-border" constraints. Benefits from strengthened economic integration include enhancing economies of scale facilitated by regional infrastructure, promoting trade diversification, and providing learning-by-exporting experiences that help African firms launch successfully into global markets. When combined with improved regional economic and political stability, closer economic integration can enhance incentives for both domestic and foreign investment, thus spurring existing industries and new business start-ups.

Strategically, regional institutional cooperation also can enhance Africa's presence in international trade negotiations, strengthening its bargaining power. By complementing benefits from infrastructure hardware, closer institutional cooperation and collaboration will leverage gains in competitiveness and encourage growth through increased intraregional and global trade.

90. At the core of an outward-oriented approach to regional integration is the removal of obstacles to trade and investment in global markets. Institutional cooperation toward economic integration includes lowering tariff and nontariff barriers to trade among regional groupings and with global markets; and developing integrated and deeper financial markets, free trade agreements, and customs unions. It also includes harmonizing technical standards; developing common procurement or financial management regulations, procedures, and codes; and enhancing the capacity of regional professional associations. The last also carries significance regarding the governance agenda. Accomplishing these aims will require improving the capacity of national and regional agencies to drive the reform and harmonization agenda and to design and implement cross-border regulatory arrangements.

91. Bank assistance to economic integration will focus on six main areas: (a) reducing external tariffs to the rest of Africa and the rest of the world; (b) reducing tariff and nontariff barriers to intraregional trade; (c) implementing and harmonizing customs unions and free trade agreements, including ongoing WTO-led trade negotiations; (d) improving regional environments for business, investment and industrial cooperation; (e) strengthening regional financial markets and related institutions; and (f) assisting regional initiatives to improve governance (for example, the Africa Peer Review Mechanism, the EITI-plus agenda, public financial management, and procurement).

92. In implementing this pillar of the strategy, the focus will be to define opportunities and challenges in more specific terms. Doing so will better equip regional policy discussions, thus garnering political constituencies for policy changes to unlock more business and trade potential. Complementing policy assistance will be support for capacity development in RECs and other relevant regional bodies and financing for regional programs able to leverage gains from policy reforms. Bank lending is expected primarily to assist trade and transport facilitation projects and regional capital market development (in collaboration with IFC and MIGA).

Pillar III. Coordinated Interventions to Provide Regional Public Goods

93. Beyond the economic opportunities of regional integration, other important development challenges that cut across national boundaries also can be addressed more effectively through coordinated intervention. National campaigns against HIV/AIDS, for example, are reinforced by action along regional trade corridors. In the same way, campaigns against malaria and avian influenza are more effective when organized among groups of countries. Similar considerations apply to controlling migratory pests such as locusts. Coordinated intervention also is needed for sustainable management of shared natural resources—particularly water and sensitive ecosystems (the 47 countries of Sub-Saharan Africa share 69 international water basins). Africa also is moving to create new types of regional public goods based on improved regional knowledge. More effective agricultural research and dissemination through developing regional centers of excellence is but one example that holds considerable potential. Conversely, coordinated interventions are being developed to tackle some types of negative public goods,

such as food insecurity from flooding, pests, and drought; risks to health and ecosystems from accidental pesticide stockpile leaks; and—certainly not least—potential impacts of climate change.

94. Bank assistance in support of regional solutions and regional public goods will focus on (a) improved management of shared water resources; (b) raising agricultural productivity (including research and knowledge-sharing on likely implications of climate change, and assistance in developing mitigation strategies); (c) regional and subregional programs to address cross-border dimensions of malaria prevention and treatment; (d) increasing access to HIV/AIDS prevention methods along main transport corridors, and improving preparedness to respond to transboundary pandemics, other infectious diseases, and pests; and (e) regional rationalization of research and tertiary education to strengthen regional knowledge assets and technical capacity. In addition, the Bank will explore potential avenues to enable it to provide assistance to address the regional dimensions of conflicts and emergency responses. A combination of lending and AAA is envisaged to assist in these areas, and the Bank will deploy concerted efforts to mobilize grant funding on a larger scale.

Cross-Cutting Theme: Regional and National Planning

95. Successful regional initiatives are rooted in coordinated national actions: harmonizing policies, developing complementary institutional capacity and knowledge, and 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, such as regional associations of national power utilities or river basin authorities. In other words, 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 was in a nascent stage. However, the former only partially exploits 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, activity-based initiatives can make only limited progress toward the vision of integration set out by Africa's leaders.

96. The opportunity to leverage regional integration more fully is 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. Competent RECs, with delineated memberships and clear responsibilities, thus have a uniquely important role in moves toward stronger regional integration in Africa. Important aspects of this role include facilitating provision of regional public goods and brokering credible mechanisms to compensate losers in specific integration initiatives. However, the complex patchwork presented by RECs' overlapping memberships raises numerous problems for policy and program coordination and has been an underlying reason for their mixed success.

97. Improving the effectiveness of Africa's regional institutions is central to accelerate regional integration. Without stronger professional resources—including additional skills in

specific areas—it is difficult to conceive how Africa can lead and accelerate regional policy formulation and policy harmonization spanning infrastructure, trade integration, trade facilitation, financial sector integration, PSD, water security, and others areas. Moreover, the limited capability of regional organizations constrains implementation of regional programs feasible to undertake now. Understandably, national governments are reluctant to cede responsibility to implement important parts of their national development programs to institutions they regard as having limited capability.

98. Bank assistance in this area will focus on three priorities: (a) support for SSA-wide themes centered on capacity development of the AU (and NEPAD), (b) capacity development of select RECs and subsidiary regional bodies, and (c) support to strengthen connection between regional policy commitments and national planning. The assistance under (a) and (b) initially will focus on the joint ADB-World Bank program to develop a capacity building initiative for regional integration, discussed below, and a dedicated AAA program.

99. Table 2 summarizes the program focus by strategic pillars and World Bank roles (a source of financing, builder of capacity, provider of knowledge, and honest broker).

B. Criteria of Engagement and Selectivity

100. The strategic framework presented in the previous section sets the main boundaries within which the World Bank's engagement to assist regional integration in SSA will be considered. Regional integration and cooperation offer many win-win opportunities, particularly activities under Pillar I, which do not require or warrant any particular role for either the Bank or other multilateral or bilateral partners. However, coordination failures (lack of trust among countries, lack of administrative capacity, dissimilar political priorities) and perceived economic and political risks will prevent many win-win possibilities from materializing without public intervention (from organizations such as the Bank). In practice, regional integration is often about less clear-cut situations, with a complex geometry of perceptions among stakeholders—losers as well as winners—and for which an equitable "pay-off matrix" is more difficult to establish. Because demand for assistance with regional programs far exceeds available resources, and to help focus Bank assistance, the following ***broad selection criteria*** will be used to determine whether and how the Bank will assist regional integration activities that fall within the strategic framework discussed above:

- In win-win situations, particularly Pillar I type activities but also some Pillar II type activities, with clear coordination problems (for which priority regional public goods or investments will not be provided in the absence of outside coordination or intervention). Bank support should serve primarily to foster and facilitate partnerships between countries involved and the private sector. Seed funding and/or guarantees may be considered, but kept to a minimum, to leverage Bank engagement.

- In situations in which there are inadequate incentives for a country to take into account the needs or interests of neighboring countries (in other words, a pay-off matrix that is less than clear-cut). Bank engagement through lending and/or otherwise can create the incentives necessary to involve all the partners. In the case of transport infrastructure, this typically would involve one or more land-locked countries (as winners) and a

neighboring coastal country. Some Pillar I and several Pillar II activities would fall in this category.

- Traditional regional public goods ("pure" public goods, as defined in table 1 of chapter II) along with capacity building activities often warrant direct outside assistance, without which they often are not able to be undertaken. The Bank's role and nature of engagement will depend on the regional priority assigned to the activity and the availability of support from other partners.

101. Furthermore, the Bank's financial assistance in support of regional integration will continue to observe the ***criteria for what constitutes regional projects*** established under the Regional Pilot Program. Namely, these projects:

- Involve three or more countries, all of which need to participate for the project's objectives to be achievable (that is, the project would not make sense without the participation of all of these countries)
- Produce benefits, either economic or social, that spill over country boundaries (that is, projects that generate significant positive externalities or mitigate negative ones)
- Involve clear evidence of country or regional (such as ECOWAS or SADC) ownership and demonstrate commitment of the majority of participating countries
- Provide a platform for a high level of policy harmonization among countries (this is key to the success of a regional initiative) and are part of a well-developed and broadly supported regional strategy.

C. Strategy Implementation and Activity Programs

102. The core purview of the strategic framework discussed above is the IDA Regional Program and its associated lending and nonlending activities. However, the aim is to gradually enlarge the scope and reach of the strategic framework to ensure a more systematic reflection of regional priorities in the Bank's country assistance strategies and in Africa-wide sector strategies, as well as to strengthen synergies among IDA, the IBRD, IFC, and MIGA by enhancing collaboration and coordination. Furthermore, since the political economy of regional integration differs across Africa, it is of fundamental importance to tailor Bank Group assistance to reflect the varying priorities (political as well as economic) of different country groupings.

Regional Implementation Plans

103. With this in mind, specific lending and nonlending activities for Bank assistance will be elaborated in four subregional implementation plans, covering West, Central, East, and Southern Africa, respectively. Ensuring strong partnerships and donor coordination as well as SSA-wide efforts to support capacity building in RECs will be two other key elements in implementing the strategy.

Table 2. Program focus by strategic pillar and World Bank roles			
	World Bank in different roles		
	Financing source	**Capacity builder**	**Knowledge bank/Honest broker**
Pillar I: Regional Infrastructure	• Expand and upgrade selected trade corridors and transport networks • Improve access to clean energy and supply reliability • Improve telecommunication connectivity.	• Develop coordinated approaches to create regional and subregional networks of transportation, energy, and communication	• Support analyses to underpin trade corridor and transport network development, and partnerships to create constituencies for action among country neighborhoods • Help ensure fair and appropriate sharing of costs and benefits
Pillar II: Institutional Cooperation for Economic Integration	• Trade facilitation (improving regional environments for business, investment, and industrial cooperation) • Regional capital market development and integration	• Support to RECs to implement and harmonize customs unions and free trade agreements, including analytical work and/or TA related to new trade agreements (including EPAs with the EC) and ongoing WTO-led multilateral trade negotiations	• Analyses to assist RECs in negotiating and implementing new trade agreements as well as harmonization among RECs. • Analyses to delineate and prioritize aspects of Aid-for-Trade in the context of EPAs and WTO negotiations • Regional distillations of country Investment Climate Assessment work and Doing Business reports and dissemination through partnerships between private sector bodies and RECs • Regional approaches to good governance
Pillar III: Coordinated Interventions to provide Regional Public Goods	• Transboundary water resources • Cross-border dimensions of malaria prevention and treatment • Increased access to HIV/AIDS prevention methods along main transport corridors • Improved preparedness to respond to transboundary pandemics, other infectious diseases, pests, and natural catastrophes	• Regional rationalization of research and tertiary education to strengthen regional knowledge assets and technical capacity • Development of regional bodies to track migratory infectious diseases • Development of river basin authorities	• Analyses of implications of climate change and development of mitigation strategies • Exploration of avenues for Bank assistance to help address regional dimensions of conflicts and emergency responses
Connecting Regional and National Planning		• Capacity development of select RECs and subsidiary regional bodies (joint ADB-World Bank RECs Capacity Building Initiative) • Support for SSA-wide themes centered around capacity development of AU (and NEPAD) • Support to strengthen connection between regional policy commitments and national planning	

104. RIAS sets out a continent-wide strategic framework to prioritize knowledge, capacity development, and investment around broad strategic pillars. Implementation through subregional implementation plans secures two criteria essential for effective implementation of the strategy:

- Subregional implementation plans enable country teams to coordinate CAS objectives and business plans in areas in which regional solutions hold potential to

strengthen outcomes at the national level, or which facilitate creation of important regional public goods not achievable through national action alone

- Subregional plans likewise enable implementation of RIAS through the Bank's country-based approach and in a manner that strengthens this approach through leveraging national engagements into coordinated regional programs, mostly within the scope of the Bank's country engagements.

105. Initiated by the Regional Integration Department, co-led by the concerned country teams, and involving relevant departments in IFC and MIGA, the first generation of implementation plans for the 4 subregions will be prepared over the next 12 months (by the end of FY09). Each plan will identify areas in which their CASs will assist countries to implement regional solutions, and identify specific regional knowledge, capacity development, and investment activities in which the country teams will join in collaborative efforts to strengthen outcomes at the national level.

106. Within these subregional plans, priorities for collaboration with IBRD, IFC, and MIGA will be opportunities to catalyze private financing in regional power, telecommunications and transport programs, and knowledge activities (including policy development) dealing with regional private sector development. An especially important role for IFC will be to lead the preparation of priority regional projects through its new project preparation facility. The Bank's normal strategy review processes will ensure that region-wide sector strategies and CDMAP are appropriately reflected in the development and updating of regional implementation plans. *(Appendix VII contains preliminary guidelines for the envisaged regional implementation plan.)*

Results Framework

107. A results-based monitoring framework that includes a set of indicators to monitor the progress of subregional implementation plans has been developed (appendix VIII) and will be refined as the implementation plans are developed. Situated within the focus and flagships of the revised AAP, the framework identifies broad outcomes to be achieved and the Bank's planned contributions to achieve them. At the continental level, RIAS outcomes will be aggregations of outcomes recorded through the subregional implementation plans developed by groups of country teams.

108. Each of these plans will include a results-based monitoring framework to track specific regional activities. Thus, arrangements for monitoring require a consistent approach between the continental level of RIAS and its subregional implementation plans, and among country teams in their areas of regional collaboration. This consistency will take time to develop and phase into the CASs. Subregional implementation plans will be developed over the next nine months. Each will include plans to develop the needed consistency in results monitoring. As regional databases are developed, outcome indicators and markers of progress toward objectives in the subregional plans will be fine-tuned. *By the end of IDA15, African CASs, regional implementation plans, and regional and national M&E frameworks are expected to be fully aligned.*

Capacity Development

109. The Bank's full engagement in assisting with strengthening the professional capacity and effectiveness of regional knowledge and policy bodies is central to the successful implementation of RIAS. Work on capacity development is not planned separately from knowledge partnerships or investment assistance. Capacity development is an essential component of the activities that will help steer these engagements toward successful outcomes. As such, plans to assist capacity development are integral parts of the activities to which they relate. The Bank's limited experience to date has demonstrated that capacity development work with regional bodies is most effective when cast in the context of a specific program priority, whether a knowledge activity to assist in driving regional policy debate or preparation of a regional investment project. Thus, capacity development under RIAS will focus on two broad areas: (a) support for REC capacity development and relevant sector subsidiaries as they relate to the three RIAS pillars and the cross-cutting challenge of connecting regional and national strategic planning, and (b) more general capacity development, although targeted to specific areas.

110. In terms of the strategic pillars, capacity development related to regional infrastructure will concentrate on assisting RECs to develop regional regulatory structures in transport, power, telecommunications, and air transport. Assistance also will be provided to strengthen REC work to facilitate private investment and public-private partnerships (PPPs), especially those related to regional power opportunities and international telecommunications. Assistance to RECs will be complemented by assistance to regional technical bodies to develop planning capabilities. Capacity building assistance to institutional cooperation will focus foremost on building capacity in trade policy at both regional and national levels. Assistance will be provided particularly in the context of ongoing discussions and negotiations with the EC on EPAs. Other assistance will focus on developing capacity among selected RECs to interface more directly with regional private sector groupings to better inform policy harmonization and regional policy formulation related to PSD.

111. Finally, in relation to regional public goods, the priorities will be to assist capacity development in bodies concerned with managing regional water resources and fisheries and fighting HIV/AIDS and malaria. Assistance related to climate change will focus on developing REC capacity to broaden dialogue at the senior political level. In relation to regional and strategic planning, the Bank will assist REC efforts to develop and update regional strategic plans. Bank work will focus on strengthening collaborative engagements among the planning authorities of the concerned countries. Assistance with capacity development is envisaged at both regional and national levels. Thus, the Bank will seek to ensure a more systematic reflection of regional capacity development priorities in the CASs, thereby strengthening linkages with capacity building undertaken through country programs.

112. Regarding more general capacity development, prospects of providing direct assistance depend to a considerable extent on the availability of a suitable regional grant instrument, which is not available under the IDA Regional Program. A joint effort of the Regional Integration Departments of the ADB and the World Bank is underway to develop a capacity building initiative for regional integration. To establish a shared platform able to pool financial and knowledge resources to develop capacity and to implement this with enhanced alignment and

donor harmonization, assistance to selected RECs and other regional bodies could focus on three areas. These would be (a) harmonization of regional trade arrangements and other REC policies in support of regional integration, (b) constituency building (for RECs with weak commitment and support from member countries), and (c) demand-based support in 2–3 key functional areas (such as fiduciary systems, human resource management, M&E, and economic analysis). A first consultation meeting with RECs and other key African organization, organized jointly by the World Bank, ADB and the AU, is planned to take place by end-March 2008.

Partnership and Donor Alignment

113. The field of bilateral and multilateral donors, private investors, and civil society stakeholders supporting Africa's regional investments, knowledge activities, and capacity development is continuously expanding. Some partners have been working regionally with Africa for a considerable time; others, including the Bank, are relative newcomers. Most donors face challenges of working regionally through country-based engagements and national financial instruments. As has the Bank, many partners also have faced challenges to arrange assistance strategically before the development of clear linkages between regional integration strategies and national development plans.

114. Limitations of the RECs' capacity have added to these challenges in two ways. Their limited capacity has overstretched possibilities for clear and strong leadership of donor groups, with consequences for alignment with REC priorities. Second, RECs have lacked the needed capacity to develop and implement management and fiduciary arrangements to harmonize assistance using client systems. As a result, donor alignment and harmonization in regional programs have yet to mirror the impressive progress in country programs spurred by the Paris Declaration on Aid Effectiveness. There have been encouraging initiatives among groups of donors. However, alignment and harmonization in regional programs generally will benefit further from stronger client leadership set within frameworks that more clearly link regional strategies with national development programs.

115. Deeper Bank partnerships with the AU Commission and with selected RECs will be vital to achieve the knowledge and policy-related outcomes targeted under RIAS, which are chiefly to assist Africa to develop more effective regional policy bodies. Following from the discussion above, important aspects of these partnerships will be to assist improvements in donor alignment and harmonization, hence to assist regional bodies to exercise stronger leadership of donor engagements. In these respects, the Bank's engagement in, and assistance to, REC capacity development are critical.[30]

116. In parallel, the Bank will seek to engage in strategic partnerships with key donors to leverage outcomes from regional initiatives within RIAS pillars. Strategic partnerships are being pursued with the ADB (focused on support for cross-border infrastructure and REC capacity building), the EC (focused on trade and investment integration and, similarly, on REC capacity building), and key bilateral donors (DfID, France, the Nordic Countries, Germany, and Japan) with the dual objective of mobilizing support for the RECs capacity building initiative and, more

[30] In this regard, the Bank would support extension of the Paris Declaration to cover alignment and harmonization in regional programs.

broadly, to seek greater alignment and harmonization in assistance for regional integration in Sub-Saharan Africa. Furthermore, the Bank will also seek to engage with China and India with the purpose of achieving greater collaboration and coordination, particularly in the areas of regional infrastructure.

D. Proposed Activity Program for FY09

117. As the four subregional implementation plans will be developed only during FY09, the proposed FY09 lending and nonlending program is summarized below.

Lending Program

118. While likely to increase in absolute terms, financing for the first pillar of RIAS—regional infrastructure—is expected to account for approximately 70 percent of IDA regional funding. Lending will focus on assisting development of additional trade corridors, expanding access to clean energy (particularly hydropower), extending international telecommunications and internet access, and modernizing air transport regulation and security. Under the second pillar—institutional cooperation for economic integration—financing is envisaged primarily in support of trade facilitation and regional financial markets, and is expected to account for approximately an additional 15 percent of resources. Investment lending will focus on extending availability of cross-border financial instruments, further development of regional capital markets, and assistance to selected regional development banks.

119. Under the third pillar—coordinated interventions and provision of public goods—the main priorities for Bank assistance will be programs to manage regional water resources. Assistance in this area benefits from a considerable investment in partnerships and developing regional knowledge, particularly under the Nile Basin Initiative and work on the Senegal River. This work strongly positions the Bank to assist in supporting priority projects. Other Bank assistance with shared resources will give priority to forestry and sustainable management of marine fisheries.

120. Assistance in combating migratory diseases and agricultural pests will aim to leverage the effectiveness of national campaigns through helping countries target cross-border and regional vectors. Priorities will be to step up the fights against HIV/AIDS and malaria. Bank engagement will comprise capacity development of concerned cross-border organizations (including CSOs) and investments related to education and prevention, particularly infrastructure programs that strengthen connectivity. Bank assistance to tertiary education, research, and health will support initiatives by groups of countries to improve outcomes through moving toward increased specialization in regional centers of excellence. Additional assistance is planned to support NEPAD's Comprehensive Africa Agricultural Development Program (CADAP). The Bank also will undertake knowledge work to explore options for collaboration in capital-intensive science and technology tertiary education and in regional approaches to monitor disease.

121. The proposed IDA lending program for FY09 is set out in table 3.

Table 3. RIAS indicative lending program by pillars *(US$ millions)*

	Project	$ mil
Pillar I Regional infrastructure		**482**
Expand and Upgrade Road Networks and Transit Corridors (AAP VI)	Abidjan-Lagos Transport and Transit Project	242
Improve Access to and Reliability of Clean Energy	East Africa Power Market APL1	100
	West Africa Power Pool (Phase III-1)	60
Improve Telecommunication Connectivity	Central Africa Backbone	45
	East Africa Telecommunications RCIP II	35
Pillar II Institutional cooperation		**215**
Increased Trade with Regional and Nonregional Economies	East and Southern Africa TA Services Project (APL1)	20
	Regional Trade Facilitation SIL 2	100
Strengthen African Private Sector (AAP 1)	Central Africa Financial Sector Integration	50
Raise Agricultural Productivity (AAP IV)	West Africa Reg. Project for Fisheries	45
Pillar III Coordinated interventions		**180**
Increased Access to Safe Water and Sanitation (AAP VII)	Lake Victoria Environmental Mgt. Project Phase II	**180**
Build Skills for Competitiveness in Global Economy (AAP III)		
Strengthened Health Systems and Combat HIV/AIDS and Malaria (AAP VIII)		
Total		**877**

AAA Program

122. Knowledge products and their dissemination will be important to progress, and underpin implementation of RIAS. Strategically, the main areas of concentration will be AAA in conjunction with investment assistance around the three strategic pillars. Objectives will be to (a) assist regional bodies to create and drive policy discussion of matters in which regional dialogue is needed to promote policy harmonization; and (b) develop needed additional knowledge to underpin priority regional investments. Emphasis will continue to be given to areas in which there are clear gaps in regional knowledge and regional databases are not yet well developed.[31] Illustrative in this regard are several regional diagnostic studies carried out in FY06 and FY07. They include a review of implementation of customs unions, analyses of gaps in regional infrastructure (covering trade corridors, regional power systems, and international telecommunications links), and three regional assessments of financial sector integration,[32] with emphasis on access to trade-related financial instruments. Concerning water resources, an

[31] Given the high priority of regional integration in Africa, the AFR Regional Integration Department has allocated 15% of its budget for regional analytical products, considerably above the norm for country departments during FY06 and FY07.

[32] This very successful ESW is continued with TA follow-up work in East Africa.

assessment of the economics of multisector investments in the Zambezi Basin provides the analytical foundation to assist riparian countries to define a collaborative long-term strategy for investments in the basin.

123. Ongoing AAA continue these strategic investments in knowledge. They encompass options assessments for trade integration among groups of countries, strategic assessments of regional mineral sector developments, assessment of possible impacts of climate change, prioritization of multipurpose investment options in the Nile Basin, and assessments of opportunities to develop regional centers of excellence in agricultural research.

124. Work on regional infrastructure will assist technical bodies to delineate investment priorities in programs dealing with power pools, transport corridors and international communications; and to prepare specific projects for financing. The Bank will participate in additional implementation reviews of the NEPAD Short-term Action Plan, development of the NEPAD Medium-Term Action Plan, development of infrastructure programs under the Spatial Development Initiative, and implementation reviews and other analyses under the G8 Africa Infrastructure Consortium. Much of this work will be undertaken in collaboration with ADB.

125. Work on institutional cooperation (in support of trade, investment, and financial integration) will focus on assisting countries in the aftermath of the negotiation of the Economic Partnership Agreements (EPAs). Work will assist selected RECs to harmonize trade policies of member countries and simplify and reduce trade tariffs; and assist countries to define priority needs in relation to Aid-for- Trade (AfT).[33] Other work planned will complete a regional ICA to assist regional policy dialogue on PSD, and additional assessments of opportunities to advance financial sector integration. Also planned is a regional analysis of remittances by the African Diaspora into and among Southern African states.

E. Bank Processes and Instruments

126. Outcomes from RIAS can be enhanced through adjusting some processes and through accelerating decentralization of staff working on regional programs. The IDA14 Mid-Term Review and the FY06 IEG review of Bank regional programs identified aspects of present business processes that are awkward in processing regional programs. These recommendations are planned to be implemented in the remaining months of FY08 and in FY09. Included are proposed adjustments to staff incentives. Most regional activities are more complex than activities within a single country and often take more time. Bank management is committed to give additional weight to regional work to reflect the corporate importance now attached to the regional agenda.

[33] It is expected that the EPAs will have a considerable impact on the regional integration agenda in AFR, RECs' configuration, and regional and national production capacities and trade flows. EPAs' potential as a tool for regional integration is particularly high, especially when accompanied by complementary initiatives of other donors in several fields (economic diversification, tax revenue diversification and tax reforms, RECs capacity building, trade in services).

Bank Instruments

127. While IDA credits have been made to regional organizations on at least five occasions in the association's history, IDA's practice has been to provide financing primarily to sovereigns. In a departure from this practice, the IDA pilot included explicit provisions for lending to regional institutions, particularly in cases in which project costs cannot be allocated to individual countries. It remains a challenge for IDA to provide financing directly to many regional organizations that are unable to borrow. Since IDA14, the sole criterion for making IDA grant resources available is a country's risk of debt distress. At the same time, it seems evident that without more effective regional policy institutions, the sustainability of at least some regional programs is questionable. Other sustainable opportunities are unlikely to be exploited without strong partnerships with other donors. Finally, some of the poorest IDA countries are constrained from participating in regional projects because their IBRD neighbors do not have access to concessional finance and are unwilling to borrow at market rates.

F. Results Framework and Risk Management

Results Monitoring

128. As mentioned earlier, results matrices will be developed for each of the four subregional implementation plans. *For purposes of monitoring the roll-out of the strategy, appendix IX sets out key performance indicators related to actions under Bank control.*

Managing Risks

129. *A matrix has been developed that identifies the main risks facing RIAS implementation and how these might be mitigated, to the extent feasible* (appendix X). The risk matrix and mitigating strategies and actions cover eight main risk areas.

130. **Political support constituencies**. The main risk facing progress in regional integration is that political support weakens under the continuing frustration of slow implementation of priority regional programs. RIAS will limit its exposure through focusing on areas in which political commitment to integration is most solid and at the continental-level and regional partnerships have shown themselves to be durable. Exposure to exogenous risks is mitigated also by the Bank's assistance to regional integration in each region of Africa. It is highly unlikely that political support could suffer a general collapse. It is less unlikely that political support for integration could change from region to region. Regional collapses of commitment undoubtedly would harm the effectiveness of RIAS in the area concerned and probably in the CASs concerned. However, reallocations of resources would enable RIAS to step up assistance in other regions. Thus, wavering political commitment to integration is likely to impact the geographic distribution of Bank assistance to a greater extent than it would the overall effectiveness of RIAS.

131. **Institutional architecture**. The overlapping memberships and responsibilities of the RECs risk constraining the effectiveness of all development partners, and—more importantly—of Africa's own efforts to progress integration. The AU is championing reform efforts by leading political discussions to rationalize the number of regional bodies and their responsibilities. This effort is building political momentum. Nevertheless, changes will be politically sensitive and

take time. It is not clear that any adjustments are likely within the RIAS implementation period. At stake is not a failure of RIAS but limitations to the strategy's effectiveness if priority programs are impaired through limited coherence and coordination among regional bodies. It therefore is important for RIAS to assist rationalization efforts by the AU. To limit exposure, RIAS will base engagements primarily on alignments of national political support, rather than on REC strategies.

132. **Capacity development.** The capacity of regional institutions, RECs in particular, is critical to progress in integration. More substantive regional policy debate in areas such as trade, infrastructure development, and financial sector integration is essential to improve alignment between regional and national policy priorities. Absent improved capacity, it will be difficult to achieve policy alignments to unlock additional integration opportunities. Notwithstanding this, REC capacity is less a risk to the effectiveness of RIAS than an opportunity to leverage further impact. Implementation of RIAS will not hinge on REC programs, nor does the strategy look toward RECs to lead critical activities. Although more effective RECs would unlock additional opportunities through deeper integration, it is feasible to exploit numerous integration opportunities with RECs functioning as they are. Therefore, successful implementation of RIAS is not predicated on stronger RECs.

133. **Linkages with country programs.** The effectiveness of RIAS will be determined largely by how it is implemented at the national level. Central to the strategy's design is, first, that much of it should be implemented through the Bank's country-based business model. Second, the strategy should focus on leveraging CAS outcomes through exploiting regional opportunities in national development programs. Proposed arrangements for implementation address this challenge head-on.

134. **Alignment and harmonization.** Partnerships with both the private sector and official development partners are essential to leverage impacts from Bank assistance—hence are critical to the effectiveness of RIAS. The strategy therefore places considerable emphasis on partnerships. Particularly in programs of regional infrastructure, RIAS will emphasize catalyzing private know-how and investment. Programs involving official donors will emphasize sharpening alignment and harmonization to leverage the effectiveness of available resources. While recent progress been encouraging, for the most part, alignment and harmonization in regional programs have not yet matched the improvements achieved in country programs.

135. **Program complexity.** Mindful of the capabilities of all partners, including the Bank, a general challenge to implement RIAS will be to limit the complexity of regional programs. By their nature, regional programs often are more complex than national programs, involving multiple clients and arrays of national agencies and stakeholders. Although regional programs require agreement on core objectives, the objectives of participants usually are aligned less than perfectly. Thus, there is a tendency for regional programs to incorporate the national components considered priorities by individual countries. The resulting regional program can become both complex and fragmented, stretching the implementation capabilities of all parties.

136. *To succeed, RIAS will need a disciplined approach to program design.* The aim will be to focus activities on core objectives not achievable through stand-alone national actions. Associated programs considered important by participating countries will be assisted through

country programs. (The Regional Communications Infrastructure Program, developed jointly with IFC, is an example of this approach.) Grounding implementation of RIAS in country programs will ensure that associated national priorities are followed up and resourced in a timely manner.

137. **Implementation challenges.** Regional programs often bring together national systems of procurement and financial management, which, although all in line with Bank policies, are subject to different institutional arrangements and/or implementation provisions. This presents additional challenges in program design and implementation. The Bank will ensure that assistance provided during implementation is adequately resourced, both financially and in the availability of specialized staff. Moreover, in the context of investment engagements, special attention will be given to strengthen the capacity of regional technical organizations (power pool and river basin authorities, for example) to manage multicountry implementation. A mid-term review of progress in IDA15 will assess the extent to which Bank implementation arrangements are appropriate and recommend adjustments where needed.

138. **Bank instruments, policies, and processes.** IDA financial instruments, designed primarily for country programs, meet the needs of regional financings to varying degrees. Some types of regional public goods, particularly those for which countries are willing to use only grant financing, may not be able to be financed directly by IDA (for example, REC capacity development). The IDA15 mid-term review will afford an opportunity to assess IDA policies as they apply to regional projects to determine whether these can be adapted to enhance the IDA Regional Program's effectiveness. Bank processes likewise meet the needs of regional work to only a limited extent. Internal reviews have identified where changes are needed to sharpen staff incentives and strengthen support to task teams. These changes will be implemented early in IDA15.

APPENDIX I. AFRICA'S GROWTH DIVERGENCE BY GEOGRAPHIC OPPORTUNITY CATEGORY

1. The common approach to measuring continent-wide growth for Africa has been to take the simple average of GDP growth across all countries. However, this is a rather crude measurement in that it gives the same weight to both very small and very large countries and therefore does not accurately portray the economic experiences of the "typical" African. This is especially problematic in that South Africa accounts for roughly half of Africa's total GDP, but only 6% of the continent's population. By weighting GDP per capita growth figures by country population, the end result is presumably a much closer approximation of the "typical" economic growth experience.

2. Table A1.1 gives the average population-weighted GDP per capita growth rates by decade for 43 Sub-Saharan African countries[1] and 64 Developing countries outside of Africa[2] for which a full data set was available. Beyond the aggregate figures, the countries are further broken down into three categories based on the two defining economic realities of African economies – availability of natural resources and physical geography: Resource-Rich countries[3], Resource-Scarce Coastal countries and Resource-Scarce Landlocked countries. (Coastal and Landlocked Resource-Rich countries have been aggregated into a single group as being landlocked has not been shown to be an impediment to extraction of valuable resources and empirically there is little to no difference between the growth rates of the two groups.)[4] SSA's population is broadly split among the three groups, with roughly 29% falling into the Resource-Rich country category, 37% in Resource-Scarce Coastal category and 34% in Resource-Scarce Landlocked category. Globally, these three categories of countries have experienced diverging growth performance, with a roughly parallel result in Africa.

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[1] Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, DRC, Republic of Congo, Cote d'Ivoire, Equatorial Guinea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Senegal, Seychelles, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Togo, Uganda, Zambia, Zimbabwe

[2] Algeria, Argentina, Armenia, Azerbaijan, Bangladesh, Belarus, Belize, Bolivia, Brazil, Bulgaria, Chile, China, Colombia, Costa Rica, Croatia, Dominica, Dominican Republic, Ecuador, Egypt, El Salvador, Fiji, Georgia, Guatemala, Guyana, Haiti, Honduras, Hungary, India, Indonesia, Iran, Jamaica, Jordan, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, Malaysia, Mexico, Morocco, Nepal, Nicaragua, Oman, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Poland, Romania, Russian Federation, Slovak Republic, Sri Lanka, St. Lucia, St. Vincent and the Grenadines, Syria, Thailand, Tunisia, Turkey, Ukraine, Uruguay, Venezuela, Vietnam, Yemen

[3] A country is classified as resource-rich starting in the first year the country satisfies the following three conditions: Current rents from energy, minerals and forests exceed 5% of GNI; A forward moving average of these rents exceeds 10% of GNI; The share of primary commodities in exports exceeds 20% for at least a 5-year period following this initial year. For SSA the countries are Angola, Botswana, Cameroon, Congo, Equatorial Guinea, Gabon, Guinea, Liberia, Mauritania, Namibia, Nigeria, Sierra Leone, Zambia and Swaziland. Other resource-rich developing countries include Algeria, Azerbaijan, Bolivia, Chile, Ecuador, Indonesia, Iran, Kazakhstan, Malaysia, Oman, Papua New Guinea, Syria and Yemen.

[4] Collier, P. and S. O'Connell, 2007, African Economic Growth: Opportunities and Choices, in Ndulu, B., R. Bates, P. Collier and S. O'Connell (eds.) *The Political Economy of African Growth 1960-2000,* Cambridge University Press

3. The divergence in population-weighted per capita growth performance between Africa and other developing countries has been high, nearing an average 4% gap since the 1970s. The bulk of this divergence has come from the resource-scarce coastal countries category, where SSA has consistently underperformed in comparison to other developing rivals. Globally, this has been the highest performing group and accounts for nearly 88% of the total population from the other developing countries sample, while in SSA this group accounts for only 37% of the population and has actually performed worse than its resource-rich neighbors. Africa's landlocked countries have experienced the least divergence, though this is mostly due to the poor performance of rivals, not superior growth in these countries. In fact, SSA's high number of landlocked countries (15), and large population within the Resource-Scarce Landlocked countries category (roughly 34% compared with less than 2% in the sample group of other developing countries), has skewed the aggregate result heavily toward this globally slow growing category.

4. The result of SSA's divergence has been dramatic, with most countries outside of SSA greatly reducing poverty over the past four decades, while the per-capita growth rates in SSA have generally lagged behind population growth, resulting in increasing numbers of individuals in poverty.

Table A1.1: Population Weighted Growth Per Capita by Opportunity Category and Decade

	Overal		Resource-Scarce Coastal		Resource-Scarce Landlocked		Resource Rich	
Decade Averages	SSA	Other Developing Countries	SSA	Other Developing Countries	SSA	Other Developing Countries	SSA	Other Developing Countries
1970s	1.12	3.60	0.92	3.54	-0.02	2.82	2.93	4.30
1980s	-0.84	4.12	-0.78	4.43	-0.57	1.69	-1.26	1.91
1990s	-0.49	3.98	0.05	4.31	-1.09	-0.74	-0.23	2.07
2000-07	2.73	5.77	2.58	6.06	2.28	3.74	3.54	3.82
Total Average	**0.52**	**4.29**	**0.59**	**4.51**	**0.04**	**1.78**	**1.12**	**2.98**

Growth Differential					
1970s	-2.49	-2.62	-2.85	-1.37	
1980s	-4.95	-5.60	-2.27	-3.18	
1990s	-4.46	-4.26	-0.35	-2.30	
2000-07	-3.06	-3.48	-1.46	-0.27	
Total Average	**-3.77**	**-3.91**	**-1.74**	**-1.86**	

Source: World Bank Development Economics Prospects Group

APPENDIX II. THE EVOLVING INSTITUTIONAL ARCHITECTURE FOR REGIONAL INTEGRATION IN AFRICA

1. The seeds of Pan-Africanism—the movement to unite the African continent economically and politically, date back to the 18th century among African visionaries and members of the Diaspora. The idea began to take a more concrete shape with the first Pan-African Congress held in 1900, gradually gaining momentum until formally enshrined in the founding charter of the Organization of African Unity in 1963, the precursor to the modern African Union. Originally focused on supporting independence movements, gradual progress toward decolonization provided the opportunity for the OAU to realign its priorities toward pan-African integration. The Lagos Plan of Action in 1980 articulated the goal of a common African market to be achieved by 2000, and expressed notion that emerging regional bodies and configurations should ultimately converge to form a single Pan-African arrangement.

2. Within the context of the movement toward continent-wide integration, regional and subregional institutional arrangements have been growing in number and complexity since the 1960s. Africa is now home to more of these organizations than any other world region. While these institutions were generally formed to serve their own unique logic and purpose, they also are viewed by many as stepping stones toward the higher aspiration of pan-African integration.

3. The driving forces behind the multitude of regional-level organizations that exist in Africa today are both internal to Africa and in response to developments elsewhere in the world. The 'first-generation,' or 'first wave' of regional level institutions took shape in the 1970s through early-1980s. Prevailing import-substitution industrialization (ISI) policies of the time underscored the necessity of regional integration as a means to provide sufficient scale economies required to spur adequate demand for domestic (or regional) industries and to lower costs per unit of output. The success of the European Community's first enlargement in the 1970s served as an additional catalyst behind the proliferation of regional arrangements.

4. The first-generation regional integration schemes ultimately failed for several reasons. Built on weak national institutions, member countries failed to implement solutions emanating from regional commitments. Regional institutions, being of an intergovernmental form, were too weak in mandate and capacity to pursue activities associated with member states' deep integration objectives. This inward-looking, state-led regional integration strategy of the early integration schemes also failed for the same reasons as the underlying national import-substitution policies.

5. As countries progressively switched from import-substitution to more outward-oriented policies starting in the early 1980s, the 'second-generation' or 'second wave' of regional integration schemes in SSA took hold, accelerating into the first half of the 1990s. The second generation regional institutions were generally not new creations, but arose from revitalization and expansion of the mandates of preexisting, but largely defunct regional bodies. In marked contrast to their isolationist predecessors, the new bodies were typically characterized by open regional arrangements to increase integration not only among member states but also with global markets. Nevertheless, progress toward regional integration remained slow and Africa experienced increasing exclusion from economic linkages and benefits of globalization. Thus, the 1991 African Heads of State Summit in Abuja adopted a treaty with the objective of creating

an African Economic Community by 2028, and which set out a timetable for integration of the continent. A phased process of progressively deeper and broader integration was envisaged, starting with free trade areas and customs unions, moving to common markets, and ending in an economic and monetary union among the continent's 53 countries (including North Africa).

6. Recognizing changes in the external environment and on the continent, at the beginning of the new millennium, African leaders resolved to adapt their development strategy and accelerate regional integration. For this purpose, they changed the Organization of African Unity and the Abuja Treaty into the African Union (AU) through a Constitutive Act of 2002. The AU objectives are more comprehensive than those of the OAU, while its underlying principles represent a new approach to Africa's integration and development. The AU continental institutional architecture reflects these principles, with the Constitutive Act providing for a Pan-African Parliament and the Economic, Cultural and Social Council which uphold the principles of democracy and civil participation; an African Court of Justice to promote the rule of law and adjudicate on human rights violations affecting African citizens; and the Peace and Security Council and associated institutions to upholding peace on the continent. New governance principles are embedded in the African Peer Review Mechanism and development approach and strategy represented by NEPAD. A major shift in approach on sovereignty is discernible through the growing support for upholding human and people's rights; provision for regional intervention in intrastate conflicts and wars; and first steps toward continental supranational structures away from the intergovernmental forms of regional integration espoused in the past. *See box A2.1 for brief description of the AU and NEPAD.*

7. Similar to the Abuja Treaty, the Constitutive Act of the AU recognizes the regional economic communities as the pillars of continental integration and institutions to which every state should belong, entrenches their legal status as distinct and independent entities and provides for the creation of an instrument to govern relations with RECs.

8. While the RECs have made substantial achievements in several areas, *as described in box A2.2*, overall progress toward regional integration and strengthened cooperation is mixed. Only a small fraction of the RECs have thus achieved their targets for trade among members and similarly few have undertaken concerted efforts toward common labor laws, free movement of labor, and rights of residence and establishment. Moreover, many also are lagging on almost all critical elements necessary for the success of the next phases of integration such as customs and monetary unions. Even with regard to the sectoral programs needed to deepen African integration, a third to a half of the regional economic communities acknowledge shortcomings in the effectiveness of their initiatives toward the integration goals.

Box A2.1 AU and NEPAD

The African Union (AU) is a pan-African organization of 53 member countries, aimed at creating a united continent through a process of political and economic integration. The AU was launched at the Durban Summit in 2002, as a successor of the Organization of African Unity (OAU).

The purpose of the AU is to help secure Africa's democracy, human rights, and to promote a sustainable economy, especially by bringing an end to intraAfrican conflict and creating an effective common market. With these aims, the AU is planning the set up of a human rights court, a central bank and monetary fund so as to become an African Economic Community with a single currency by 2023. In 2004 the Peace and Security Council was created for deployment of military force in situations of genocide and crimes against humanity as well as peacekeeping missions—a significant departure from the OAU principle of noninterference.

The AU is composed of three main bodies: (i) Assembly, the AU's main decision-making body, comprised of the heads of state of member countries, (ii) Executive Council, the advising organ to the Assembly's members, comprised of the foreign ministers of member states; and (iii) the Commission, the administrative organ comprised of 10 commissioners, with the aim of implementing AU policies and coordinating the body's activities and meetings.

The New Partnership for Africa's Development (NEPAD) is a vision and strategic framework for Africa's renewal, which was adopted at the 37th Summit of the OAU in July 2001, as a program of the African Union to meet its development objectives. The highest authority of the NEPAD implementation process is the Heads of State and Government Summit of the African Union.

NEPAD overarching objectives are to eradicate poverty, to promote sustainable growth and development, to enhance Africa integration into the global economy and, to accelerate the empowerment of women.

NEPAD priority action areas are: (i) putting in action the African Peer Review Mechanism; (ii) facilitating and supporting implementation of the short-term regional infrastructure programs covering Transport, Energy, ICT, Water and Sanitation; (iii) facilitating implementation of the food security and agricultural development program in all subregions; (iv) facilitating the preparation of a coordinated African position on Market Access, debt relief and ODA reforms; and (v) monitoring and intervening as appropriate to ensure that the Millennium Development Goals in the areas of health and education are met.

Box A2.2. Successes in African RECs and regional cooperation

Although progress in African cooperation and integration as well as the effectiveness of RECs is mixed, RECs have made progress particularly in the area of market integration, infrastructure cooperation and sharing of common resources.

Increased intraregional trade and improvements in international competitiveness are key common objectives among Africa's integration arrangements. In ECOWAS, for instance, countries not members of the West African Economic and Monetary Union (WAEMU) have decided to implement WAEMU's external tariff structure by 2007 with the objective of establishing a single regional market. In Central Africa, a free trade zone linking 11 countries, including members of CEMAC (Central African Economic and Monetary Community), has recently come into effect. In East Africa, the EAC has established a customs union in 2005, COMESA, which created an FTA in 2000, intends to create a customs union in 2008 and SADC in 2010. The Souther Africa Customs Union (SACU) has been renegotiated and the new SACU Agreement intends to deepen and broaden the customs union. All RECs also are implementing trade facilitating measures, notably in the area of transport. IntraREC cooperation is increasingly taking place, e.g. between COMESA, SADC and the EAC to harmonize trade and trade-related regimes.

Progress in implementing and monitoring macroeconomic convergence criteria is more advanced under currency unions, which tend to have a stronger motivation and institutional framework for promoting convergence, e.g. through a common central bank. However, even in these cases a number of the convergence criteria are not being observed by the member countries, for example in both WAEMU and CEMAC. In regional arrangements without currency unions, such as COMESA, SADC and the EAC , convergence criteria are rather loosely defined, at this stage. In general, differing economic structures and performance among members of subregional groups as well as the lack of effective institutional surveillance mechanisms help to explain the limited progress on macroeconomic convergence.

Regional cooperation in infrastructure and other areas of development can be illustrated by the case of SADC whose early program of action focused on transport and communications, agriculture, energy, and human development. Similar approaches are found in other subregional arrangements, including efforts to harmonize business and regulatory practices for larger markets to attract investment. Cooperation in the area of infrastructure is well illustrated by RECs' endeavours to benefit from scale economies and minimize energy cost through sharing energy across across countries. SADC has been a pioneer, with 12 members creating the Southern African Power Pool in August 1995. In ECOWAS the connections between Benin and Nigeria and among Benin, Côte d'Ivoire, Ghana, and Togo are the most important links of the West African Power Pool. Power Pools have also been established in Central Africa (2003); and Eastern Africa (2005).

Cooperation on shared water resources takes place through water river basin mechanisms and initiatives such as the Nile Basin Initiative, Lake Victoria Development, and Zambezi River Basin Authority. Cooperation on land use and wildlife management is taking place through transfrontier conservation initiatives. In all of these cases, functional or area specific cooperation mechanisms are driving cooperation and program implementation.

Source: Various sources. Economic Commission for Africa and African Union, 2006

9. There a multitude of interrelated challenges and factors undermining the success of the regional economic communities and regional integration initatives. Some of the principle factors are explored below:

- ***Proliferation and overlapping membership***: the number of RECs and other regional bodies on the continent has been steadily growing, with many countries members of multiple arrangements. Even though some RECs (such as ECOWAS and UEMOA) have taken significant steps toward rationalization, the issue

remains by and large unaddressed, resulting in a complex web of regional organizations of which, only eight are officially recognized by the AU[1] *(see figure A2.1 and table A2.1 for depiction of the "spaghetti bowl" and description of SSA RECs and regional bodies)*. Such multiplicity has several drawbacks, including: fragmented markets and approaches to regional integration; inconsistent objectives and conflicting operational mandates; contradictory obligations and loyalties for member countries; increased financial cost of country membership; duplication of programs and efforts; unhealthy rivalry for donor funds; and consequently reduced ability to pursue coherent and effective integration programs.

- ***Limited capacity and inadequate funding***: the RECs' ability to play a lead-role in successful regional cooperation and integration are often limited by inadequate mandates, capabilities, insufficient and unpredictable funding, poor remuneration for staff members (resulting in high turnover and extended vacancies), and weak capacity in general. In many cases, member countries have expanded the mandate of the regional economic communities without a commensurate increase in funding

- ***Lack of supranational authority and slow/inadequate implementation of agreed plans.*** A number of RECs have been unable to fully implement integration programs on a timely basis. Delays partly reflect the lack enforcement authority, as sanctions are rarely applied to countries in breach of common agreements. This has opened a substantial gap between the stated aspirations of member countries as expressed in the treaties and protocols creating the regional economic communities, and the reality on the ground. The poor and limited translation of regional goals into national plans and budgets and inadequate implementation of regional programs at the national level also can be explained by a general reluctance of countries to cede their national powers to the regional authorities.

- ***Low popular participation in the Regional Integration debate and agenda***: dialogue on integration is typically dominated by governments and intergovernmental organizations. As a result, the institutions and consultation mechanisms developed often exclude many relevant stakeholders and the wider population. The importance of consultation and popular support for regional integration and reform is increasingly being recognized and civil society is increasingly becoming engaged through official channels and independent advocacy. However, much more needs to be done to stimulate lively debate over priorities and in the process ensure that the regional integration agenda maintains legitimacy and political buy-in.

- ***Lack of information regarding the costs and benefits of integration***[2]: Uncertainty regarding whether and to what extent a country may benefit from

[1] The African Union only recognizes the following institutions as RECs: Arab Maghreb Union (UMA), Community of Sahel-Saharan States (CEN-SAD), COMESA, EAC, ECOWAS, Economic Community of Central African States (ECCAS), Inter-Governmental Authority on Development (IGAD), and SADC.

[2] "Assessing Regional Integration in Africa II: Rationalizing Regional Economic Communities". The UN Economic Commission for Africa and AU, 2006.

regional integration and regional initiatives have in many cases led to a reluctance by national authorities in adopting and committing sufficient resources and authority to regional arrangements. This is particularly true for weaker countries, which may have valid reason to fear losses both in trade and customs revenue. To overcome such apprehension, it may be important for countries to conduct a cost-benefit analysis and to make sure that compensation mechanisms are in place for weaker countries. According to recent UNECA report[3], approximately *"42% of countries that have undertaken cost-benefit analysis studies of integration concluded that regional integration portends net long-term gains for the country, and only 8% concluded that they are likely to experience net long-term costs from integration."*

- ***Controversy surrounding the path and pace of regional integration and liberalization[4]:*** liberalization of regional trade and tariff regimes is the main driver of all integration schemes. The path that liberalization should follow and to what extent remain a controversial issue, especially when the regional arrangements are comprised of members of different levels of competitiveness, often frustrating the integration process. Even among countries with relatively simlar economies, a slight advantage of one over the other can be compounded by integration and liberalization of trade and tarriffs. Moreover, tariff liberalization, whether unilateral or otherwise, can significantly affect government revenue.
- ***Poor labor and factor mobility[5]***: paradoxically, the integration process in Africa has facilitated more outward-looking trade and mobility of factors of production than intraregional trade. Xenophobia is one of the causes of this paradox, with the result that labor movement among members is partly constrained, while capital mobility has been inhibited by the slow development of financial markets.
- ***Little continental coordination and alignment:*** while the RECs have made some efforts to adopt mechanisms to coordinate their activities (for example, memorandums of understanding, periodic coordination meetings, regular exchange of information, joint programming, joint review of programs, and joint implementation committees), use of these coordination mechanisms is limited. This is reflected in the fact that RECs, which have distinct legal status in the continental institutional architecture, have often taken precedence over continental integration decisions in approaching integration. Nonetheless, the AU Commission, the UNECA, NEPAD and other institutions are actively promoting coherence, complementarities and synergy both among RECs and with continental institutions and programs.

10. One of the main challenges confronting Africa in its quest for continental integration and unity is to address the issues raised above and ensure the rationalization and alignment of its

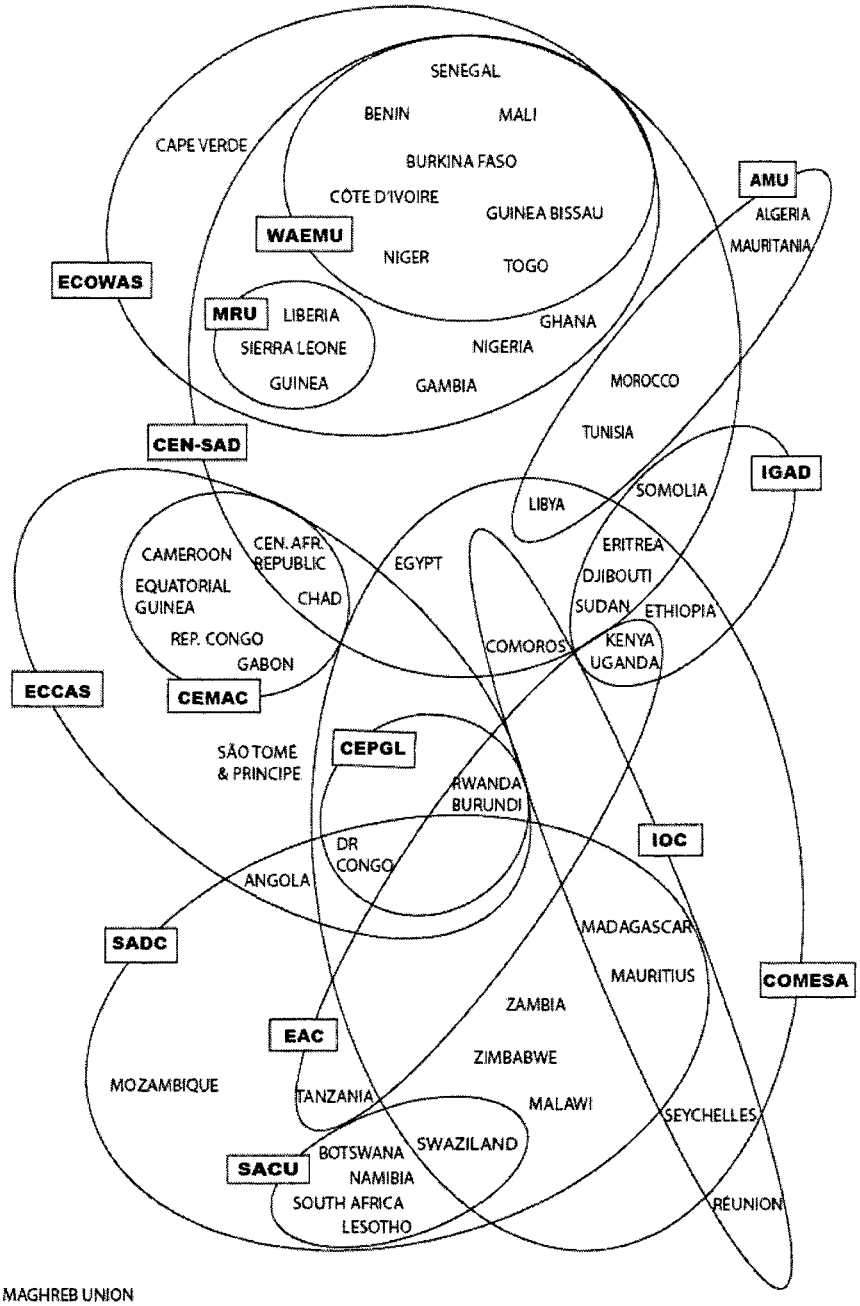
[3] "Assessing Regional Integration in Africa II: Rationalizing Regional Economic Communities". The UN Economic Commission for Africa and AU, 2006.

[4] Dinka T. and Kennes W., Africa's Regional Integration Arrangements, History and Challenges, ECDPM, Discussion Paper No. 74, September 2007.

[5] Africa in the World Economy—The National, Regional and International Challenges Fondad, The Hague, December 2005.

regional economic communities. The question was raised during the 2006 AU Summit in Banjul: the outcomes did not include a clear-cut guideline on how to proceed but the Assembly called for a policy coordination and harmonization of the existing communities and endorsed the recommended moratorium on the recognition of new RECs. The focus on rationalization is premised on the notion that efficiency and effectiveness are essential for Africa to meet its stated objectives. For this purpose, the focus of any effort to rationalize the REC should be on addressing the overlapping communities and multiple memberships as they are associated with large resource costs and seriously binding financial constraints. Rationalization would make it easier for African countries to meet their financial obligations to the regional economic communities and, above all, would allow the continent to reap the full benefits of integration—particularly those for growth and for trade within and outside Africa. Countries have a central role in the regional development and integration process and they have to make every effort to translate continental political commitments into subregional commitments and implementation.

Figure A2.1: "The Spaghetti Bowl"



AMU: ARAB MAGHREB UNION
CEMAC: ECONOMIC AND MONETARY COMMUNITY OF CENTRAL AFRICA
CEN-SAD: COMMUNITY OF SAHEL-SAHARAN STATES
CEPGL: ECONOMIC COMMUNITY OF THE GREAT LAKES COUNTRIES
COMESA: COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA
EAC: EAST AFRICAN COMMUNITY
ECOWAS: ECONOMIC COMMUNITY OF WEST AFRICAN STATES
ECCAS: ECONOMIC COMMUNITY OF CENTRAL AFRICAN STATES
IGAD: INTER-GOVERNMENTAL AUTHORITY FOR DEVELOPMENT
IOC: INDIAN OCEAN COMMISSION
MRU: MANO RIVER UNION
SACU: SOUTHERN AFRICAN CUSTOMS UNION
SADC: SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
WAEMU: WEST AFRICA ECONOMIC AND MONETARY UNION

Table A2.1: Regional Economic Communities (RECs) Working on Regional Integration				
RECs	**Full Name**	**Year Est.**	**Member Countries**	**Key Objectives**
ECOWAS	Economic Community of Western African States	1975 (revised in 1993)	Benin, Burkina Faso, Cape Verde, Côte d'Ivoire d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo	• Promote co-operation and integration in economic, social and cultural activity; • Establish an economic and monetary union; • Raise the living standards of its peoples; • Maintain and enhance economic stability; • Foster relations among member states; • Contribute to the progress and development of the African Continent.
UEMOA/ WAEMU	West African Economic and Monetary Union	1994	Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo	• Establish a customs union; • Harmonize investment incentives, public financial management procedures, and taxation; • Monitor key macroeconomic convergence criteria -- including fiscal deficits, inflation, public sector wages, and government arrears.
CEN-SAD	Community of Sahel-Saharan States	1998	Burkina Faso, Chad, Libya, Mali, Niger, Sudan, Central African Republic, Eritrea, Djibouti, Gambia, Senegal, Egypt, Morocco, Nigeria, Somalia, Tunisia, Benin, Togo, Côte d'Ivoire, Guinea-Bissau, Liberia, Ghana, Sierra Leone, Comoros, Guinea	• Establishment of a comprehensive economic union; • Facilitating the free movement of individuals, capital and goods • Encouragement of foreign trade through common investment policy; • Enhancement of regional transport and communications infrastructure; • Allow citizens of member states to have the same rights and privileges provided for in the constitution of each member state; • Regional coordination of educational systems
MRU	Mano River Union	2004[1]	Sierra Leone, Liberia, Guinea	• Establish a firm economic foundation for lasting peace, friendship, freedom and social progress; • Coordination and harmonization of macro-economic policies; • Development of basic infrastructure (hydro electricity, trade, roads, air and sea transportation and communications).
ECCAS	Economic Community of Central African States	1983	Angola, Burundi, Cameroon, Central Afrian Rep., Chad, Congo-Republic of, DR Congo, Eq. Guinea, Gabon, Rwanda, Sao Tome & Principe	• Establish a Central African Common Market; • Develop capacities to maintain peace, security and stability; • Develop physical, economic and monetary integration; • Develop a culture of human integration • Establish an autonomous financing mechanism for ECCAS

[1] MRU was originally established in 1973, but disbanded due to conflicts between member countries before being reestablished in 2004

Table A2.1: Regional Economic Communities (RECs) Working on Regional Integration				
RECs	**Full Name**	**Year Est.**	**Member Countries**	**Key Objectives**
CEMAC	Economic and Monetary Community of Central Africa	1994	Cameroon, the Central African Republic, Chad, Congo (Brazzaville), Equatorial Guinea, and Gabon	• Create a fully functional and effective customs union, • ensuring a system of macroeconomic surveillance • promoting sectoral policies that help create a common market for goods, capital, and services.
CEPGL	Economic Community of Great Lakes Countries	2004[2]	Burundi, DRC, Rwanda	• Promote economic integration cross-border cooperation
SADC	Southern African Development Community	1992	Angola, Botswana, Congo DR, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe	• Cooperation and/or integration among member states in a range of sectors and their markets, including transport, health, tourism, agriculture mining, and water, through legally binding protocols; • Establishment of a Free Trade Area by 2008; • Completion of negotiations on a Customs Union by 2010 and a Common Market by 2015.
SACU	Southern African Customs Union	1910[3]	Botswana, Lesotho, Namibia, South Africa and Swaziland	• Customs Union; • Regional Integration; • Trade facilitation between the Members of the Agreement, and between SACU and third parties
IOC	Indian Ocean Commission	1984	Maurtius, Seychelles, Comoros, Madagascar, Reunion	• represent and defend members' interest with regard to specific environmental and economic issues; • facilitate regional cooperation and integration. • protection of environment, promotion of tourism, promotion of trade, fisheries, telecommunications, and promotion of cultural heritage.
COMESA	Common Market for Eastern and Southern Africa	1994[4]	Angola, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan,	• Establishing a full free trade area, including the removal of all nontariff barriers; • Establishment of a customs union with a common external tariff structure; • The free movement of capital and investment, supported by the

[2] CEPGL was originally established in 1976 and reestablished in 2004

[3] The 1910 Agreement was renegotiated leading to the 1969 Agreement. The Agreement was further renegotiated in 1994 leading to the current SACU 2002 Agreement that came into force on 15 July, 2004.

[4] Superseded the Preferential Trade Area for Eastern and Southern Africa (PTA), established in 1981

Table A2.1: Regional Economic Communities (RECs) Working on Regional Integration				
RECs	**Full Name**	**Year Est.**	**Member Countries**	**Key Objectives**
			Swaziland, Uganda, Zambia and Zimbabwe.	adoption of common investment practices; • The free movement of persons supported by the adoption of common visa arrangements; • A progressive establishment of a payments union based on the COMESA Clearing House; • Establishment of a common monetary union by 2025.
EAC	East African Community	1997[5]	Kenya, Tanzania, Uganda, Rwanda Burundi	• Enhance the region's competitiveness through ever deeper integration—starting by a Customs Union, followed by a Common Market, a Monetary Union and ultimately a Political Federation of East African States
IGAD	Inter-Governmental Authority for Government	1996[6]	Djibouti, Eritrea, Ethiopia, Kenya, Somalia, Sudan, Uganda	• Assist and complement the efforts of the Member States to achieve, through increased cooperation: Food Security and environmental protection; • Promotion and maintenance of peace and security and humanitarian affairs; • Economic cooperation and integration.
AMU	Arab Maghreb Union	1989	Algeria, Libya, Mauritania, Morrocco, Tunisia	• Guarantee cooperation with similar regional institutions • The enrichment of the international dialogue • Reinforcement of the independence of the member states and safeguarding their assets

[5] IOC was reestablished after disbanding in 1977

[6] IGAD superseded the Intergovernmental Authority on Drought and Development (IGADD) which was founded in 1986

Table A2.2: regional financial development institutions and miscellaneous regional/multicountry institutions				
Regional bodies	**Full name**	**Year est.**	**Member countries**	**Key objectives**
BOAD	West African Development Bank	1973	Benin, Burkina Faso, Côte d'Ivoire, Niger, Mali, Senegal, Togo and Guinea Bissau	• Promote economic integration and balanced development among the member states of WAEMU. • Provide project financing in various sectors including rural development, road infrastructure, telecommunications, energy, industry, transport, rural development and tourism.
BCEAO	West African Central Bank	1961	Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal, Togo	• Pooling of foreign exchange reserves; • Management of the monetary policy of WAEMU member states; • Keeping of the accounts of the member states Treasury; • Definition of the banking law applicable to banks and financial establishments.
BDEAC	Central African States Development Bank	1975	Cameroon, the Central African Republic, the Congo, Gabon, Equatorial Guinea, Chad.	• Lending for development projects in member states
LCBC	Lake Chad Basin Commission	1964	Cameroon, , Central African Republic, Chad, Niger, Nigeria	• To regulate and control the utilization of water and other natural resources in the basin; • To initiate, promote and coordinate natural resources development projects and research within the basin area; • To examine complaints and promote the settlement of disputes, thereby promoting regional cooperation
DBSA	Development Bank of Southern Africa		South Africa	• to accelerate sustainable socio-economic development by funding physical, social and economic infrastructure
EADB	East African Development Bank	1980[7]	Uganda, Kenya, Tanzania (operations currently being established in Rwanda and Burundi)	• promoting development in the Member States as a lender, advisor and development partner
NBI	Nile Basin Initiative	1999	Burundi, Democratic Republic of Congo, Egypt, Eritrea, Ethiopia, Kenya, Rwanda, Sudan, Tanzania and Uganda	• Develop the Nile river and basin area in a cooperative manner; • Share substantial socioeconomic benefits; • Promote regional peace and security; • Achieve "sustainable socioeconomic development through the equitable utilization of the common Nile Basin water resources"

[7] EADB was originally established in 1967 and reestablished in 1980

APPENDIX III: REVIEW OF PAST BANK LENDING AND ANALYTICAL AND ADVISORY ACTIVITIES SUPPORT FOR REGIONAL COOPERATION AND INTEGRATION IN AFRICA

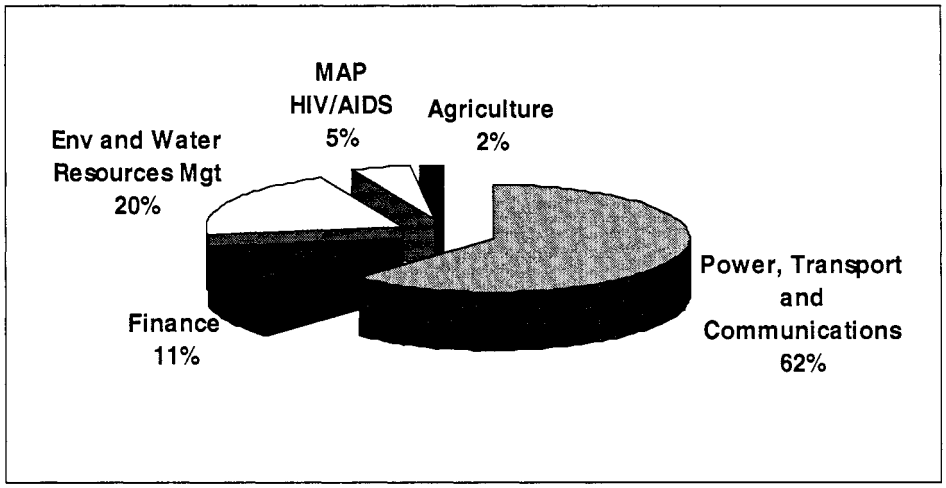
A. Review of Loan Portfolio Managed by the Regional Integration Department

1. As of, February 1, 2008 the Africa Regional Integration Portfolio contains 31 IDA and GEF projects, with a total commitment of almost US$2.1 billion (Table 2). Seven projects were approved in FY07 with a total commitment of US$730 million, exceeding pipeline projections. So far in FY08 (by February 1, 2008), three projects have been approved with a commitment of US$326 million, thereby virtually exhausting the IDA Regional Pilot funding envelope almost a year ahead of schedule. In addition, AFCRI manages one ACGF-grant funded HIV/AIDS project (Africa Catalytic Growth Fund) approved in FY07[1]; several multidonor trust-funds (MDTFs) for agricultural research and promotion activities including one that supports the Forum for Agricultural Research in Africa (FARA) and one for the Association for Strengthening Agricultural Research in Eastern and Central Africa (ASARECA); two guarantees projects to fund the West Africa Gas Pipeline and WAEMU Capital Market Development; and the Nile Basin Initiative trust-funded umbrella program to manage water resources development, environmental management and infrastructure investment in the Nile Basin. To date, the Nile Basin Initiative has funded over 20 subprojects worth over US$81 million, many focused on institutional strengthening of basin organizations.

2. By sector, infrastructure projects dominate the portfolio of IDA and GEF projects, in accordance with NEPAD, World Bank Africa Action Plan (AAP), and Africa Regional Integration strategies (figure 1). Power, transport, and communications projects comprise 62 percent of total portfolio commitments. Environment and water resources management projects comprise 20 percent, followed by finance projects at 11 percent, HIV/AIDS at 5 percent, and agriculture at 2 percent. Approvals in FY07 were even more dominated by infrastructure projects. Ninety-one percent of FY07 commitments were for power, transport, and communications projects; 6 percent for agriculture; and 3 percent for environment and water resources management.

[1] The IGAD Regional HIV/AIDS Partnership Program, USD14.5 million grant, FY07.

Figure A3.1: Regional integration portfolio (July 2007): Net commitments by sector



3. Eighteen of the 31 projects in the IDA/GEF portfolio are funded by the IDA Pilot Program for Regional Integration, accounting for almost US$1.9 billion, or 92 percent, of portfolio commitments. Nine projects are funded by GEF grants, and three by IDA13 HIV/AIDS grants. Since it was approved in FY01 and so predated creation of the IDA Pilot, one IDA project (Regional Trade Facilitation Project) has not been financed by the IDA Pilot. After the creation of the department in the fall of 2004 (FY05), the three HIV/AIDS projects and three GEF projects were transferred into the Regional Integration portfolio. Since then, the department has focused on delivering on NEPAD and AAP priorities that comprise the development of infrastructure and financial services, and trade facilitation in Sub-Saharan Africa. In FY07, four of the seven projects approved, with a total commitment of US$707 million and comprising 97 percent of FY07 commitments, were funded by the IDA Pilot. The remaining three projects (comprising three percent of FY07 commitments) were funded by the Global Environment Facility (GEF). With the termination and nonrenewal of the IDA13 grant facility for HIV/AIDS, no new HIV/AIDS projects were approved by IDA; In FY07, the creation of the Africa Catalytic Growth Fund grant facility facilitated the development of one new regional HIV/AIDS project.

4. By instrument, 16 of the 31 projects in the IDA/GEF portfolio, or 82 percent of total commitments, are structured as APLs. All but three projects approved during FY07 and FY08 were designed as an APL. The three exceptions were GEF operations that required all countries to implement them concurrently through a regional institution. This fact reflects a lesson learned from the FY06 Africa Regional Integration Portfolio Review. That review had found that APLs accommodate well the complex and multicountry nature of regional integration projects. APLs enable each country to join when it is ready rather than force all countries to join at once, even when some do not have the capacity or the legal and institutional frameworks in place.

5. By subregion, West Africa is the most active with 18 projects in the portfolio covering countries in the subregion. East Africa is second with 10 projects, followed by Central Africa with seven projects and Southern Africa with six projects.[2]

[2] Please note that projects at not additive since 1 project may cover more than 1 subregion.

Portfolio Performance

6. With 31 projects, the Regional Integration portfolio is the largest portfolio in the Africa Region in terms of number of projects (the next largest portfolio contains 23 projects), and the third largest in terms of net commitments. As of February 1, 2008, the Regional Integration portfolio contains eight projects 'at-risk,' seven of which are 'problem' projects, representing 26 percent of the department's projects and 36 percent of total commitments. These figures are slightly higher than those for the Africa Region as a whole (25 percent of projects are 'at risk,' representing 24% of total commitments). It is worth noting, however, that the Regional Integration portfolio contains a Country Record flag that automatically labels projects with two other flags as 'at-risk'. If the Country Record flag is removed, as was discussed with QAG in Spring 2006, there would be one fewer project at-risk.

7. Three of the problem projects (West Africa Agricultural Productivity Program, Malawi-Mozambique Transmission Interconnection, "Inga" Regional and Domestic Power Market Development) entered problem status in the last two months due to delayed effectiveness, a common problem among Africa Region projects. Delayed effectiveness is already a challenge for single-country projects in the Africa Region as many countries require parliamentary approval before projects can be declared effective. Inherently, for multicountry projects, this challenge is magnified by the number of countries involved and compounded with the differences in political cycles in different countries, especially when all the Financing Agreements need to be approved before a project can be declared effective.

8. Two of the problem projects are GEF projects with low commitment amounts, US$2.9 million for the GEF Lake Chad Basin project and US$7.0 million for the GEF SADC Groundwater and Drought Management project. The Lake Chad Basin project is experiencing counterpart funding and project management challenges which leaves at risk the achievement of the project's deliverables and development objectives by the time of project closing in July 2008. Only US$.7 million remain to be disbursed. AFCRI will explore with the project team the possibility of implementing a Rapid Results Clinic to help the project achieve its goals during the last six months of the project's life until closing. The SADC Groundwater and Drought Management project has been in problem status for 13 months due to project management challenges. The project manager has been fired and the project is in the process of recruiting a new project manager. AFCRI also is discussing with the project team the possibility of using the Rapid Results Approach to help the team develop a short-term implementation plan, kick-start implementation, and maintain implementation momentum for the duration of the project.

9. The Southern Africa Power Market APL1 project has been in problem status for 13 months due to procurement delays during the first four years of implementation that have led to very high cost-overruns and the need to clear additional land for the transmission line that would not have been needed had the project been implemented on schedule. This project will not get out of problem status unless the additional financing package of US$136 million is completed and approved, and an extension of four years is granted. A one-year extension was granted in December 2007. The additional financing package and remaining three-year extension is expected to be approved in April 2008.

10. The WAEMU Capital Markets Development project has been experiencing procurement, M&E and slow disbursement challenges. The project is currently being restructured. The restructuring is expected to be completed in February 2008.

11. Three projects in the AFCRI are classified as requiring proactive action: WAEMU Capital Markets Development, Southern Africa Power Market APL1, and SADC Groundwater and Drought Management. Action has been taken on all three projects. The restructuring for the WAEMU Capital Market Development project is expected to be completed in February 2008. The additional financing and extension package for the Southern Africa Power Market APL1 project will help it get out of problem status, although proactive action will not be reflected in the portfolio until the package is approved and the procurement process is completed (so that performance can be upgraded) which may take a few months. A new project manager is being recruited for the SADC Groundwater and Drought Management project but proactive action will not be reflected for a few months to allow the new project manager to turn the project around and the performance of the project can be upgraded.

12. ***Portfolio Age.*** The portfolio is young with an average portfolio age of 2.2 years. Ten projects are not yet effective while 11 are aged one year or less.

Table A3.1: Portfolio performance: Regional Integration Portfolio vs. Regions and Bank-wide
(data as of December 31, 2008)

Portfolio/ Regions	# Proj	Net Commit ($m)	Prob-lem (#)	Prob-lem (%)	Poten-tial (#)	Poten-tial (%)	At Risk (#)	At Risk (%)	Commit at Risk ($m)	Commit at Risk (%)	Real-ism (%)	Pro-activity (%)
RI Portfolio	31	2,069	7	23	1	3	8	26	753	36	89	33
AFR	383	21,710	54	14	40	10	94	25	5,251	24	57	70
EAP	197	16,642	16	8	6	3	22	11	1,881	11	73	71
SAR	161	20,778	20	12	7	4	27	17	2,318	11	74	74
ECA	296	16,377	33	11	3	1	36	12	2,050	13	92	68
MNA	94	5,642	10	11	7	7	17	18	1,201	21	59	63
LCR	277	15,215	38	14	20	7	58	21	3,666	24	66	82
Bank-wide	1,410	96,386	171	12	83	6	254	18	16,367	17	67	73

Cross-Cutting Issues and Portfolio Management Plan

13. Cross-cutting issues that impact the AFCRI portfolio include procurement, M&E, and delayed effectiveness. These also are common issues across the Africa Region portfolio. The AFCRI team is taking the following actions to address these cross-cutting issues:

i. Procurement: AFCRI will work with the Africa Region Procurement Team and Management to perform a Procurement Portfolio Review, and recommend and implement follow-up actions where needed, including: providing extra procurement support to projects that need it, and providing procurement training clinics to counterpart project teams and in some cases, private sector partners (contractors).

ii. M&E Portfolio Review: AFCRI has commenced the Portfolio M&E Review which is expected to be completed in March 2008. Results frameworks, monitoring plans, data collection and reporting will be reviewed with all project

teams. The Review also will recommend follow-up actions and AFCRI will work closely with project teams to implement action plans (with the support of AFTRL where needed).

iii. Delayed Effectiveness: Where delayed effectiveness is due to the in-country political approval process, AFCRI is working closely with the project team and Country Management to place pressure on Governments and counterparts to accelerate the process. It must be noted that in some cases, the process is very much beyond the Bank's control. Where delayed effectiveness is due to other reasons, AFCRI is working with the project team to aggressively address the barriers to effectiveness.

B. Summary of (other) Recent Reviews

14. In addition to the short-term portfolio management plan discussed above, three recent reviews of regional integration experiences across the Bank in general and in the Africa Region in particular yield valuable lessons for ongoing management of the Africa Region's regional integration portfolio. These include: (i) the FY06 Portfolio Review of the Africa Regional Integration Portfolio by the Africa Region Quality Results and Knowledge Unit (AFTQK); (ii) the FY06 IEG report, "The Development Potential of Regional Programs: An Evaluation of World Bank Support of Multi-Country Operations"; and (iii) the FY06 QAG Review of Regional AAA. These lessons are summarized below.

FY06 AFTQK Portfolio Review: Lessons Learned

15. The FY06 Portfolio Review drew lessons for the design and implementation of regional integration projects from (a) ICR/IEG reviews of closed projects, (b) QAG and AFTQK reviews of projects under implementation as of FY06, and (c) lessons from other institutions.

Ownership and Accountability

a. Political economy factors can make obtaining government commitment for regional projects difficult. As such, it is essential to focus on consensus building and ownership issues early in the preparation process. Although this lesson is generic and also applies to single-country projects, the challenge is magnified for regional projects. Good coordination with project stakeholders including client countries, relevant RECs, donor community, civil society, and programs should also be leveraged to facilitate prepreparation activities including consensus-building, capacity development, development of the operational manual, M&E system, baseline data, legal advice, and basic procurement documentation.

b. Governance structures that clarify accountability among governments, regional institution, implementing agencies, and donors and that pay attention to conflict of interest issues are essential to project success. Implementation roles and responsibilities and operational procedures, especially those that relate to procurement, should be defined early in preparation.

c. Partnerships are key to the success of regional projects. Other donors and partners are needed not only for cofinancing but also for implementation support. For example, UNAIDS[3] and UNHCR[4] have played critical financing, technical assistance (TA), and coordination roles for the Great Lakes Initiative on HIV/AIDS. The Africa Emergency Locust Project partnered successfully with the UN Food and Agriculture Organization (FAO) for essential coordination, procurement, and TA. The Bank works closely with the International Monetary Fund (IMF) on macroeconomic and trade issues, including helping the EAC implement the Monetary Union. The ADB participates in most infrastructure and trade facilitation projects developed by the Bank. The Bank and ADB have also established a collaboration framework for the transport sector. In addition, the Bank has collaborated well with the European Commission and bilateral donors, including DfID, Finland, France, GTZ, Norway, Sweden, and USAID, to ensure that each donor's comparative advantage is leveraged for specific initiatives or projects. Partnering with governments, civil society, and the private sector also is essential for the same reasons.

Design Features and Implementation Arrangements

d. Keeping project design simple is especially important in an extraordinarily complex operating environment.

e. The use of strong institutions is key to a project's implementation success. It is often more effective and more efficient to use existing institutions and develop their capacity than to establish new institutions. National institutions should be leveraged during implementation to offset the weak capacity of regional institutions and to maximize national ownership.

f. Procurement issues are the most commonly mentioned barriers to successful implementation and often contribute to effectiveness delays. They include (i) more time required than expected for procurement of big contracts; (ii) less bidder interest for small, fragmented contracts; (iii) difficulty in hiring procurement staff, especially for unattractive locations; (iv) weak client capacity; (v) procurement transparency issues on client side and, (vi) slow Bank response and complexity of Bank systems. Although these problems also are common to single-country projects, two major procurement issues that are unique to regional projects are the (i) multiplicity of systems and (ii) division of responsibility. The need to harmonize systems, come to agreement on which system to use, or negotiate the assigning of responsibility for supranational contracts requires significantly more time and effort. For all these reasons, advancement of procurement processes helps ensure successful implementation.

g. Developing M&E frameworks for regional projects tends to be more challenging than for single-country projects because of the need for alignment among

[3] Joint United Nations Programme on HIV/AIDS.
[4] United Nations High Commission for Refugees.

participating countries and for alignment with the regional institution or REC. Moreover, the lack of regional M&E systems, especially systems to track REC outcomes or outcomes that other regional institutions need to track, is a major contributor to the weak capacity of regional organizations. It also hampers the RECs' ability to align project outcomes to desired results.

h. APLs provide an appropriate instrument to facilitate the implementation of regional projects when concurrent effectiveness is not required.[5] These loans enable countries to enter project arrangements only when they are ready and limit the lending commitment of the Bank to components and countries that are ready to borrow.

i. As a category, regional HIV/AIDS projects are relatively difficult projects. The strong public goods nature of HIV/AIDS implies that regional collaboration is essential in addressing the problem and that benefits from regional collaboration can be high. At the same time, these public goods characteristics combined with the social stigma associated with HIV/AIDS in many client countries mean that grants are necessary to finance regional HIV/AIDS projects. The cessation of a grant window for HIV/AIDS projects in IDA14 will impact the sustainability of regional HIV/AIDS initiatives. The quality-at-entry issues and implementation problems experienced by the two early HIV/AIDS projects—ARCAN and Regional HIV/AIDS TAP—have raised concerns about the Bank's approach to regional HIV/AIDS problems. However, the good performance of the two latter HIV/AIDS projects (Abidjan-Lagos and Great Lakes Initiative on HIV/AIDS) demonstrate that mistakes made in the earlier projects have been well learned. Lessons from the Bank's experience with regional HIV/AIDS projects include;

- Garnering ownership from the variety of stakeholders requires significant time and resources.
- The lack of strong existing institutions means that an intensive amount of time and resources are spent to prepare projects and that the early years of implementation are spent building institutional arrangements needed for implementation.

Recently, the Great Lakes Initiative on HIV/AIDS project developed an operational manual that has been adopted by the ADB as a model for West Africa regional integration efforts.

Financing and Instruments

j. The IDA Pilot Program for Regional Integration funds two-thirds of regional project financing, with countries contributing the remaining one-third from country IDA allocations. The pilot provides an incentive for countries to support regional programs, but the impact of financing criteria on small country programs

[5] APLs may not be appropriate for projects that require countries to become effective at the same time, such as projects with high public-goods characteristics.

has been a concern until recently. There are also limitations to the ability of IDA to finance projects that require capacity building, financing regional organizations, or supranational components; and projects that integrate borrowers with different Bank borrowing status. The FY06 Review recommended that IDA pilot guidelines be revisited for (i) countries with small IDA envelopes, (ii) projects involving countries with different Bank Borrower status, and (iii) projects that involve supranational components or capacity building. Funding 100 percent of regional projects that involve public goods should be considered.

- *Impact of IDA Regional Pilot on small IDA country envelopes.* For several small countries, the requirement that participants in regional programs fund one-third of their country's share of the financing from their IDA allocation meant using their entire IDA allocation to finance their participation in regional projects. The reason is that the definition of benefits and subsequent burden-sharing of regional projects bears no relation to a country's IDA Performance-Based Allocation (PBA). A small country may have to bear significant investment costs if its benefits are correspondingly significant for a specific project, regardless of its PBA. Based on the recommendation of the IDA14 Mid-Term Review for Regional Integration Projects, IDA15 has limited the country IDA allocation to regional programs of country programs with small IDA envelopes to 20 percent. This change should help incentivize small country programs to support regional integration projects.

- *Limitations of IDA funding for regional organizations, supranational components and capacity building efforts.* Few regional organizations qualify to borrow from IDA. IDA14 guidelines also do not allow grants to regional organizations or funding of supranational project components. These restrictions limit the Bank's ability to provide critical capacity building for weak regional agencies. The only Bank funds available for capacity building of regional institutions are IDF grants, which often are too small for many TA projects or components,[6] especially relative to the transaction costs that they entail. The Africa Catalytic Growth Fund and the AAP Capacity Building Program are possible sources of funding, although the amounts available under these programs are insufficient.

- *Diversity of Bank borrowing status.* Differences in Bank Borrower status (IBRD, IDA, grant-eligible) among member countries also impact country incentives to sponsor a project, especially for projects involving public goods (such as HIV/AIDS, regulatory bodies). For example, a regional HIV/AIDS project under preparation for Southern Africa has been experiencing difficulty getting support from IBRD countries, even though these IBRD countries (including South Africa, Botswana, Namibia, Swaziland) are at the heart of the HIV/AIDS epidemic in Southern Africa.

[6] Normally maximum $500k, but recently changed to $1 million for regional projects.

Bank Organization, Resources, and Skills

k. Regional projects are still a new area of focus for the Bank and the Bank's systems, organization, policies, and processes have not been set up to support them. Issues include reporting systems; organization of fiduciary, M&E, supervision, quality assurance, and management support functions; CMU, AFCRI and sector roles; and strategic staffing. Specifically, the human resources management and organization of the fiduciary functions still reflect a country focus. The legal, procurement, and financial management functions are only starting to adjust their staffing plans to accommodate the scale-up in the regional integration portfolio.

l. Regional projects require more resources for preparation and supervision than single-country projects for obvious reasons. It is essential that appropriate budget and time be allocated for their quality preparation, implementation, and supervision.

m. Because of their difficult and complex nature, regional projects require appropriate skills. Project teams should include staff with sector technical skills; as well as staff with knowledge of specific country contexts; staff who are familiar with regional integration issues, regional organizations, and RECs; and staff who possess strong procurement skills. Leveraging field-based staff for preparation and supervision also helps reduce the coordination burden of regional projects and increases the Bank's responsiveness.

n. Additional incentives and more proactive performance management (for example, increased weight in OPE assessments) are necessary to encourage strong staff with desired skills to manage and work on regional projects.

o. The Bank should develop in-house expertise on RECs, other regional institutions, and issues associated with regional projects. This in-house expertise would be used to help TTLs and project teams with project preparation and supervision, including assessing institutional capacity and readiness for implementation, providing stakeholder relationship management support, facilitating transactions and negotiations, and helping design capacity building plans. Logically, this role should reside in the Regional Integration Department.

FY06 IEG Review of Regional Programs: Findings and Recommendations

16. The FY06 IEG report, "The Development Potential of Regional Programs: An Evaluation of World Bank Support of Multi-Country Operations," assessed the World Bank's support for regional development programs active between fiscal years 1995–2005. These programs accounted for less than 1 percent of total Bank financing during this period. The key findings are that: (a) regional programs can deliver strong results; (b) success and sustainability depend on strong ownership by all participating countries; (c) the Bank has been particularly effective in fostering country interest in regional programs through analytical work and resource mobilization; (d) the Bank has been less effective in helping countries manage conflicting

interests, delineate the roles of national and regional institutions, and plan for the sustainability of program activities and outcomes; and (e) some Bank structures and processes geared to single-country programs are poorly suited to the planning and oversight of regional programs. The evaluation identified five design features that have proven critical to the success of regional programs. These reinforce many of the lessons discussed in the Africa Region FY06 Portfolio Review of Regional Integration Projects: (a) strong country commitment; (b) scope of objectives matched to national and regional capacities; (c) clear delineation and coordination of the roles of national and regional institutions; (d) accountable governance arrangements; and (e) planning for sustainability. The evaluation concluded that the Bank has an opportunity to adopt a potentially bigger role by building on examples of successful experience. To do so, the evaluation recommended that the Bank (a) establish regional program strategies and integrate them into Country Assistance Strategies (CASs), (b) work with partners to put together grant and loan financing packages for individual regional programs, (c) give more attention to improving the impact of Bank support on regional partnerships, and (d) strengthen corporate incentives and capacities to provide effective regional program support.

FY06 QAG Review of Regional AAA

17. World Bank support for Regional Analytical and Advisory Services (AAA) total $0.2 billion and 3,167 activities during FY1995–2005. In addition, the volume of global and regional AAA (ESW and TA) has almost quadrupled in dollar terms (from US$16 million to US$56 million), and almost doubled in numbers (from 140 tasks to 239 tasks), during FY02–FY05.

18. Within the Africa Region, the Regional Integration Department funded 16 ESW tasks during FY03–07, at a cost of US$1.6 million, and 11 TA tasks at a cost of US$1.1 million. No AAA activities were funded in FY04 during the transition period to create the Regional Integration Department. After the creation of the department in FY05, regional integration AAA activities funded by the department ramped up considerably.

19. By sector or thematic focus, most ESW tasks (seven) were focused on regional financial and trade integration. This number demonstrates the Bank's support to the RECs during the convening, negotiation, and decision-making stages of regional integration discussions. Infrastructure development, water resources management, and HIV/AIDS were supported by only one ESW each. Three additional ESW were associated with strategy development for the subregions and were used as input in the subregional RIASs. All of these tasks are relevant to the strategic priorities of the RECs, NEPAD, and the AAP. However, the strategic relevance of the remaining three ESW tasks (Municipal Development Tools; SSA Universities Staff Retention; AFR Gender, Time Use, and Poverty), all completed during FY06, is unclear. Although these three activities may have region-wide application, their strategic alignment with the priorities of the RECs, NEPAD, and AAP is not obvious. Sector/thematic focus for TA activities is similarly distributed, with all activities being strategically relevant to the regional integration priorities of the RECs, NEPAD, and the AAP.

20. By subregion, three ESW activities are focused on West Africa, 1 on Central Africa, 4 on Eastern Africa, 4 on Southern Africa, and 5 activities are relevant to all Sub-Saharan Africa. For TA, 2 activities are focused on West Africa, 3 on Central Africa, none on Eastern Africa, 3 on Southern Africa, and 3 activities for all Sub-Saharan Africa. As Southern Africa has been

lagging other subregions in readiness for regional integration, the Bank's support to the subregion has been relatively more geared toward capacity development through ESW and TA activities.

21. No quality review has ever been conducted for the AAA portfolio of the Regional Integration Department. A brief examination of this portfolio suggests that quality is variable across the portfolio and that a quality review is recommended for FY08 to garner lessons learned for future governance of regional integration AAA. However, the lessons from the FY06 QAG Review of Regional AAA for the Africa Region are quite relevant for this portfolio, including that the Africa Region lags other regions in terms of AAA quality. Specifically, more attention needs to be paid to:

- *AAA governance* (Bank Inputs and Processes) including quality assurance, planning, budgeting, and reporting.
- *Internal quality.* Task objectives need to be clearer, results indicators more explicit, and scope better aligned with objectives.
- *Dialogue and dissemination.* Dissemination strategies should be elaborated and funded at entry, because they are usually ineffective when elaborated during implementation.

22. By network, the QAG Review found that the INF Network lags behind others for AAA quality. Dialogue and dissemination and Bank inputs and processes are areas requiring significant improvement in INF. More attention is needed to ensure closer involvement of clients and key stakeholders. Dissemination strategies need to be elaborated at entry, funded and followed by appropriate implementation. Greater managerial attention needs to be paid by the SMU to quality-at-entry and throughout implementation. Infrastructure comprises the largest share of the Africa Regional Integration lending portfolio. Therefore, it is a major strategic driver for regional integration in Africa. In reviewing AAA mapped to the network, the Regional Integration Department should pay close attention to the QAG lessons for the INF Network.

23. Although the Bank is coordinating with development partners to provide capacity development support to the RECs and their member countries, AAA activities of the Regional Integration portfolio require significant scale-up to meet the enormous capacity development needs of these constituents.

APPENDIX IV. SECTOR STRATEGIES AND IMPLICATIONS FOR REGIONAL APPROACHES [1]

World Bank/Africa Region Sector Strategy	Implications for RIAS
Infrastructure	
Strategy: World Bank Infrastructure Action Plan (2003) ***Priorities*** • Respond to increased client demand for infrastructure • Rebuild country-level diagnostic works • Strengthen Bank Group's instruments and approaches *Strategy:* Africa Action Plan (2005 and 2007) ***Priority*** *Closing infrastructure gap* Increase infrastructure financing and work with development partners on a coordinated approach to mobilize resources	• Support innovative financing instruments for infrastructure development • Support efforts to attract private sector investment in infrastructure development • Work with development partners to coordinate approach to mobilize resources for infrastructure development.
Energy	
Strategy: Clean Energy For Development Investment Framework: World Bank Group Action Plan (2007) • Supports Africa Energy Scale-up Program to increase number of households with access to modern energy from current low level of 25% to 35% by 2015 and 47% by 2030 • Supports transition to a low carbon economy • Supports countries' adaptation to climate variability and change • Explores options for enhanced financial products *Strategy:* Africa Region: Energy Challenges and Opportunities Energy Scale-up Plan for Africa (2007) • Growing consensus that action on energy is critical to reduce poverty • Regional programs including large hydrogeneration, transmission, and hydrocarbon projects are vital for region countries and regional institutions are gearing up to deliver	• Support development of regional power generation and transmission projects, and national projects that have a regional impact • Support capacity development of regional economic communities (RECs), river basin organizations (RBOs), and regional power pools

[1] "This note has been prepared by AFCRI in collaboration with MIGEP, CAFSC and LEGAF."

World Bank/Africa Region Sector Strategy	Implications for RIAS
Action Plan for Energy Access in Sub-Saharan Africa **Track 1**: Roll out grid and off-grid programs **Track 2**: Enhance generation and transmission (development of hydropower, gas, and other resources at national and regional level—main avenue of Bank support) **Track 3**: Electricity/lighting for services and institutions **Track 4**: Lighting bottom of pyramid **Track 5**: Sustainable fuels	
Transport	
Strategy: Sub-Saharan Africa Transport Policy Program ***Priorities*** • Transit and interstate corridors • Trade facilitation *Strategy:* Africa Action Plan (2005) ***Priorities*** • Multimodal, regional corridor projects to reduce bottlenecks at international borders, and harmonize customs and trade policies • HIV/AIDS prevention components included in regional transport projects • Trade facilitation, and private participation in rail, port, and airport concessions *Strategy*: Africa Action Plan: Updated Implementation (2007) ***Flagship: Expand and upgrade road networks and transit corridors*** • Decrease cost and time to reach key international markets (reform customs reform, enforce transit traffic, rehabilitate roads, clear ports, address border constraints) • Improve access to markets via all-season roads ***Actions*** • Focus on institutional framework for urban and rural transport in eight countries • Launch three major regional transit corridors by FY08	• Support development of at least three regional transport corridors including implementation of joint border posts, and addressing HIV/AIDS • Support customs reform through implementation of customs union protocols • Support regional harmonization of transport and trade policies and frameworks

World Bank/Africa Region Sector Strategy	Implications for RIAS
ICT	
Strategy: World Bank Group's ICT Strategy for Africa (2007) ***Priorities*** • Improving connectivity • Mainstreaming ICT applications • Developing IT-enabled industries Bank projects are increasingly regional (for example, recently approved Africa Regional Communications Infrastructure Program: $424 million for 25 countries in East and Southern Africa) *Report:* ICT Sector Review in Africa (2007) Africa's communications infrastructure is under-resourced and under-invested at supranational level due to lack of intraregional connectivity and lack of international undersea cables connecting Africa to other regions of the world, and to global Internet ***Recommendations*** • Additional sector reform including deeper levels of liberalization (removing market entry barriers, simplifying licensing regimes, strengthening regulatory agencies) • Lower prices for telecommunications services • Increase international connectivity/bandwidth via fiber optic cable • Leverage PPPs to achieve investment and development goals	• Support international/cross-border fiber optic cable infrastructure development for increasing international bandwidth • Support regional harmonization of policies and frameworks especially as related to further liberalization of market
Regional Financial and Trade Integration	
Analytical: Making Finance Work for Africa Financial Sector Integration in Two Regions of Sub-Saharan Africa (2007) ***Key Findings*** • Integration of financial sectors of small, poorly diversified economies can help lower both costs and risks incurred by banks and financial service firms. Integration often is achieved through cross-border consolidation of industry.	• Support regional financial infrastructure integration • Support harmonization of policies and frameworks related to trade and financial integration, and that improve investment climates in countries

World Bank/Africa Region Sector Strategy	Implications for RIAS
Areas for Regional Collaboration • Harmonization of payments procedures, commercial and financial law, accounting standards, and prudential supervision • Appropriate endowment of regional institutions to promote integration and to help prevent crises through surveillance *Priorities* • Fostering competition by removing barriers to entry, by enabling banks to branch across a region, and by taking advantage of information technology • Developing a supportive regulatory infrastructure by promoting regionally harmonized regulation, reporting requirement, and uniform accounting standards • Promoting free movement of capital *Strategy:* Africa Region Trade Progress Note (2003) *Barriers to Increased Trade/Issues* • **An unsupportive investment climate**, including unsatisfactory legal, regulatory, and tax framework for business weak governance and accompanying corruption and inefficiencies that undermine confidence inadequate infrastructure of all types and poor transport, telecommunication, and financial services that facilitate trade • **Unfinished liberalization.** Despite significant progress made in liberalizing trade in 1990s, liberalization is incomplete African countries still maintain high levels of nominal, and effective protection for import-competing industries anti-export bias is strong. • **Behind-the-border, trade-related reforms.** Two particular trade-related, behind-the-border issues stand out: custom reform and trade facilitation. Nearly every country needs a major institution-building effort to reform and improve customs administration so that customs facilitates, rather than obstructs, trade. Also needed are improvements in trade-related infrastructure and provision of efficient, competitive. trade-related services. • **Regional integration** Currently, there is much more political enthusiasm for regional integration than for unilateral trade liberalization. Most African countries belong to various regional trade agreements (RTAs) to promote trade among themselves. There are 3 functioning customs unions in Africa, with 19 member countries: Southern African Customs Union (SACU), Central African Economic and Monetary Community (CAEMC), and *West African Economic and Monetary Union* (WAEMU). Most of other arrangements are preferential to FTAs that thus far have had limited impact. There are large gaps between the intentions of agreements and actual implementation and	• Support ICT solutions that facilitate cross-border payments (mobile phone payments, for example) • Support implementation of customs union protocols (SACU, CAEMC,WAEMU) and regional trade agreements (RTAs) (reduction of tariff and nontariff barriers) • Support development of cross-border physical infrastructure that facilitate trade including transport corridors and joint border posts

World Bank/Africa Region Sector Strategy	Implications for RIAS
policy. Institutional, and infrastructural constraints to intraAfrican trade are still large. The *New Partnership for Africa's Development* (NEPAD) recently called for expeditious implementation of existing RTAs and elimination of all internal trade barriers as a step toward integration into global economy.	
Environment and Water Resources Management	
Strategy: Environment Sector Strategy (2001) ***Objectives*** • Improving quality of life by focusing on three broad areas: Enhancing livelihoods dependent on natural resources, preventing and reducing environmental health risks, and reducing people's vulnerability to environmental hazards • Improving quality of growth by supporting policy, regulatory, and institutional frameworks for sustainable environmental management and supporting sustainable private sector development • Protecting quality of regional and global commons and helping to find equitable solutions to global challenges *Strategy:* Water Resource Management Strategy: Strategic Directions for World Bank Engagement (2003) ***Key Actions*** • Reengage in water development, including high-reward high-risk hydraulic infrastructure, using a more effective business model • Assist Bank clients in developing and maintaining hydraulic infrastructure and mobilizing public and private financing, while meeting environmental and social standards • Tailor Bank assistance to country-specific circumstances • Provide support to assist countries' collaborative management of water resources in key river basins (Niger, Nile, Senegal, and Zambezi)	• Continue supporting RBOs in their strategy development, institutional capacity development, policy harmonization, and river basin development efforts. Priority river basins include Niger, Nile, Senegal, and Zambezi. • Ensure that sustainable social and environmental safeguards are followed in regional infrastructure and natural resources development projects, including those that involve private sector investment • Support activities related to climate change mitigation and adaptation, and disaster response.

World Bank/Africa Region Sector Strategy	Implications for RIAS
Agriculture and Rural Development	
Strategy: World Bank Agriculture and Rural Development Strategy (2002) ***Pillars*** • Foster an enabling environment for broad-based growth • Enhance agricultural productivity and competitiveness • Foster nonfarm economic growth • Improve social well-being, manage risk, and reduce vulnerability • Protect and better manage of natural and physical environment *Strategy:* Africa Action Plan (2005) ***Priorities*** Making agriculture more productive and sustainable through: • Increased investment in agriculture, especially for irrigation, water resources management, and research and extension • Increased rural public services • Improved productivity through increased use of better seeds, fertilizers, and agricultural practices *Strategy:* Africa Action Plan: Updated Implementation (2007) ***Flagship: Raise Agricultural Productivity*** Goal of this flagship is to accelerate growth in agricultural productivity, including land and labor productivity, through: • Improved agricultural technology (research, extension, and adoption of improved techniques) • Investment in rural infrastructure through local government and/or community initiatives • Irrigation and water harvesting • Sustainable land management • Stronger value chains and access to markets, including input markets • Greater access to rural finance and risk mgt. and stronger safety nets ***Indicators*** Three RECs complete regional strategies for cooperation in agricultural technology development by 2009	• Support at least 3 RECs in developing and completing regional strategies for cooperation in agricultural technology development by 2009 • Support development or rehabilitation of regional infrastructure that would increase access to markets for rural areas • Support the development of regional markets for local products

World Bank/Africa Region Sector Strategy	Implications for RIAS
Health	
Strategy: Healthy Development World Bank Strategy for Health Nutrition and Population Results (2007) *Issues:* • Actual and potential pandemic and regional epidemics have continued to emerge, and some (HIV/AIDS, malaria, drug resistant TB, SARS, avian flu) have expanded *Strategic Objectives* • Improve level and distribution of key HNP outcomes, outputs, and system performance at country and global levels • Prevent poverty due to illness • Improve governance, accountability, and transparency • Combat HIV/AIDS at global and regional and national level • Strengthen multisector approach to diseases (education, agriculture, food security, water and sanitation, road safety, energy, telecommunications, and environmental actions) *Strategy:* World Bank's Africa Region HIV/AIDS Agenda for Action: 2007–2011 (2007) Bank would commit to (1) provide at least US$250 million per year for support to HIV/AIDS initiatives; (2) work to establish an HIV/AIDS grant Incentive Fund of US$5 million annually to promote capacity building, analysis and HIV/AIDS project components in education, transport, and other projects; and (3) expand its engagement in IBRD countries at epicenter of disease in southern Africa strategy promotes work on subregional public goods and cross-boundary issues. Regional efforts will complement national HIV/AIDS programs. Grants to deal with refugees, internally displaced populations (IDPs), and transport corridors are options available to respond to such situations. *Specific Actions* • Provide financing to countries including post-conflict countries, for regional HIV/AIDS response • Design regional cross-border projects that address vulnerable populations, such as refugees and IDPs *Indicators* • 2 new subregional operations approved in next 5 years	• Solutions for fighting migratory diseases prevalent in Sub-Saharan Africa (HIV/AIDS, malaria, TB) should be integrated into regional infrastructure development projects, especially transport corridor projects. Multisector projects that incorporate solutions to migratory diseases should be encouraged. • At least two regional HIV/AIDS operations should be approved during RIAS period. Priority focus should include Southern Africa, which has highest HIV/AIDS prevalence rates in SSA. These HIV/AIDS operations should be combined with or integrated into transport corridor projects when possible. • Develop an instrument to incentive IBRD countries to participate in regional projects for HIV/AIDS, malaria and other migratory diseases.

World Bank/Africa Region Sector Strategy	Implications for RIAS
Education	
Strategy: Education Sector Strategy Update (2005) • Build on new possibilities for IDA grants to develop regional approaches *Strategy:* A Chance to Learn: Knowledge and Finance for Education in Sub-Saharan Africa (2001) ***Priorities*** • National reform • Regional cooperation • International partnerships ***Focus Areas*** • Organize regional and subregional fora • Facilitate cooperative book production, distance education, research, analysis, and evaluation • Build world class centers for graduate education and basic and applied research ***Challenge*** • Develop new lending instruments for regional programs *Draft Strategy:* Tertiary Education in Africa: Overview and Medium-Term Regional Programs (FY08–FY10) ***Areas for Regional Collaboration*** • Post-graduate training programs in areas that do not require large numbers of graduates at national level • Mechanisms for student mobility and cross-border recognition of academic programs and awards • Open and distance learning • Regional centers of specialization in applied research on Africa-specific topics (informal employment, desertification, urbanization, climate change)	• Support RECs' efforts in (i) harmonizing national policies and developing regional strategies on higher-education including for cross-border recognition of degree programs and increasing the number of graduates in prioritized fields, and (ii) developing regional research/academic/training centers for prioritized areas such as science and technology, health worker training, aviation training, and public financial management.

World Bank/Africa Region Sector Strategy	Implications for RIAS
Governance	
Strategy: Africa Region GAC Implementation Plan (2008) Address regional priorities for the governance agenda: in particular demand-side accountability, NonRenewable Natural Resource Management (the 'EITI plus' agenda) and Public Finance Management (PFM) and Procurement.	• Define the potentially enabling effect of regional integration approaches on good governance in Africa • Make suggestions on how to operationalize the optimal approaches for ensuring good governance in the Bank's regional operations in Africa, as part of the Bank's fiduciary responsibility. • Identify the contexts where transnational policy, investments, and instruments are expected to have impacts on governance outcomes at regional or national levels.

APPENDIX V. SUMMARY OF STRATEGIC APPROACHES TO SUBREGIONAL INTEGRATION IN AFRICA

Overview

1. This appendix summarizes the ensemble of analyses, reviews, and proposed frameworks undertaken between 1998 and 2006 to lay out the World Bank's approach to subregional integration in Eastern Africa, West Africa, Central Africa, and Southern Africa. It also identifies their key commonalities and specificities to draw out their implications for developing and operationalizing a comprehensive regional integration strategy for Sub-Saharan Africa (SSA). While the case for integration remains equally strong in all four subregions, the political impetus, geographical and historical circumstances, strategic approach, institutional capacity, and progress to date have varied considerably from one subregion to the next. The Bank's mandate to support regional integration in Africa has been strengthened by recent developments. Consequently, a stock-taking of these experiences should draw lessons learned, reassess priorities and opportunities, and define next steps to inform current discussion of a coherent and coordinated approach to regional integration in the continent.

2. There have been a number of strategy documents on regional integration and cooperation in Africa. This summary is based mainly on four subregional papers:

1. "Regional Integration and Cooperation in Eastern Africa: Identifying Strategic Opportunities for World Bank Regional Interventions," June 2006
2. "Regional Integration and Cooperation in Central Africa," January 22, 2006
3. "Study on Regional Integration in West Africa: Review of Strategies and Priorities"
4. "Regional Integration and Cooperation in Southern Africa: Identifying Strategic Opportunities for World Bank Regional Intervention. Final Report," June 30, 2006.

3. The objectives and methodologies of these subregional papers differed, reflecting the varying extent of Bank support and involvement in regional integration at different times. For Central and Western Africa, strategies approved by the Board in 2003 and 2001, respectively, were followed up with subregional integration assistance strategies (subRIASs) in 2006. For Southern Africa, a strategy presented to the Board as early as 1998 provided the basis for a comprehensive analysis to undergird an operational strategy for the subregion now under discussion. For Eastern Africa, an initial subRIAS was prepared in June 2006 to lay out the Bank's strategic approach to strengthen support for integration and identify specific areas for support. Accordingly, the range of factors and trends analyzed by the individual strategic pieces, as well as the processes of dialogue and consultation that informed them, also differed.

4. In providing a schematic overview of the papers (see Table A4.1 "Coverage of World Bank SubRIASs in Africa"), this summary inevitably foreshortens considerable analysis and detail. This approach was chosen not to dismiss the relevance of the individual papers' particularities nor to validate a particular methodology at the others' expense, but rather to distill

the main elements of each paper according to comparable analytical frameworks. The focus on the rationale and objectives, strategic priorities, implementation experience, critical issues, and next steps would inform the Bank's effort to scale up its support for regional integration in a significant, systematic way, and facilitate practical implementation and monitoring of agreed actions.

5. The summary also should indicate the extent of strategic reflection, consultation, and even innovation that have prompted the current effort to provide an overarching strategy for scaling up Bank support for regional integration in Africa. In retrospect, these earlier efforts constituted an initial due diligence process and provided a baseline of data and experience to build on. While updates, revisions, and further analysis may be needed in some areas, Bank assistance for integration and cooperation in all four subregions is grounded in a review of five areas. These are existing mechanisms, processes, and institutions to promote integration and cooperation; analysis of economic and development trends; assessment of sectoral issues; surveys of analytical work and investment operations to date; and identification of critical gaps and opportunities.

Key Commonalities and Specificities

6. While broadly similar in thrust, variations in rationale, objectives, and priorities; guiding principles; and methodology emerge from reviews of the Bank's strategic approaches to integration and cooperation in Eastern, Central, Western, and Southern Africa. While these differences stem for the most part from specific conditions in each subregion, acknowledging or addressing them explicitly should provide a more systematic and detailed assessment of integration and cooperation issues across the region, and of their implications for an overarching regional strategy.

7. *Rationale.* Not surprisingly, the rationale across the subregions for strengthening integration and cooperation rests on the potential for spurring growth—and thereby supporting poverty reduction—through gains in trade, private sector development, and economies of scale in infrastructure and services. It also rests on the increasingly urgent need to strengthen management of common goods—such as water resources, forestry, and biodiversity—and ills—such as communicable diseases. This overarching rationale is closely aligned with international, regional, and subregional agendas that call for greater integration and cooperation in Africa (for example, NEPAD and AAP). However, there are differences in emphasis and appreciation in the Bank's approach to each subregion:

- *The degree of integration supported by the Bank varies by subregion.* In East Africa, in which the EAC Customs Union has been launched, efforts focus on liberalizing the flow of goods and services. In Central and West Africa, in which each subregion has a customs union as well as a monetary union, additional objectives are economic integration and/or convergence and financial sector reforms. In Southern Africa, multiple, overlapping regional integration arrangements (RIAs) are nevertheless less developed, and the SADC agenda is explicitly driven by development (rather than by growth-oriented) objectives. In this subregion, the scope for *formal* integration at any level is more limited—although the scope for *deep* integration is large, as its economies are relatively

open. Meanwhile, labor migration is identified as an important factor in all four subregions but does not seem to be a strong focus for any of RIAS.

- *Different trade-related risks are highlighted from one subregion to the next.* While the potential growth from trade is acknowledged as a powerful rationale for integration, the potential risks are not analyzed systematically across the subregions. These include risks with respect to benefits distribution, briefly highlighted in the Bank's strategic approach to integration in East Africa; geographic polarization of economic activities, considered in West and Southern Africa (due to the economic dominance of Côte d'Ivoire, Nigeria, and South Africa); and trade diversion by regional blocs versus globalization, also considered in developing the Bank's approach to subregional integration in West Africa.
- *While the Bank's approach in each subregion is closely aligned with the agendas of the main coordinating bodies, the Bank's scope for supporting integration is limited by political and other constraints specific to each subregion.* The weak financial and institutional capacity of these bodies as well as poor regional infrastructure are common to all four subregions. Additional constraints include conflicts and natural disasters/emergencies in West Africa, the recent windfalls from oil revenues in Central Africa, and the imbalance in trade flows between South Africa and its neighbors. Lack of political leadership or commitment to integration and cooperation has been identified as critical. It remains to be seen whether the Bank's proposed interventions—with their emphasis on dialogue, analytical work, and capacity building—are sufficiently robust to build such commitment.

8. *Objectives and priorities.* Consequently, the main areas for support are broadly similar across subregions—trade, transport, telecommunications, energy, river basin management, and capacity building. However, the specific strategic objectives and sectoral priorities vary.

9. In East Africa, subregional trade is highly concentrated in a number of agricultural and value-added goods, as well as services. Thus, efforts are focused on increasing market transparency and reducing costs; integrating agricultural markets; and building economies of scale in transport, telecommunications, energy, tourism, and higher education services.

10. By contrast, there is low complementarity among the economies of Southern Africa, limiting the scope for merchandise trade, and significant mismatch between demand and supply for strategic natural resources such as water and energy. The subregion also has the highest HIV/AIDS prevalence in the world—sufficiently high to have a measurable negative impact on development and economic growth. Hence evolved the Bank's emphasis on strengthening cooperation through a subregional electricity system and power pool, and subregional infrastructure projects to increase water storage capacity. Notably, HIV/AIDS prevention efforts are mainstreamed into road transport projects.

11. *Guiding principles.* While the Bank's approach to integration and cooperation in each subregion is explicitly guided by the principles of open regionalism and subsidiarity, as well as implicit additional criteria, it is unclear how consistently these principles have been applied

across subregions. Besides open regionalism and subsidiarity, additional criteria for Bank support have been applied in one or more of the four subregions, although these have not always been articulated explicitly. These criteria include:

- High impact and sustainability—defined in East Africa as positive effects that *exceed* the high project preparation and transboundary negotiation costs
- Political commitment and institutional capacity to implement complex agreements involving several countries
- Donor partnerships—*de rigueur* due to the large investments typically required for regional and subregional projects
- Additionality—defined as activities that clearly increase the institutional and financial capacity of subregional coordinating bodies
- Civil society and private-sector involvement—an explicit guiding principle of the Bank's approach to integration and cooperation in Central Africa.

12. Because Bank support has remained anchored in individual CASs and country programs, and these as well as implementation experiences are unevenly reviewed in the individual subregional strategic pieces, the relevance and effectiveness of these principles is difficult to assess.

13. *Methodology.* As a review of separate efforts to develop a strategic approach to integration and cooperation in each subregion shows, Bank assistance has been grounded in five reviews. These comprise reviews of existing mechanisms, processes, and institutions to promote integration and cooperation; analyses of economic and development trends; assessments of sectoral issues; surveys of analytical work and investment operations to date; and identification of critical gaps and opportunities.

14. However, there is some unevenness in four areas:

- The extent of *dialogue and consultation* undertaken in each subregion varies considerably. The Central and West Africa subRIASs appear to have benefited from the most interaction with external stakeholders. No formal consultations appear to have been organized in any of the subregions.
- Not all of the strategic pieces include a comprehensive review of *implementation experience* or draw clear lessons learned that might be applicable across the subregions. While specific issues encountered in individual activities are identified, broader lessons do not always emerge clearly.
- While there is a clear emphasis on the need for further analytical work in all four subregions, discussion of planned lending operations is less developed.

Implications for Coordinated Regional Integration Strategy

15. In light of these variations, it may be worthwhile for current discussions of a coordinated regional integration strategy to provide a normative framework that would explicitly and systematically—in all four subregions—require consideration of the following issues:

- A typology or even hierarchy of integration options, with appropriate benchmarks (such as degrees of freedom in movement of capital, goods, services, and persons) to facilitate monitoring and evaluation of progress.
- Benefits distribution, to ensure that poverty reduction objectives are not undermined and tensions not fuelled among countries. Upfront assessments of benefits would facilitate management of expectations and, where necessary, development of redistribution mechanisms.
- The risk of trade diversion through regional blocs, to ensure that overarching commitments to global trade agreements (offering potentially more powerful gains) are not undermined.
- The risk of geographic polarization of economic activities, which may well occur with or without integration but which, if anticipated, could be better managed through regional institutions and arrangements.
- A formal consultations plan to validate the Bank's approach with external stakeholders.
- Regular follow-up to address implementation issues as they arise and share lessons learned across subregions.
- A broadened set of guiding principles for supporting subregional integration and cooperation, which would establish a burden of explanation when one or more principles are not applied.
- A proposal for scaling up lending operations for integration and cooperation.

Summaries of Subregional Integration Papers

1. Eastern Africa

Rationale and Strategic Objectives

16. Responding to increasing recognition—most notably, in the New Partnership for Africa's Development (NEPAD) in 2002 and the EAC Development Strategy in 2006—of the significant contributions to growth and poverty reduction that regional integration programs can bring, in recent years, the Bank began to deepen its support for such efforts. To ensure complementarity with Country Assistance Strategies (CASs) and alignment with regional initiatives such as the Africa Action Plan (AAP) and the Africa Catalytic Growth Fund (ACGF), a subRIAS was

developed in 2006 to provide a strategic framework for the Bank's interventions in the subregion.[1]

17. According to the subRIAS, economic trends in the subregion (Table A4.2), the structure and volume of trade (Tables A4.3-A4.4), factor markets, common resources and constraints to growth, and economies of scale suggest significant gains from strengthening regional approaches. These gains appeared in:

- *Economic and trade integration.* The market size of the subregion's economies, is small. Susubregional trade is highly concentrated in a number of products and gives rise to value-added goods.[2] The potential for gains is expected to come less through significantly expanded trade than through increased market transparency and reduced transaction costs—thus promoting investment and accelerating growth. In particular, there is scope for integrating agricultural markets by addressing infrastructurerelated and administrative disruptions to supply chains; building regional production networks (such as cotton-to-garment); and increasing trade in services (such as freight forwarding and ports logistics). Integration also would increase food security in the subregion. There also is room for modest capital and labor market integration.
- *Management of commons and cooperation on public goods.* While East African countries have an extraordinary natural resource base, much of it is shared across neighboring countries, has spill-over effects, and is subject to increasing stress. A number of externalities, such as infectious diseases, also present a challenge to public goods across the subregion, Both issues strengthen the case for increased cooperation in managing water resources, wildlife, forestry, and health.
- *Economies of scale.* Given the volumes and patterns of passenger and cargo traffic in the subregion,[3] as well as demand for key resources and services, potential economies of scale are obvious. These can be achieved through development of regional infrastructure and markets in transport,[4] power and energy,[5] telecommunications,[6] tourism, and higher education. These sectors are

[1] "Regional Integration and Cooperation in Eastern Africa: Identifying Strategic Opportunities for World Bank Regional Interventions," June 2006.

[2] A large share of intraregional trade is petroleum product reexports from Kenya to Burundi, Rwanda, and Uganda. Kenya has the most diversified exports—manufactures, pharmaceuticals, processed foods, and other goods for reexport. The other countries trade mainly energy, cereals, processed iron, processed foods, and some light manufactures. The expansion of intraregional trade thus has provided a platform for expanding trade in value-added goods, although the challenge is to transform these industries into internationally competitive ones.

[3] For instance, the regions surrounding Lakes Victoria, Tanganyika, and Nyasa alone are estimated to host over 30 million people involved in fishing, agriculture, and trading.

[4] The East African transport infrastructure includes road and rail networks, airports, oil pipelines, and inland lake and maritime transport. Transit arrangements for land transport also are a critical rationale for regional engagement. They would benefit the landlocked countries through increased access to global markets while benefiting the coastal countries through expansion of trade-related services.

[5] Total installed power generation capacity for Kenya, Rwanda, Tanzania, and Uganda was only 2,043 MW, despite rapid demand growth and untapped energy resources including hydropower, coal, natural gas, geothermal, and solar energy. At the same time, the cost of power is substantially above international prices per KWh.

[6] Key indicators suggest that the availability of basic telecommunications and ICT services is significantly below the average for Africa. While the subsector is one of the fastest-growing in the region, comparable coverage is low for

plagued by low reliability, high cost, and under-developed linkages—all of which inhibit growth and discourage investment. Regional efforts to rehabilitate and/or upgrade networks, undertake new investments, privatize the provision of some services and encourage competition, and reduce administrative burdens would increase reliability, avoid duplication, and lower costs.

18. *The Eastern Africa subRIAS notes that while benefits from regional cooperation and/or integration are likely to be very substantial, benefits may not be equally distributed among participating countries.* Inequitable distribution, in turn, may create conflicts among members of regional initiatives and reverse or slow down integration, thereby reducing benefits for all. Careful upfront assessments of the benefits for all and for each partner separately that can be expected from various regional integration efforts should thus be undertaken. Their goals should be to manage expectations and—if necessary—trigger development of a redistribution mechanism to establish equity among the cooperating partners.

19. The over-arching mandate for integration is outlined in the Africa Action Plan (AAP) and the IDA14 Guidelines. To provide for selectivity in the Bank's support for integration efforts, the subRIAS lays out the following principles for proposed interventions:

- *Bona fide regional issue and subsidiarity.* Proposed interventions should address genuinely *regional* issues, rather than issues that are merely *similar* for several countries. Such issues would necessarily have to be addressed at a regional, as opposed to the national, level—thereby adhering to the principle of subsidiarity.
- *High impact and sustainability.* The impact of proposed interventions should be sustainable and *exceed* the high transaction costs associated with project preparation and negotiation across borders and between national and supranational bodies.
- *Strong commitment by all countries.* Projects should have strong national and supranational commitment, as reflected by priorities in national and regional development strategies as well as explicit endorsement by the relevant bodies of the roles and responsibilities defined for each.
- *Capacity to execute implementation arrangements.* To ensure sustainability, projects should take into account capacity constraints both at the EAC Secretariat level and in the implementation bodies within the countries, and provide for an explicit decision-making arrangement to avoid delays. Priority should be given to programs that regional bodies, either existing or created ad hoc, have an explicit mandate to implement.
- *Emerging partnerships among donors.* The large volume of funds typically needed for regional programs, especially in infrastructure, calls for the Bank to prioritize projects financed in partnership with other donors. In particular, unlike the Bank, the AfDC is able to provide grants to supranational entities, thus facilitating the financing of some components. Joint funding arrangements should

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mobile and fixed line subscribers, and the cost of calls remains significantly higher in East Africa than in virtually any other part of the world.

be as simple as possible, with clear delimitation of financing responsibilities between donors and activities.

- *Critical role of the Bank.* Equipped with new instruments and structures such as the SDR300 million Regional IDA Envelope—80 percent of which is allocated to Africa—the Bank should prioritize projects for which, due to complexity, risk, or financing requirements, other donors and/or the private sector are unlikely to take the lead. It should also be able to leverage other Bank Group instruments.

20. On monitoring and evaluation (M&E) frameworks, the subRIAS specifies that proposed interventions' effectiveness should be monitored at both the activity and the aggregated regional assistance program levels. Detailed indicators should be defined according to the activities (investment operations, TA, capacity building, analytical work). Benchmarking and targeting should be harmonized across countries and aligned with national, regional, and partnership frameworks.

Strategic Priorities

21. Based on the sectoral analyses and applying the principles outlined in the subRIAS, the Eastern Africa regional program focuses on two main lines of regional intervention: support for the EAC's comprehensive integration agenda to build an open economic space in East Africa, and support for efficient region-wide infrastructure services and/or management of regional public goods. The subRIAS identifies the following priority areas for Bank engagement, through investment projects as well as analytical work, over three years, with the expectation that these priorities will evolve through client engagement and as knowledge gaps are filled through the proposed ESW and TA programs:

Investment Operations

22. *Environment: Lake Victoria Environmental Management Program (LVEMP) II.* The second largest fresh water lake in the world, Lake Victoria is a shared asset of three countries: Kenya, Tanzania, and Uganda. In addition to its environmental values, it supports an important export fishing industry, hydropower production, and lake transport. Since the 1960s, the lake and its watersheds have experienced a decline in water quality that, if not reversed or stabilized, will have serious consequences for the whole region. The Bank supported the rehabilitation of the lake ecosystem through the Lake Victoria Environmental Management Project I (LVEMP1), implemented beginning in 1996 and extended until the end of 2005. That plan focused on acquiring knowledge about the complex ecosystem as an input to a second longer-term investment phase, LVEMP2, which was to promote socially and environmentally sustainable economic growth. LVEMP2 is under preparation, with financial support from three PHRD grants and a GEF Grant. GEF also approved a US$1.0 million grant to support the preparation of a Transboundary Diagnostic Assessment (TDA) and Strategic Action Program (SAP).

- *Energy: East African Power Master Plan.* The integration of the power systems of Kenya, Tanzania, and Uganda is critical to reducing the relatively high cost of electricity supply and the collective vulnerability of the EAC to drought-induced power supply disruptions, including issues related to common water resource

management. The recently concluded East African Power Master Plan Study estimated that the benefit of regional power integration would be on the order of US$500 million NPV compared with the current scenario of each country developing its own resources. The Bank and the EAC Secretariat have held preliminary discussions for a three-country operation to finance the East African Power Pool, which would require physical investments and rehabilitation, institutional restructuring and regulation, and establishing the required institutional and technical market mechanisms. This project is a priority intervention of the EAC Development Strategy.

- *Telecommunications: East Africa Submarine Cable System.* Poor telecommunications service and high cost are one of the main constraints to private sector and export development in East Africa. The private sector-led, multicountry Eastern Africa Submarine Cable System (EASSy) project aims at expanding broadband connectivity by laying a submarine fiber-optic cable that would connect coastal countries from Mtunzini, South Africa, to Port Sudan, Sudan, including inland branches to various landlocked nations. The impact of this project through economies of scale will be very significant, as demonstrated by a Bank cost-benefit analysis. A feasibility study financed by the IFC completed in 2004 estimated the total cost at US$200 million–US$230 million. Of this, approximately 65 percent has been secured through private funds, leaving a financing gap of US$70 million–US$80 million.

- *Road transport: Completion of the East African Road Network Project (EARPN).* In its new Development Strategy, the EAC has identified five major regional road corridors for development and rehabilitation under EARPN. The network measures 15,273km and comprises 8,361km of main routes and 6,912km of feeder routes. Forty-three percent of the network is paved. These corridors will connect the three partner states; their areas of production and markets; and other transport modes including ports, railway stations, and airports. Funding has been secured for approximately half the roads.

- *Energy: Kagera River Basin and Rusumo Falls Hydroelectric Project.* The Kagera River is the largest river draining into Lake Victoria. It flows across Burundi, Rwanda, Tanzania, and Uganda and is another major shared water resource. In 2005 Rwanda, Burundi and Tanzania approached IDA for grant support for a US$154 million operation to build a hydropower facility and a backbone transmission interconnection system that would bring cheaper electricity to the subregion, and thus alleviate deforestation caused by the use of biomass as the sole source of energy. Given the Bank's involvement in other power projects in the region and the link to the Lake Victoria projects, the Bank would have a critical role to play, especially in mitigating the risks. Most notably, there is no existing regional body through which the beneficiaries could interact, so most of the institutional infrastructure would have to be built from scratch. Existing capacity for project preparation and implementation, in particular in Burundi and Rwanda, is very low. Owing to the large size of the investment, partnering with other donors would be necessary, including grants to a supranational framework to be established for the project.

- *Transport: Linkages with northern neighbors.* As the peace processes move forward and the situation stabilizes in Sudan, and possibly also in Somalia, pressure will mount to restore the deteriorated transport infrastructure linking them with the EAC countries. Better transport links would be an important driver of economic growth in the wider region and contribute to regional security. Currently, roads between Sudan and Kenya/Uganda, and between Somalia and Kenya are nonexistent or in an extremely poor state. The Bank has started prepreparation of the Sudan Emergency Transport and Infrastructure Development Project (ETIDP). It will include rehabilitation and construction of roads and bridges, enhancement of railways, building/upgrading of selected airports, and improvement of the regional links with neighboring countries bordering southern Sudan, that is, Kenya and Uganda.
- *Health: HIV/AIDS.* East African countries are among the most heavily affected by the HIV/AIDS epidemic; infection rates vary between 7 percent and 12 percent. Major drivers of the epidemic act regionally, especially along transport corridors, and can therefore best be addressed at a regional level. Developing regional activities would enable building economies of scale in both financial and human resources, and the sharing of best practices among countries. To complement the Bank-supported African Regional Capacity Building Network for HIV/AIDS Prevention, Care, and Treatment (ARCAN) in Ethiopia, Kenya, and Uganda, the Bank could explore preparing a regional project to prevent the spread of HIV/AIDS in the northern or central transport corridors. Studies show that a well-crafted program to increase condom use to 90 percent along the Mombasa-Kampala highway would decrease new infections by 55 percent.

Analytical Work

- *Constraints and opportunities for regional trade expansion.* To distill the regional aspects and complement recent reports on trade integration issues prepared by the Bank for five East African countries, additional analytical work is needed. Analyses are needed particularly for three areas:

    1. Trade in agriculture products (grains) in which nontariff barriers (NTBs) have remained substantial.
    2. A regional cotton-to-garment chain to take advantage of opportunities offered by the launching of the EAC Customs Union, the production of good cotton in Uganda, the revival of Tanzania's textile industry, and Kenya's garment-manufacturing infrastructure.
    3. Regional tourism chains, to assess the potential for cooperation, in particular between the smaller tourism providers—Burundi, Rwanda, and Uganda. These three countries offer specific attractions (such as gorillas) that complement the wider range of recreational activities offered in Kenya and Tanzania.

- *Regional dimension of labor markets.* The free movement of skilled and unskilled labor, capital, and services across the region could contribute to growth and

reduce poverty. This complex agenda would require detailed study of legislation on, among other things, freedom of residence and work, financial services and insurance, and diplomas equivalency and mutual certification. Given the potentially large benefits from progress on this agenda, an analytic activity is needed that would also review existing work and partnerships (such as with the ILO) and lay out the issues, drawing on the Bank's growing work program on remittances, jobs, and trade in educational services.

- *EAC trade policy.* As a Customs Union, the EAC member states have agreed on a common trade policy. It comprises a common external tariff (CET), Rules of Origin, a list of goods that are banned from imports (for safety, hygienic, and other reasons), and a schedule of "sensitive goods" that receive protection above the CET rates. Furthermore, EAC is expected to formulate a common trade policy for its member states vis-à-vis WTO. , and to coordinate members' positions on trade issues relating to the current economic partnership agreement (EPA) negotiations, and vis-à-vis other regional trade agreements (SADC, COMESA). This is a priority for the EAC in the near future, and the EAC Secretariat has expressed the need for advisory support from the Bank. Such support would encompass analytic work on the EAC trade policy (review of the current common trade policy, in particular to further integrate in a common market; review of member states' commitments to WTO; and proposals for harmonization and rationalization of international trade negotiations) and capacity building in the EAC Secretariat and the relevant bodies in member states.
- *Regional water resource management.* As noted above, a number of areas for strategic Bank involvement encompass shared water resources. They include Lake Victoria environmental management, water basin management, and hydropower projects in Eastern Africa. Multiple uses for these resources create tensions both across countries and across uses (irrigation, hydropower) and environmental functions. A priority for analytic work would be to gain a better, multisectoral understanding of the magnitude and nature of these tensions.

23. The subRIAS recommends that the integration program remain open to requests for advice, notably in areas in which the Bank is already providing country support. For instance, the EAC Secretariat is seeking support to develop regulations and procedures for implementing a Regional Competition Law that it has drafted and a Regional Financial Integration initiative under preparation.

2. Central Africa

Strategic Context, Rationale, and Objectives

24. The World Bank Executive Board in 2003 approved a subRIAS for Central Africa aimed at strengthening the ongoing integration in the *Communauté Economique et Monétaire de l'Afrique Centrale* (CEMAC)[7], and to contribute to building a more open economic space with

[7] The Economic Community of Central African States (ECCAS) includes the CEMAC member states as well as Angola, Burundi, DR Congo, Rwanda, and Sao Tome e Principe. ECCAS is not systematically covered by the

fewer barriers to the flow of goods, labor, and services among countries. The subRIAS was guided by the principles of open regionalism, subsidiarity, and the participation of private sector and civil society. The strategy was based on the premise that regional integration and cooperation can reduce poverty by strengthening the links among the poorer landlocked countries and their more prosperous coastal neighbors and more generally by helping to establish the basis for faster economic growth. (see box A5.1)

Box A5.1: CEMAC Zone

The six-country Central African Economic and Monetary Community CEMAC zone comprises Cameroon, Central African Republic, Chad, Congo (Brazzaville), Equatorial Guinea, and Gabon. The zone covers roughly 3 million square km so is considerably smaller than the West and the Southern Africa subregions. Chad and the Central African Republic are landlocked, and Equatorial Guinea is largely offshore. CEMAC is home to only 32 million inhabitants in an area roughly the size of India, which has over 1 billion people.

A product of French rule, the regional grouping is based on a combination of a customs union and a monetary union, with a common currency, common external tariff, and a range of associated regional institutions. In 1994 the member countries signed a treaty to formally create CEMAC as an umbrella organization over the existing Union Douanière et Economique de l'Afrique Centrale (UDEAC) and BEAC, the regional central bank. The treaty was formally ratified by the countries in 1999.
Linked partly by geography and partly by history, the economies of the CEMAC zone share a number of distinctive characteristics. All have achieved very low historical growth in per capita incomes and limited strides in poverty reduction over several decade. The zone also is characterized by a high dependence on oil and forest exports, volatility in economic growth, domination by two economies, Cameroon and Gabon, very limited intraregional linkages, juxtaposition of richer coastal and poorer landlocked countries, and political instability within CEMAC and neighboring countries.

25. Specifically, the subRIAS identified key domains for assistance to regional integration and cooperation, and core, noncore, and contingent activities (Table A4.5). Priority areas for the domain of regional integration were considered to be macroeconomic policies, trade policies, financial sector integration, and the business environment, whereas the remaining activities (infrastructure services, forestry/water, human resources) were held to be in the domain of cooperation. 'Core' activities, in which the Bank expected to take a leadership role, were to have first claim on Bank resources, whereas in 'noncore' activities another development partner would take the lead. Contingent activities consisted mainly of long-term studies.

26. The subRIAS proposed an envelope of US$140 million including 1 infrastructure project (US$100 million) for roads and 6 technical assistance projects (US$40 million). The latter were proposed for financial sector microfinance (US$10 million), capital market development (unspecified), trade facilitation (US$5 million), transport facilitation (US$5 million), air transport (US$5 million), forestry (US$5 million), and HIV/AIDS (US$10 million). The regional payments project (US$15 million) was approved in July 2002.

27. In 2006 a follow-up report ("Regional Integration and Cooperation in Central Africa") assessed the status of implementation of the subRIAS through a sector-by-sector analysis and a survey of developments in a number of policy areas, prior to and after approval of the subRIAS.

subRIAS. Established in 1983 in anticipation of an African Common Market, since 1992, ECCAS has been paralyzed by sociopolitical crises and armed conflicts that have affected 7 of the 11 member states.

The report also proposed recommendations on how the Bank strategy might be revised going forward, as regards themes to be addressed, principles governing Bank interventions, and institutional arrangements.

28. *On the whole, the report found that the Bank's strategy remains relevant. Nevertheless, the large oil windfalls suggest that more emphasis needs to be placed on the careful management of these resources and their productive use for generating economic growth within CEMAC.* CEMAC's emphases have been and remain reducing the barriers to the movement of goods and services through making the customs union effective, enforcing macroeconomic policy convergence, pursuing financial sector integration, and promoting cooperation on sector policies and projects. These emphases remain important to lower transaction costs for private sector business development. However, the large inflows of oil revenues to the subregion in recent years and the ensuing volatility require proper macroeconomic and monetary management and development financial intermediation mechanisms to channel these resources to productive investments.

29. The 2006 report also assessed the degree to which the relevant CASs support the integration agenda in the subregion. It found that *the pace of implementation of the subRIAS has been slow and uneven for a variety of reasons,* including "back-loading" the strategy (with the bulk of operations envisaged for the latter fiscal years). Other reasons were unfunded mandates for key pieces of analytical and operational work and the lack of lending instruments to deal with a weak regional partner (the CEMAC Secretariat). There had *not been significant progress on the central activities of the CEMAC agenda: macroeconomic management, trade and transport facilitation, and financial sector integration.* As of 2006, none of the projects included in RIAS had been approved by IDA.

30. Nevertheless, CEMAC has made modest progress on a broad number of fronts: analytical work on transit facilitation, a regional financial sector assessment, a project to improve the regulatory framework for air transport in CEMAC, and a capacity-building grant for institutional strengthening of the CEMAC Secretariat.

31. Meanwhile, the CASs for the countries in the subregion all recognize the importance of regional integration issues (although some address them more actively than others):

- Cameroon CAS is explicit in noting the importance of improving the serviceability of multicountry transit corridors toward Chad and the Central African Republic. It also recognizes the regional role of the Chad-Cameroon pipeline and the Douala Infrastructure project.
- Gabon CAS emphasizes the need of Gabon to exercise its leadership and honor its commitments to the subregion.
- Chad CAS emphasizes trade and transport facilitation and focuses on a Diagnostic Trade Integration Study (DTIS) to identify obstacles to regional integration.
- Central African Republic Interim Strategy Note (ISN) advocates support for the regional transport program.
- Congo ISN stresses the role of regional economic management.

Strategic Priorities

32. In light of the detailed review of the subRIAS, identifying priority areas for support is critical to regaining momentum in implementing the Bank's strategy. Equally critical are addressing the funding, commitment, and procedural issues that have hobbled progress to date. These issues are urgent because there are significant opportunities for scaling up assistance in the coming years. To effectively support regional integration and cooperation moving forward, Bank activities should focus on six key areas:

1. *First priority: Strengthen the core CEMAC institutions.* The Africa Action Plan emphasizes strengthening regional integration, and recognition is growing that the slow pace of capacity development remains a binding constraint to poverty reduction. Consequently, the Bank's work needs to focus on the development of capacity in CEMAC's institutions by *addressing the institutional and financial weakness of the CEMAC Secretariat head on.* The envisaged US$30 million CEMAC Regional Financial Institutions Support project will be vital in this regard.

2. *Second priority: Improve the level of the macroeconomic dialogue and policy advice regarding the management and use of oil reserves.* Together with the IMF, the Bank can advise BEAC on the management of oil resources, and the possible investment of these resources in higher yielding securities or future generation funds that would finance economically profitable investments within CEMAC. In parallel, Bank advice and projects will be needed in the financial sector to help effectively manage these windfalls and strengthen financial intermediation.

3. *Third priority: Increase the Bank's work on regional infrastructure—especially transport and telecommunications—the most important component of the original strategy.* As was envisioned, US$100 million is being back-loaded to 2007 and 2008 to help finance road projects to build the key remaining segments of the Central African road network that links all the Central African capitals. In parallel, IDA support for strengthening the regulatory framework for air transport could improve the infrastructural foundations for the subregion.

4. *Fourth priority: The Bank should facilitate trade policy and transit.* Under the Bank's Regional Trade and Transport Facilitation Project, there could be a reform of some of the cumbersome customs and transit procedures that have made the costs of doing business in the subregion some of the highest in the world. Moreover, the Bank can help prepare the CEMAC countries in their negotiations on the EPAs with the European Union by conducting analytical work on the fiscal implications of the trade liberalization.

5. *Fifth area: Bank could work on business environment, especially for private sector development.* This isue is not as important as the other issues, and the Bank may not have the resources or a comparative advantage. Nevertheless, two areas in which the Bank could be particularly effective at the regional level would be to advise on competitiveness issues and on the legal/judicial framework, as well as

the accounting framework, for conducting business. This area also is important to the financial sector, in which legal and judicial frameworks for financial contracts and their enforcement need to be improved.

6. *Finally, if it has resources and the instruments, the Bank can play a role in helping CEMAC countries jointly address issues pertaining to public goods and cross-border externalities through enhanced regional cooperation.* Numerous cross-border challenges can be effectively addressed only at the regional level, especially regional environmental problems. Examples are the shrinkage of Lake Chad, poor navigability along the Congo River, and difficulties in forestry management. Similarly, with regard to HIVAIDS, cooperation can help control its spread along the critical transit corridors.

33. *Scaling up support in these areas will need to be undertaken in collaboration with other donors, notably the EU and the ADB. Scaling up will be successful only if there is an equivalent increase in commitment to enhance integration and cooperation on the part of the highest level of CEMAC. Moreover, security is a* sine qua non *to improved economic performance.* A revised or relaunched subRIAS should be informed by a thorough analysis of this issue.

34. Meanwhile, for the Bank to implement the following activities—proposed, under preparation, or already approved—should advance the current agenda:

Analytical Work

- *Macroeconomic management of oil revenues.* Advise regional Central Bank, BEAC, on the development and operation of savings and stabilization funds to channel the oil windfalls and on financial diversification of these resources into higher-yielding, fixed-income securities. Provide analysis of the management of volatility. Conduct analytical work on Dutch disease issues in Central Africa and bring global experience into policy dialogue.
- *Trade and transport.* Analyze barriers to trade and continue to assess the implementation of trade and tariff reforms. Advise on EPA negotiations with the European Union and analyze fiscal impact of trade liberalization. Assess implications of additional tariff reform and possible convergence with the UEMOA tariff levels. Analyze implementation of reform of transit regime focusing on improving the flow of goods and services along transit corridors and establishing a regional transit regime fully in line with international norms.
- *Financial sector.* Analyze role of development bank, BDEAC, in channelling resources to productive investment. Examine the possibilities of establishing an effective guarantee system for transit trade. Advise on microfinance regulatory framework and use Bank's role as knowledge broker to disseminate international experience. Follow up on financial sector assessment program (FSAP) work on the legal and judicial environment, at both the regional and national levels, for credit activities, enterprise reorganization, restructuring and bankruptcy, and accounting and auditing frameworks.

- *Business environment.* Scale up analysis of *Doing Business* reports to develop a regional overview of problems. Advise CEMAC on the development of a regional regulatory framework for telecommunications. Conduct more detailed and systematic assessments of the competitiveness and the legal environment in Central Africa using Investment Climate Assessments (ICAs), Diagnostic Trade Integration Studies (DTISs), and Financial Sector Assessments (FSAPs) and integrate these findings with operational activities.

Investment Operations

- *Financial sector.* Now that erstwhile delays have been overcome, timely implementation of the Regional Payments Project, originally approved in 2002, must continue. This project is expected to increase the efficiency and safety of payment mechanisms available to governments, businesses, and the general population through the introduction of electronic payment systems. It also will facilitate the implementation of regional monetary policy by enhancing the ability of BEAC to obtain real-time information on commercial bank liquidity.
- Preparation of the proposed Regional Institutions Support Project should proceed apace, with Board presentation scheduled in FY09 (US$30 million). A follow-up to the Regional Payments Project, this support project aims to develop policies and mechanisms to better manage the regional economic and monetary union; strengthen existing regional institutions for central banking, economic management, microfinance security markets and money laundering; create a regional credit information bureau; facilitate the financing of regional integration investments through strengthening BDEAC, which has been appointed to manage the regional integration fund (FODEC); and prepare the technical, financial, economic, and environmental aspects of a pipeline of regional integration investment projects. A follow-up project on financing the physical investments for regional integration, possibly through BDEAC, this operation is intended to also help recycle the substantial oil surpluses in the region into productive investments.
- *Trade and transport sectors.* The implementation of the West and Central Africa Air Transport Safety and Security Project (US$14.5 million grant to Cameroon approved in April 2006) should be pursued. The preparation of the CEMAC Trade and Transport Facilitation Project (US$150 million) should proceed apace with a view to Board presentation in early FY09. *This project is of key importance to the Bank's support to regional integration* as it aims to provide financing for key missing links of regional road and rail infrastructure; and to substantially reduce transport and logistical costs through modernization of trade transport and transit procedures. The overall outcome is expected to be a significant strengthening of the CEMAC customs union.
- *Telecommunications.* Consideration could be given to a regional communications infrastructure project, similar to that in East Africa: a Central African Broadband Backbone (mainly Cameroon, CAR, and Chad) to improve cross-border and international connectivity for landlocked countries. This project would need to go

hand-in-hand with the modernization of the legal and regulatory framework, which will be required to achieve sustainable growth in this sector.

- *Natural resource management.* Support to implementation of the Lake Chad Water Basin project should continue, and more done to stress the importance of the socio-economic issues the project is addressing as well as the potential economic gains likely to result from better management of water resources in Central Africa. To this end, consideration could be given to a project similar to the river basin projects under implementation in West Africa in partnership with other donors.

35. In two strategic sectors—forestry and energy—there are no significant proposals currently. Yet the Bank should continue to work with other donors, as in the recent past, on deepening regional cooperation in the forestry sector. Similarly, there are significant opportunities for electricity generation in Central Africa, based essentially on hydropower along the Congo and Oubangui, which could reduce the cost of energy in CAR, Northern Cameroon, Chad, and northwestern DRC. Furthermore, development of hydropower could produce other significant external benefits: improved water resource management, flood control, regulation of water flows including toward Lake Chad, and development of inland fisheries.

Implementation Experience and Emerging Issues

36. The review of the Central Africa subRIAS includes a methodical assessment of progress for each of the core and noncore regional integration and cooperation activities identified in the strategy. The review usefully provides a survey of the relevant context, developments in the decade prior to the subRIAS, and developments since then, including the activities of other agencies. Implementation experience and emerging issues identified by the review are:

- *Macroeconomic management.* While overall macroeconomic stability has been reached and economic convergence improved, the large inflows of oil revenue pose macroeconomic challenges for the conduct of fiscal and monetary policies and for the successful management of these windfalls to contribute to poverty-reducing economic development. The inflationary consequences of excess liquidity also will have to be contained through proper monetary management, and a proper mechanism will need to be developed to divide oil inflows between saving and spending. Moreover, there is a danger that the oil producers may cause a Dutch-disease contraction of the nonoil tradable sector, or at least handicap growth.
- *Trade policy.* Progress with regard to implementation of CEMAC trade policy reforms has been very slow. Looking forward, the trade policy agenda would consist essentially of two themes:

    1. Pursuing and completing the tariff and tax reform, including its revenue consequences, in particular, a further reduction of tariffs to bring them into line with those in UMO.

2. Ensuring that the Competitiveness Institute (TCI) is made fully operational so that funds due to landlocked countries, the regional development fund, and the CEMAC Secretariat are effectively transferred and put to good use.

In addition, an assessment of the fiscal and economic impact of the regional EPAs with the EU needs to be undertaken as this issue will become more and more salient in the coming decade as the edifice of preferences is dismantled under the auspices of WTO. There exist possibilities for large fiscal losses as well as costly trade diversion as more expensive EU imports may replace cheaper nonEU imports. Consequently, the EPAs may have a potentially adverse impact on the region's competitiveness.

Trade policy in general and tariff policy in particular have passed from national to regional competence, but the Bank's channels for dialogue have not evolved accordingly. An explicit decision to revive the trade policy dialogue would require a clear definition of responsibilities between the Regional Integration Department and PREM Trade coordinators regarding the substance of the trade dialogue with RECs.

Cooperation also needs to be renewed with other partners—in particular the IMF, which is taking the lead on the dialogue. There has been no or little high-level donor dialogue with the EU and France to follow up on the two Brussels meetings in 2003 that provided the roadmap to make the customs union more effective. To be an effective partner, the Bank will need to recreate the kind of specialized and experienced team it had prior to the 1994 devaluation and to integrate the DTIS diagnostics into country economic work and operational activity.

Finally, a decision will be needed on the World Bank's scope of intervention regarding ECCAS. The Bank should, however, concentrate its effort on CEMAC rather than expand it to include ECCAS. The reason is that it will probably take years before ECCAS will have an acceptable level of capacity to benefit from AAA. On the other hand, there is scope to look more deeply into improving trade relations and removing barriers to trade between the CEMAC countries and certain neighbors, in particular Nigeria, DRC and Sudan.

- *Trade and transport facilitation.* The poor level of road infrastructure remains one of the most important challenges to regional integration. Due to a combination of dense forests, insufficient public investment, and inadequate maintenance, the current road network of 3,500 km is inadequate to the region's needs. While there has been major progress toward connecting the capital cities, in large part thanks to the EU, some significant gaps remain, notably in Central African Republic and Chad. Moreover, river transport along the Congo and Oubangui rivers has been hurt by political crises and the lack of dredging in the port of Brazzaville and the rivers. Finally, air transport in CEMAC needs to be upgraded to include direct flights between many of the capitals of the zone.

- The transit regime remains problematic from beginning to end—from the initial clearance in Douala to customs clearance in landlocked economies—and the guarantee system does not function well. It is clear that regulatory/institutional issues are the most difficult to address and that clients (including regional institutions) prefer "hard" over "soft" components. "Soft" reform issues are the ones for which it is much harder to reach consensus. "Hard"' project components have clear electoral benefits (such as giving local politicians the opportunity to inaugurate new roads), whereas "soft" issues often involve taking on vested interests (customs officials, truckers). The World Bank is the only donor that has a comparative advantage in policy reforms through policy dialogue and development-policy-loan-type operations. However, DPLs cannot be the only instrument. For the long-term development effectiveness of donor financing, the Bank will need to give sufficient weight to the preparation and discussion of policy reforms by integrating these aspects in regional and country investment and TA lending operations.

- *Telecommunications.* The lack of easy cross-border and international connectivity remains a pressing problem, as does the large gap between telecommunications services demand and supply. The pricing structure in Central African countries continues to pose tough challenges for users. There also is the need to regulate the thriving mobile phone market in Central Africa. Restructuring telecommunications administrations from the traditional monopolistic structure to independent commercial entities has been slow. Modernizing the legal and regulatory framework in parallel with strengthening the newly created regulatory authorities will be critical to achieve sustainable growth in this sector (key infrastructure and services to support the economy).

- *Business environment.* The business environment in Central Africa remains difficult, although there is significant variance across countries, with the landlocked countries suffering from the worst investment climate. While there is overall macroeconomic stability in the region, there has also been a proliferation of microeconomic costs of doing businesses. Anecdotal and survey evidence confirm that bureaucratic red tape, weak contract enforcement, and ambiguities in property rights have prevented the development of the small and medium-size enterprises (SMEs) that elsewhere in the world have contributed to employment and output growth. The Bank needs to identify clearly the areas in which involvement is justified at the regional level as opposed to country operations. The two areas in which region-wide action has a chance of being more effective are competitiveness and the legal/judicial environment. The regional competitiveness observatory (or a similar mechanism) would be a way to overcome the influence of national vested interests and exercise much needed "peer pressure" on heads of state and governments to hold them accountable.

- *Financial sector.* The financial sector in CEMAC lacks depth and is highly fragmented, and its stability is exposed to significant risks. Access to financial services is among the lowest in Africa. The sector is dominated by a noncompetitive banking sector that is highly vulnerable to credit risk. The banking sector does not perform the critical role of financial disintermediation.

Weaknesses in cash management practices by governments and in the systemic liquidity framework exacerbate financial sector vulnerabilities. The regional financial markets are poorly developed, and as a result, there is no regional financial integration. The lack of an effective monetary policy implementation framework limits the ability of BEAC to effectively tackle the excess liquidity. Lack of credit hinders private sector investment, in spite of excess liquidity at the regional banks. Banks have difficulty in ensuring creditworthiness of private sector investment. Microfinance remains on a small scale, and the regional development bank does not fulfil its role of providing term finance for investment.

- *HIV/AIDS.* Central Africa has one of the fastest-growing HIV populations in the world, with close to 10 percent of the adult population infected. While it is in better shape than many of its neighbors in Southern Africa, in which 25 percent to 35 percent of adults have HIV, HIV's spread through the transit corridors of Central Africa needs to be monitored, particularly through the Bangui-Douala axis. An aggressive campaign needs to document the regionalization of this disease. The Bank needs to adopt a multisectoral approach to regional HIV projects and develop a system of flexible financing. Since HIV/AIDS has been the first area in which the Bank has responded with a large-scale use of grants, significant possibilities exist to improve funding. IDA14 regional integration funds only provide two-thirds of regional project financing with individual countries required to contribute the remaining one-third from country IDA allocations.

- *Energy.* In terms of a forward-looking regional strategy, efforts should be enhanced by CEMAC countries and by the CEMAC Secretariat to strengthen the *Pool Energétique de l'Afrique Centrale* (PEAC), the regional entity in charge of following energy issues and initiating infrastructure projects to capture synergies among the countries of Central Africa. PEAC should seek out and support cross-border investments. The CEMAC Secretariat has defined a Plan of Action and accompanying budget of CFA155 billion (€236 million) over 5 years (2007–11). The plan is based on the following priorities and budgetary allocations: CFA63 billion for hydropower (41 percent), CFA57 billion for projects to provide electricity (37 percent), CFA16 billion for solar energy (10 percent), and CFA9 billion for biomass and natural gas development (6 percent), and administrative and organizational tasks accounting for the rest of the budget. The viability and success of the plan will be closely linked to obtaining the requisite financing modalities.

As articulated by the CEMAC, one of the potential strategies to improve the energy access for Central Africa could be to tap into the enormous hydropower potential of the Congo River and others. Harnessing the potential of the various rivers through a series of microdams is a possibility, given the hydro power, low cost, and low environmental impact. The Inga project could help support Central African electricity integration projects, but the project remains unlikely to move forward quickly at this time.

- *Lake Chad Basin.* Lake Chad is being depleted due to rainfall shortages combined with excessive water use and degradation of the environment, affecting the livelihoods of fishermen and farmers. An entire region is dependent on this lake, but international support for replenishment efforts has been weak. There is potential for ambitious regional projects to improve water resource and natural resource management, associated with income-generation activities to boost local and national development that can leverage regional growth and enhance cooperation between riparian countries. The development of multisectoral projects combining water and natural resources development with other productive sectors such as energy and irrigation is critical for the sustainable revival and preservation of the Lake Chad resource. However, the long-pending project to transfer water from the Ubangi River up to the Lake Chad through the Chari tributary seems unrealistic at this stage due to many social and environmental uncertainties and economic sustainability of such a huge project.

- *Forestry and environment.* Despite major developments, there are several outstanding issues. Some, such as the ratification of the treaty of Brazzaville by all participating states, are being resolved. Others are more complex and deal with the institutional will and implementation capacity of the COMIFAC countries to implement their own share and the transnational portion of the convergence plan. Financial resources also are strained, and while COMIFAC is funded at the required level by member states, this situation may reverse if momentum is lost. Efforts are well underway and there has been marked improvement in regional cohesion of efforts to sustainably manage Congo Basin forests. Nevertheless, there is still a need to further harmonize policies, increase levels of enforcement, and channel external support through multidonor, nationally executed sector development programs (in line with the March 2006 Paris Declaration on Donor Coordination and Harmonization).

- *Strengthening CEMAC institutions.* The CEMAC Secretariat remains weak and unable to fulfil its mandate and requires considerable financial and institutional strengthening. The union continues to be plagued with problems that have not changed much since its inception. The TCI mechanism is not functional, in large part due to Cameroon's arrears build-up. The financing is inadequate to maintain both the CEMAC Secretariat and the regional projects and compensation fund. Political divisions within the zone continue to weaken the credibility of the regional organization. Finally, donors, with the partial exception of the EU, do not have sufficient flexibility and appropriate instruments to deal with capacity building for the regional institutions.

3. West Africa

Background, Rationale, and Objectives

37. The World Bank's Executive Board in 2001 approved a subRIAS for West Africa aimed at creating open regional markets to reduce risks and transaction costs for private-sector activities, as well as facilitating regional cooperation on cross-border issues such as communicable diseases and environmental resources. The subRIAS was guided by the *principles*

of subsidiarity, private-sector primacy, pragmatism and progressivity, and partnership with other donors. The strategy was based on the *premise that improving the competitiveness of the small and fragmented West African economies is essential to enable them to participate more successfully in globalization.* This took account of the debate on the effectiveness of trade blocs in the context of globalization. It did not deny the possibility of some trade diversion during market integration. However, deeper factor and infrastructure market integration were expected to significantly reduce costs, thus making countries more competitive in the global economy, which in turn would spur global trade, investment, and export-led growth. The risk of geographic polarization of economic activities was expected to occur with or without integration. However, its extent and the consequences were thought to be more manageable within the institutional framework and financial safeguards offered by increased integration.

38. Finally, it was expected that sound macroeconomic policies through a convergence mechanism would improve the framework for private investment. Hence came the case for integration in West Africa:

- The economies of the subregion need to become *more competitive* and capable of participating in globalization. Regional integration can provide economies of scale and increased competition in a larger and open subregional space. This regional integration can be achieved by integrating goods and factors markets, including nontrade activities, such as infrastructure services.
- It is essential for the subregion to become *more attractive to private investors* through a more open policy that is consistently applied and credible. Regional integration can help achieve this by providing joint commitments acting as lock-in mechanisms and restraints against unsound and inconsistent policies. Such commitments would improve macroeconomic convergence and stability and strengthen national liberalization programs.
- It is important to deal more effectively and humanely with *labor migration issues*. By facilitating population movements across the subregion, regional integration would provide the framework for developing a more effective supply of labor in growth poles, while enabling the fruits of growth to be redistributed across the subregion, thus alleviating poverty.
- Regional integration may help deal more effectively with common causes and *cross-border issues,* such as shared resources and security and health, and to increase bargaining power in world fora. Regional integration can provide the framework for dealing with positive (such as conservation, river basin management) and negative (such as communicable diseases, conflicts) cross-border externalities.

39. Despite the clear case for integration in the subregion, it was fully expected that there would be difficulties in steering integration forward for three reasons. They are the (1) high fragmentation of the subregion (box A5.2), (2) large number of countries, and (3) lack of a real economic magnet with sufficient resources, leadership, and motivation. Since the regional market would remain too small to offer a strong stimulus to increase productivity and

diversification, the subRIAS emphasized the need for the subregion to reinforce its policies of openness to the rest of the world.

Box A5.2: West African Subregion

West Africa is highly fragmented as a result of geographic, demographic, and historical reasons. Its population of approximately 250 million inhabitants in 2003 is highly unevenly distributed among countries. Nigeria contains over half of the total, whereas 3 countries (Cape Verde, the Gambia, and Guinea Bissau) have 1.5 million or fewer inhabitants. Population density is low, except in the urbanized areas along the Atlantic coast. Internal distances are enormous, and transport infrastructure is deficient. National markets are tiny, and regional markets are underdeveloped. As a result, infrastructure costs are among the highest in the world, which translates into an especially high cost of doing business in the subregion.

The subregion is among the poorest in the world. In 2003 the 15 countries of the subregion had a combined GDP of approximately US$109 billion and a GNP of approximately US$89 billion, equivalent to Malaysia's, which had 10 times fewer inhabitants (GNI of US$93.4 billion for a population of 24.3 million inhabitants). The combined GDP of 4 countries of the 15 (Côte d'Ivoire, Ghana, Nigeria, and Senegal) represented approximately 80% of the total GDP of the subregion (Table A4.6).

Approximately 60% of the population lives on less than $1 per day. Life expectancy is 46 years, and 111 infants out of 1000 births die before their first birthday. There is a high diversity in these indicators. Sierra Leone is at the lower end with a life expectancy at birth of 37 years and an infant mortality rate of 166 per thousand. Cape Verde is at the higher end of the spectrum with a life expectancy at birth of 69 years and an infant mortality rate of 26 per thousand. The overall illiteracy rate is 42%. The subregion has been severely affected by internal conflicts, which had spill-over effects on neighboring countries. Three countries are emerging from civil war (Guinea-Bissau, Liberia, and Sierra Leone), and three countries have had an unsettled political situation (Côte d'Ivoire, Guinea, and Togo) over several years.

40. The subRIAS consequently proposed a work program focused on the creation of an open, unified regional economic space (OURES), which was to absorb 90 percent of the resources. The central criterion for deciding Bank assistance, both analytical and financial, was the extent to which such assistance would contribute to the OURES. The work program for FY2002–04 allocated 100 percent of IDA lending to infrastructure and finance, and 40 percent of the administrative budget to analytical and advisory activities (AAA) in support of regional integration institutions. This central theme would account for over 90 percent of total assistance, with infrastructure services comprising approximately half, concentrated in air transport and energy; and financial sector market integration, nearly a third. The proposed work on trade would focus on the adoption and implementation of an ECOWAS common external tariff (harmonized with a revised CET in UEMOA) and, to a lesser degree, on removing other barriers to trade.

41. At the same time, in keeping with the principle of subsidiarity, the subRIAS emphasized that country-level assistance should remain the fundamental pillar of Bank assistance to the subregion and to regional integration itself. Country assistance both helps strengthen overall country performance (an indispensable precondition) and can be used to help countries respect their regional commitments and handle additional requirements imposed by regional integration. The subRIAS indicated that Bank assistance at country level would continue to help countries (1) compensate for transitional fiscal losses arising from increased openness, (2) finance the national portions of regional public-sector infrastructure networks, and (3) improve their business environment for region-wide private sector investment. However, it was recognized that, for this

support to be effective, it would need to be coordinated across West African countries and made coherent with the regional initiatives.

42. In 2006 the Board approved the Africa Action Plan, with recommendation to mainstream regional integration in the Bank's support programs. A follow-up report. "Study on Regional Integration in West Africa: Review of Strategies and Priorities," was prepared to review the subRIAS for West Africa in light of political and other developments in the subregion and to reassess the conceptual framework and work program as needed. The review's main findings are as follows:

- The basic premise of the subRIAS remain valid: implementation of a vigorous reform program is essential for the countries in the subregion to make progress toward the Millennium Development Goals. At the present rate of poverty reduction in West Africa of 1 percent per annum, reducing poverty by half would be achieved only in 2025. Progress is slow in reducing infant and maternal mortality. In several countries, the rates have stagnated in past years; they have increased in Côte d'Ivoire and Liberia as a result of internal conflicts. The prevalence of HIV/AIDS has not been reduced in West Africa, and the incidence of malaria has increased. More than 40 percent of the population in West Africa continues to lack access to potable water.
- A number of initiatives have been taken in support of regional institutions, particularly in infrastructure services for a unified market, financial markets, water resource management, and prevention of communicable diseases. In addition, innovative projects have been developed to support the integration of energy and financial markets and to facilitate road transport. Nevertheless, little progress has been made on the central agenda of the subRIAS, which emphasizes macroeconomic convergence, trade liberalization, and business environment improvement. Decisions have been made by Heads of State or Government on these issues, but most of them have been honored more in the breach than in reality.
- Internal conflicts have cost the subregion dearly. Several countries are in a post-conflict situation, and are understandably more concerned with reconstruction than with regional integration. Others have not yet been able to settle lingering internal conflicts, with negative impacts on their development and that of the region—notably Cote d'Ivoire, which had served as a growth pole. Despite progress made in trade liberalization, trade within the region remains constrained by many nontariff barriers. The investment climate is poor, with most countries at the bottom the *Doing Business* index.
- Only 50 percent of actual lending went to unplanned interventions in HIV/AIDS and emergency locust control, which were requested by ECOWAS and UEMOA. This shift was also the result of the difficulties inherent in preparing and financing regional infrastructure projects, offset by a somewhat opportunistic approach in other sectors in which sensible things could be done. While the focus of the FY2006–08 work program for West Africa has returned to infrastructure—with

60 percent earmarked for the West African Power Pool, air and road transport—the share of AAA has fallen sharply to only 5 percent.

- Yet, recent developments in the subregion are favorable for a reexamination of Bank support to regional approaches in West Africa. First and foremost, Nigeria, the largest economy in the subregion, has made steady progress in implementing its reform program. In 2004 it demonstrated a clear break from a long history of uncontrolled boom and bust cycles caused by oil price fluctuations. GDP is estimated to have grown at 6 percent; the fiscal surplus reached 10 percent of GDP on a cash basis; and inflation decelerated sharply to 10 percent. In addition, Nigeria has agreed in principle to adopt the ECOWAS common external tariff, with a maximum tariff of 20 percent by 2008. This will represent a major liberalization of the economy—providing it is implemented.
- Second, the two regional bodies, the ECOWAS Secretariat and the UEMOA Commission have reinforced their cooperation.[8] They have produced a regional Poverty Reduction Strategy Paper (PRSP). The UEMOA Commission has also prepared a Regional Economic Program (REP). These two documents call for enhanced regional integration to reduce poverty in the subregion, and provide a strong basis for improving cooperation with the donor community. Toward these ends, the PRSP and REP explicitly take up the Bank strategy's central focus on helping the countries become more competitive through liberalizing and facilitating trade, lowering the investment cost of infrastructure services, and improving the business environment.

Strategic Priorities

43. For the Bank to strategically support integration in West Africa, its efforts must rest on three "pillars" as outlined in the subRIAS and confirmed in the review:

[8] Founded in 1975, ECOWAS includes 15 countries and has both an economic and a political mandate. In 2006 the Heads of State supported the establishment of a Project Development and Implementation Unit (PDIU) in charge of coordinating implementation of regional projects. The UEMOA was created in 1994 and includes eight countries, all belonging to the CFA Franc zone. Following the devaluation of the CFA Franc in 1994, emphasis has been put on sound macroeconomic management. A customs union was established in 2000 with a common external tariff (CET). ECOWAS and UEMOA have reinforced their cooperation in recent years. A memorandum of understanding was signed in 2004. A joint secretariat is being established. The donors, including the World Bank, have strongly encouraged closer cooperation between the two regional institutions. In December 1999, the Heads of State meeting decided that ECOWAS was to become a customs union by generalizing the UEMOA CET to all member countries in 2002, and a monetary union by 2003–04. Both deadlines have been extended. However, a CET based on the UEMOA tariff has been approved in principle for final adoption by 2008, and some countries have already begun implementation.
Other regional institutions include the West African Health Organization, which serves as a technical unit of the ECOWAS Secretariat, and the *Comité Inter-Etats de Lutte contre la Sécheresse* (CILSS). The latter was created in the wake of the severe Sahelian drought in the early 1970s to pool resources to deal with a recurrent problem affecting several countries in West Africa. Others institutions have been created to manage a time-bound program of activities concerning several countries, such as the onchocerciasis eradication program and the West African Power Pool (WAPP); or to manage specific activities shared by neighboring countries, such as the Senegal River Valley Authority (OMVS) or the Niger Basin Authority (NBA).

- *Convergence of macroeconomic policies.* Bank assistance would need to be provided in close collaboration with the IMF. It would help the regional institutions, ECOWAS and UEMOA, carry out their mandates by refining the methodologies, sharpening the approaches, and reinforcing monitoring mechanisms. While essential for enhanced regional integration, most of this work would be delivered at the national level through country dialogue.

- *Integration of markets.* An OURES, a single West African market open to competitive entry and well integrated into the global economy, would comprise a commercial policy for free goods markets, arrangements for efficient networks of infrastructure services, and a favorable environment for business and finance. Making the customs union effective and welfare enhancing would involve (1) rationalizing and applying the UEMOA tariff, (2) merging the UEMOA customs union into a larger ECOWAS customs union, (3) continuing to reduce the level of tariffs and narrow their dispersion, (4) improving existing measures to facilitate exports, and (5) focusing on informal barriers to trade. The OURES would also require:

  - In the *infrastructure sector*, the high cost of transport, telecommunications, and energy services would need to be reduced by expanding their market and scale of operation and by establishing a more competitively oriented regional regulatory framework. In road transport, the objective is to help countries (1) complete and maintain their portion of the West Africa interstate road network and (2) ensure that transport services function effectively and competitively across borders. In air transport, the priority is to help the subregion implement its open-skies objective and improve air safety and oversight.

  - In the *telecommunications sector*, the emergence of a regional market, rather than just common physical infrastructure projects, is necessary. In view of the miniscule size of most national markets. emergence of a regional market would involve the harmonization of a number of policies and the establishment of a common regional and regulatory agency over time.

  - In the *energy sector*, it would be critical to support the ECOWAS initiative to establish an interconnected electricity market, including (1) physical integration of national power grids and reform of market policies and regulatory arrangements, (2) piloting a cooperation model for the functioning of the integrated market, and (3) implementing a fully functional market with the creation of a regional regulatory capacity and adherence to open access.

  - As for the *business environment,* actions in the areas of financial sector integration, taxation harmonization, private sector incentives, labor markets, and legal framework and judicial systems would lead to improvements. While the bulk of its work in these areas would continue to be country-based, the Bank could advance the regional dialogue on facilitating the free movement of workers, particularly skilled ones.

- *Strengthening human and institutional capacities.* The focus has primarily been on macroeconomic convergence, trade, cross-border infrastructure services and enhancing the business environment. Limited support could also be provided to a multicountry approach to higher education in fields related, for instance, to business management. Coordination of efforts to share public goods and fight against negative cross-border externalities, such as communicable diseases, also is needed. Finally, continued Bank support to the two regional institutions, in close cooperation with the EU, would be essential.

Implementation Experience and Issues

44. The main challenges to achieving the objectives of the subRIAS for West Africa have been related to implementation:

- *Macroeconomic convergence.* Since the 1994 devaluation of the CFA Franc, UEMOA members have adopted 8 convergence criteria, of which 4 are considered first-order (entailing sanctions in case of noncompliance). The latter are that (1) the basic fiscal balance should be positive; (2) the average annual inflation rate should be lower than 3 percent; (3) the ratio of internal and external debt to GDP should not be higher than 70 percent; and (4) there should be no accumulation of internal or external arrears. However, experience has shown little compliance with these criteria. Four countries—Benin, Burkina Faso, Mali, and Senegal—have met at least four convergence criteria during the 1998–2003 period. The other four countries have been unable to meet most criteria. Because of weak revenue performance, all member countries have had difficulties complying with the fiscal criteria.

  Meanwhile, five of the nonUEMOA members of ECOWAS (the Gambia, Ghana, Guinea, Nigeria and Sierra Leone) have postponed plans to create a second monetary zone to December 2009. Some observers believe these postponements are well founded and that this group of countries is not yet ready for a monetary union.

- *Open market.* Progress has been made in reducing tariffs and eliminating additional taxes, but even in the UEMOA zone, there are still deviations from the CET. In Benin, a number of levies and surcharges on specific products are still in place. In several countries, a declining protection tax is still implemented and a cyclical import tax continues to be levied to give additional protection to selected producers in agriculture and agro-industries. Perhaps most importantly, many NTBs remain: rules of origin that prohibit many manufactured goods, inappropriate use of standards, administrative delays and bribes at the border, unofficial blockage of food exports, and, of course, the ubiquitous road blocks.

  As for the nonUEMOA member countries of ECOWAS, in 2000 they committed themselves to establish a full-fledged customs union by applying the UEMOA common external tariff by January 2002. However, the difficulties had not been sufficiently analyzed. As a result, agreement was not reached until the end of

2005, with a transition period lasting until January 2008. This new CET will be very difficult for Nigeria, which in 2005 still had many bans or prohibitive tariff rates (150 percent). Nigerian bans have had a negative impact on trade from Benin, Ghana, and Sierra Leone among others. Nigeria has committed itself to removing these bans, but insisted on keeping a special 50 percent tariff for some products until 2008.

Moreover, much remains to be done to facilitate exports, such as fewer delays at customs, faster reimbursement of the value-added tax (VAT), and the functioning of Export Processing Zones. The removal of internal NTBs to trade, known as the second liberalization agenda, also remains an elusive objective.

As for infrastructure services for a unified market, experience has varied from one sector to another:

- There has been significant progress in the *energy sector*, with the approval of two key projects in 2005: a US$50 million IDA partial risk guarantee for the West Africa Gas Pipeline (WAGP); and the WAPP program, which the Bank supported with a US$40 million credit to Ghana and Adaptable Program Lending (APL) credits of US$100 million to Benin and Ghana.

- Although little has been accomplished in the execution of the ECOWAS/UEMOA Regional Transport Facilitation Program. there has been good progress in *road transport* with the approval of the ECOWAS road master plan, To date, 3,777 km of the 4,560-km-long coastal road from Nouakchott to Lagos have been completed, and 3,894 km have been built on the 4,460-km-long Dakar-to-Chad border road. However, maintenance remains a problem; joint border posts and observatories have yet to be established; and transport regulations have yet to be harmonized. These issues are being addressed under the *corridor approach* promoted by the donor community.

- In *air transport*, the Bank has supported the Yamoussoukro decision calling for gradual liberalization of air transport services in West and Central Africa with 2 IDF grants totalling US$800,000 to review the existing situation in member countries and identify the best technical and regulatory options to be put in place. An action plan was approved in Bamako in March 2001, and ECOWAS has established a secretariat to oversee implementation of the Bamako decision. However, little has been done to adjust national regulations to a new regulatory and legal framework or to implement the new regulations after their adoption by member countries. On security, a project is under preparation for IDA financing to help participating countries improve airport authorities' compliance with international safety and security standards. An APL is being considered. The first beneficiaries would be Burkina Faso, Guinea, and Mali. The other ECOWAS countries have been invited to join the program.

  In 2002, UEMOA adopted a general competition law, the preparation of which was supported by the Bank and the Fund. The law set rules and

procedures related to cartels, abuses of dominant position, state aid to public enterprises, and transparency in financial relations between governments on the one hand, and public enterprises and international or foreign organizations on the other. The Bank also cofinanced with ADB, through a regional IDF grant, a reform of public procurement for UEMOA members; provided support to OHADA, the regional organization of francophone countries for the harmonization of business law; and provided IDA support to private sector development projects in several ECOWAS countries. Yet the business environment in West Africa remains poor. The IFC's 2006 *Doing Business* report ranked most of the 11 ECOWAS countries for which data are available, at the bottom of the scale (Tables A4.7–A4.8). Six indicators are tracked for trading across borders, and the conclusion to be drawn from the survey is that most countries in West Africa make it unnecessarily difficult for business to engage in cross-border trade.

- The Bank has supported the development and integration of *financial markets* through two projects. The first project, approved in October 2000, was aimed at improving the payments system in the UEMOA monetary zone. Most project activities have been completed, and the new payments system is working satisfactorily. Large delays in making payments within UEMOA have been greatly reduced. The second project, approved in February 2004, was to develop the capital markets of the UEMOA zone through BOAD, its development bank, and mobilize public and private financing for the zone's infrastructure development. A major project component, the line of credit to finance infrastructure projects, is at an early stage of implementation.

  Source: Doing Business 2006, IFC.

- *Institutional development.* The Bank has supported institutional development in agricultural policy, water resources management, and capacity building:

  - Recognizing the need to coordinate their *agricultural policies,* in 1999 the governments of West and Central Africa created the Agriculture Policy Network (APN) to improve agricultural policies through enhanced analyses and exchanges among policymakers. Through an IDF grant, the Bank has increased APN's institutional capacity, focusing on establishing phytosanitary norms and promoting food quality.

  - A regional approach to *water resources management* is essential to increase the efficiency of proposed investments and reduce conflicts among states in West Africa. Through three GEF projects, the Bank has helped strengthen the capacity of three regional organizations responsible for the sustainable land and water management of the two large West African rivers (Niger and Senegal) and the Lake Chad basin (of concern to Niger and Nigeria). Two follow-up projects are under preparation to help

the two river basin management organizations implement their mandates and address major development issues in the basins.

- In 2002, ECOWAS undertook a thorough review of its missions and its resources for implementing its mandates, and formulated a short-term action plan for *capacity building*. The Bank has provided support to this program through an IDF grant to help ECOWAS implement the NEPAD agenda by hiring a NEPAD coordinator in the ECOWAS Secretariat; preparing a study to review the way in which regional integration and NEPAD programs are being managed; organizing a workshop on harmonization of the telecommunications sector; facilitating coordination meetings between ECOWAS and UEMOA; and upgrading ECOWAS telecommunications capabilities.

  While ECOWAS has made good progress in areas in which both member states and donors are interested, such as peace and security and infrastructure, progress on regional integration is much harder because of weak political will on the part of member countries. Donors are concerned that ECOWAS has spent too much energy on firefighting, and not enough on building a long-term strategic perspective.

Recommendations/Next Steps

45. Developments since the 2001 subRIAS for West Africa and implementation experience to date point to eight recommendations:

a. Focus Bank efforts on macroeconomic convergence, trade liberalization, business environment, and cost of services.

b. Provide limited support to regional emergencies (locust, avian flu and HIV/AIDS). However, in keeping with the subsidiarity principle, ensure that regional projects do not substitute for projects at the national level (the HIV/AIDS treatment project in the portfolio would seem to belong to the latter category).

c. Revisit the current emphasis given to river basin management projects in view of the slow-moving pace of ongoing GEF projects (the four projects concerned absorb approximately 19 percent of resources in the work program for West Africa).

d. To maintain the focus of the Bank's regional integration program and increase the probability of its impact, resist developing regional programs in the agriculture, education, and health sectors. Regional programs in agricultural research are probably best dealt with through the Consultative Group on International Agricultural Research (CGIAR). While regional approaches may make sense for tertiary education and some communicable diseases, the CASs suggest that countries are not prepared for increased regional coordination in the education and health areas.

e. Increase allocations to AAA to address key policy and institutional reforms in the primary focus area. More analytical work is required on intraregional trade and

investment climate issues. Such work should be carried out in close cooperation with the IMF and regional institutions. Private-sector support should be elicited in pushing the business environment agenda. CASs and other macroeconomic documents should systematically report on macroeconomic convergence, trade liberalization, and investment climate.

f. Reward countries for efforts to implement regional decisions. Regional integration projects should be focused on those countries.

g. Be proactive with the two growth poles in the region. The internal conflict in Côte d'Ivoire has slowed down regional integration efforts in UEMOA. A return to peace in Côte d'Ivoire through fair elections in late 2006 is essential for revitalizing the UEMOA zone. Nigeria also should play an important catalytic role in the economic development of the West Africa subregion, as acknowledged in the 2005 Country Partnership Strategy. These two countries require special attention.

h. Help the regional institutions establish a division of labor and a workable program of economic reforms in trade liberalization, macroeconomic convergence, business environment improvement, and more efficient infrastructure services.

4. Southern Africa

Background and Strategic Objectives

46. In April 1998, a "Southern Africa Strategy" paper presented to the Board laid the basis for the Bank's approach to regional integration. It argued that regional cooperation in Southern Africa could benefit countries in five ways: (a) enhanced visibility to investors, (b) lower production and marketing costs, (c) sharing and dissemination of development lessons and more rapid liberalization, (d) closer integration of agricultural markets, and (e) better management of transboundary resources. Key focus areas for the Bank Group's support were closer integration of markets and trade facilitation, regional infrastructure development, and the liberalization of labor and capital flows. These findings and focus areas were subsequently included in "Toward a Systematic Approach to Regional Integration," presented to the Board on April 2, 2001. Key lessons also were confirmed and reflected in the "Strategic Framework for IDA's Assistance to Africa: The Emerging Partnership Model" (World Bank Report 26217) in 2003 and the Africa Action Plan in 2005.

47. Although the "Southern Africa Strategy" paper was not a formal subRIAS as such, strategic analysis of the challenges and opportunities for supporting regional integration in the subregion has been extensive. A comprehensive background review ("Regional Integration and Cooperation in Southern Africa: Identifying Strategic Opportunities for World Bank Regional Interventions") finalized in June 2006 proposed an appropriate framework for an FY2008–10 Southern Africa subRIAS, now under discussion. At the same time, the Bank has intensified its dialogue with the foremost regional integration organizations—SADC, COMESA, and EAC. Based largely on specific requests, the Bank has deepened its support in selected areas, including regional projects such as the Southern African Power Market (APL1) in support of the first phase of the Southern Africa Power Market Program. These processes have been informed by a series

of institutional changes at the Southern African Development Community (SADC) and rationalization of its agenda. These two culminated in a "Regional Indicative Strategic Development Plan" (RISDP), which has been translated into a series of medium 5-year and 1-year programs with appropriate quantification of costs and detailed sequencing of operations for the first- period program.

48. Benefits, particularly static and dynamic gains from trade integration, are neither automatic nor necessarily large. They depend on factors such as the depth and design of a regional arrangement, composition of membership, and member countries' levels of development, With this caveat, the expected benefits from integration in Southern Africa include traditional ones—such as trade gains, increased returns and competition, and investment—as well as nontraditional ones—such as the force of a commitment mechanism, insurance, coordination and bargaining power, and security. SADC notably embraces a similarly broad agenda. It includes an explicit development orientation; market integration; trade and investment development, facilitation, and promotion; economy of scale gains; additionality (that is, activities should be undertaken only if they enhance SADC's capacity and/or bring additional resources); and variable geometry (that is, in light of unequal and uneven development among member states, there should be flexibility to accommodate special circumstances and particular arrangements among member states).

49. Based on close and sustained review of Southern Africa's geographic, political, economic, and institutional particularities, *the Bank's specific objective is to assist the subregion to achieve deep integration in trade-related matters and strong cooperation on critical cross-border issues.* Achieving such an agenda will require addressing a number of challenges specific to Southern Africa:

- *Southern Africa remains an unpredictable operating environment due to overlapping and evolving regional and international agendas.* The future shape and speed of regional integration within Southern Africa will be determined by a combination of internal and external factors. Internally, SADC and COMESA have expressed their intentions to establish customs unions—COMESA in the foreseeable future (initially scheduled for 2004) and SADC by 2010. Countries that are members of more than one arrangement will be required to choose among them. It is impractical and WTO-incompatible to claim membership of different customs unions.
- Southern Africa constitutes a significant market in Sub-Saharan Africa, although rather small internationally. *Within Southern Africa, countries are heterogeneous in the extreme, posing particular challenges for regional cooperation and integration* (Table A4.9). The combined regional population of 234 million is unevenly distributed. In 2005 the average GNI per capita for the subregion (in nominal dollars) was US$1,350. The difference between the highest (Mauritius) and lowest (DRC) was nearly 40 times. Approximately 40 percent of the subregion's population (90 million people) is estimated to be living in extreme poverty. The low level of human development, compounded by a brain-drain to the rest of the world and skills migration to the southern part of the region, is a serious structural problem. SADC countries (except for a few) appear to be

performing well in providing universal basic education. However, most (including South Africa) are under-performing in providing quality secondary and tertiary education. The latter is potentially a serious structural weakness given the increasing importance of skills in the globalized economy, in which knowledge-intensity is crucial to enhance competitiveness.

- In terms of economic structure, the subregion seems to be struggling to diversify its productive base. Progressive industrialization remains elusive for most countries. *Overall, economies in the region are largely undiversified, resulting in a lack of complementarity, which limits the scope for merchandise trade, except between South Africa and the rest of the region* (Tables A4.10 and A4.11). The economies are reasonably open, and given that most countries in the region are heavily dependent on exports of primary and semi-processed agricultural and mineral commodities, the regional economy remains excessively vulnerable to rainfall variations and commodity price fluctuations. Stabilization and adjustment experiences have seen significant convergence in the broad policies that have been pursued, although the outcomes of such policies and programs vary significantly, even widely in some instances, across countries. Agreements such as the Multilateral Monetary Agreement (MMA) and SACU are expanding convergence among an inner core of countries (Botswana, Lesotho, Namibia, South Africa, and Swaziland).

- *South Africa's relatively developed economy and dominance of the regional market hold risks and opportunities for the rest of the region.* Due to its size and economic linkages with the rest of the economies in Southern Africa, South Africa's low growth levels are partly explaining low aggregate growth in Southern Africa. Furthermore, South Africa's pace of economic reforms could either accelerate or delay regional integration initiatives.[9] There also is the risk of economic polarization within the region. South Africa, and implicitly SACU, could have an incentive to strengthen economic relations and cooperation with developed countries and more dynamic markets, rather than being interested in South-South regional cooperation with neighboring countries.[10] On the positive side, South Africa's economic strength and institutional capacity can serve as a powerful catalyst for regional integration and cooperation. South African institutions (public and private) already are playing a strong capacity building role in the region. Meanwhile, in the absence of regional-level finance and investment agreements, the country's private sector and quasipublic institutions are de facto integrating the region through outward foreign investment. Furthermore, South Africa's water and energy resource constraints are forces for closer cooperation with its neighbors.

[9] Cases in point are the structure and size of its electricity sector and its impact on the establishment of a competitive power market; and the operating inefficiencies of border and transport services, which are raising transaction costs for the relevant landlocked countries.

[10] Over the past years, this lack of interest has manifested in a variety of ways, such as a disconnect between high political commitment and the lower level of priority accorded by the administration in the broad *socioeconomic* agenda of SADC. The latter is in contrast with South Africa's political and administrative involvement in the *regional political and security agendas*, which seem to be more closely aligned.

- *In the wider regional economic space, insufficient regional infrastructure linkages and operational and quality inefficiencies, no less due to policy, legislative, and administrative constraints, are fragmenting markets and hampering competitiveness and development.* Transport costs and efficiency of the principal SADC transport corridors are key elements in achieving higher economic growth and reducing poverty since they influence the effectiveness of not only intraregional, but also intercontinental trade, and therefore SADC's international competitiveness. Transport efficiency is particularly important, given that 6 of the 12 mainland SADC countries are landlocked, while others feature vast hinterlands, more often than not the location of relatively major industrial activity and population settlements. However, transport on the SADC corridors is known to be less efficient, and transport costs and tariffs are higher than in many other regions of the world. Similarly, on a subregional basis, the penetration of the fixed telecommunications network remains low at a level of only one-third of the world average, and the quality of fixed-line services remains generally poor. Restrictive policy and regulatory frameworks have resulted in a failure to attract international investment, a shortage of core infrastructure, and insufficient region-wide interconnectivity and connectivity with the rest of the world.

- *The mismatch between demand for and supply of natural resources—energy, common pool resources such as transboundary conservation areas, and shared marine systems—all point to the need for close cooperation among countries in the region, as well as to the potential for trade in services.* On aggregate, the subregion is richly endowed with natural resources,[11] but these resources are unevenly distributed among countries. In the case of biodiversity conservation areas, which provide a unique comparative advantage in tourism development, these resources often straddle national borders or are shared, such as water courses. As for the subregion's large and diverse energy resources,[12] hydropower capacity and natural gas reserves are far from optimally exploited. Furthermore, South Africa's reliance on expensive (at least relative to hydro) and polluting thermal power from domestic coal is heavy. Thus, the scope for regional cooperation and for optimizing the regional electricity system is enormous. Trade

[11] Approximately 39% of the total surface area is wildlife-rich protected areas (PAs) and communal lands. They provide large blocks of habitat in which large mammals; predators; and a plethora of birds, endemic plants, and other biodiversity thrive. Parts of these PAs straddle national borders (transfrontier conservation areas). The diversity of ecosystems provides a unique comparative advantage to the region of tourism development. The subregion also possesses a vast and highly diversified mineral resource base. In fact, the subregion is a major reservoir of some of the world's most valuable precious and base metals, industrial minerals, and precious stones.

[12] These include hydropower, concentrated mainly on the Zambezi and Congo Rivers, although there is additional potential in a number of other countries. The Congo River's huge potential for hydroelectric power, estimated to be as high as 150,000 MW, could play an important role in providing power for the region, but less than 3% of this capacity is actually exploited. The region has also an abundance of coal (over 20% of the world's recoverable reserves), primarily located in Botswana, Malawi, Mozambique, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe. South Africa's recoverable coal reserves are estimated at 55 billion short tons. In 2003 regional coal production reached 269 million short tons (Mmst), of which South Africa produced nearly 264 Mmst, while also consuming the majority (97%) of the region's coal.

between South Africa and its energy-rich neighbors could be mutually beneficial, providing cheaper electricity to the former and revenues to the latter.

- *Water is an unequally distributed and vulnerable resource in Southern Africa, a situation compounded by the increasing overall climatic variability.* Together they are increasing the regional economic and development risks. There are two dominant climate regimes in the subregion: the semi-arid and semi-humid in the east and north, and the dry and the hyper-arid in the west and south, respectively. Related to the differences in climate regimes, distribution of population, and differing levels of development across the region, countries are experiencing large imbalances between water availability and water usage. The southern states already are reaching the limits of water availability while the northern states are in need of development to counter-balance dry and wet years. These vulnerabilities highlight the need for regional cooperation to promote future sharing of water resources. Mitigating the effects of climatic variability is hampered by insufficient water storage infrastructure. In addition to other cooperation concerns, the existence of 15 transboundary waters brings into play complex water rights issues that contribute to insecurity of downstream uses.

- *Southern Africa is facing a huge threat to its development in having the highest adult HIV/AIDS prevalence rate in the world.* An estimated 14 million people were HIV/AIDS infected, In 2003 prevalence rates among adults ranged from 30 percent–40 percent in Botswana and Swaziland to 0 percent–5 percent in the Indian Ocean island countries and the DRC. Although estimates of the pandemic's adverse economic and social impacts differ, HIV/AIDS is manifesting itself in various ways. A major way is by having exacerbated the spread and effects of food insecurity in the subregion to a level at which it has turned into a livelihoods crisis since the 2002–04 droughts. Although not quantified for SADC, the intergenerational impact of HIV/AIDS on the quality of human development and consequent growth potential may be material.

- *Finally, internal political insecurity serves as both a driving force for and threat to integration in the wider Eastern and Southern Africa economic space.* Hence, the inclusion of peace and security in the mandates of SADC, COMESA, IGAD, and the EAC. Over the past few years, however, intra and inter-regional political security have assumed increasing importance in the regional agendas of RIAs in the broader subregion as also reflected by the active institutionalization of their political, defense, and security mandates. Yet, despite the recent laudable subregional peace-making and -keeping efforts, regional cooperation on politics, security, and defense has yet to result in significant "regional peace dividends" as well as political convergence through a lock-in of all countries into commitment to democracy, respect for human rights, and "good governance" in general.

Strategic Priorities

50. Given these specificities, the proposed framework for a Southern Africa subRIAS rests on the following priorities. The region's initial conditions and progress in regional cooperation and integration suggest that the emphasis of the Bank's assistance needs to be on intensifying

intraregional cooperation to strengthen the economies of the open regional arrangements and thus facilitate their integration in the world economy. The priority themes identified as strategic opportunities also are based on the World Bank Group's comparative strengths among the International Cooperating Partners:

- Promoting *market integration* by creating a conducive, competitive regional market for finance and investment in Southern Africa.
  - *Financial integration.* Based on the recent Bank study on financial integration in Southern Africa, the Bank could provide TA and advice on additional aspects of the regional financial architecture, such as the creation of homogenous, reliable, and instantaneously available sets of information; regional solutions to economies-of-scale-related problems; and creation of an effective dispute settlement mechanism.
  - *Investment in Southern Africa.* Based on a critical mass of country investment climate assessment information and regular *Doing Business* information updates for countries in Southern Africa, together with SADC regional institutions, the Bank is undertaking further analytical work to explore harmonization and cooperation in the core investment and business environment areas among the countries in Southern Africa.
- *Accelerating regional cooperation to strengthen the "supply-side" or structural prerequisites for a vibrant integrated market and encourage shared regional growth and development, in which all countries would benefit from increased competitiveness of the region.* Support would focus on trade facilitation, transport, energy, ICT, with linkages to skills development and HIV/AIDS issues linked to trade and transport corridors.
  - *Trade facilitation and transport.* The Bank, with DfID, will be undertaking analytical work to gain a better understanding of the hard and soft constraints in African transport corridors, including in the Southern African subregion. In addition, in response to SADC's trade facilitation strategic priority, the Bank plans to support an investment and a technical advisory project. The investment project will help the governments of Mozambique, Malawi, and Zambia to develop the Nacala transport corridor, aimed at enhancing customs integration and improve transit flows in the subregion; efforts to combat HIV/AIDS also will be included. In addition, the Bank may be a asked to be a financing partner in the development of the North-South and Dar-es-Salam trade and transport corridors, identified in a March 2007 DfID prefeasibility study of Southern Africa's Transport Corridors.
  - *Energy.* The main focus for the Bank would be to consolidate its ongoing and envisaged lending operations for the identified SAPP connections, while broadening its knowledge on the energy sector in Southern Africa through ESW toward developing future regional operations. This ESW will have to take into account the specific needs of the island economies, which cannot benefit from the mainland power pools.

- *ICT.* Past TA and policy advice translated into financial support by the Bank and other development finance institutions (DFIs) to regional ICT backbone developments through the Regional Communications Infrastructure Program (RCIP) in FY07. Malawi, Mozambique, Rwanda, and Tanzania are among the Southern African governments that have requested Bank support for the next phase of RCIP.

- *Addressing some of the "vulnerabilities" peculiar to the region, particularly increasing cooperation on natural resources* through focusing on the Zambesi River basin, and marine resources.

  - *Water.* Additional analytical work is required on the Zambezi basin to develop a water development strategy both in support of SADC and to supplement Bank knowledge for potential future operations. The Zambezi river basin has eight riparian states that would benefit directly from a river-basin irrigation plan and hydroelectric projects. These two would would alleviate food insecurity in the subregion and South Africa's energy supply shortages, respectively.

  - *Other natural resources.* The respective RIAs accord priority to protection and management of transboundary resources, including marine resources. One GEF grant is being implemented, while another, on a marine highway, was approved by the Board in FY2007. The latter will benefit the Southern African Indian Ocean island economies as well as Kenya, Mozambique, South Africa, and Tanzania. An increasing number of Southern African countries link disaster reduction to their national poverty reduction frameworks and have requested disaster recovery management support from the GEF Global Fund for Disaster and Risk Reduction.

  - *Climate change.* In line with other regions, the Bank will support analytical work on climate change in Southern Africa.

- *Providing capacity building to the core regional institutions.* Strengthening the capacity of existing RIAs is crucial to achieve stronger cooperation among countries across key sectors. Cooperation with South African institutions as vehicles for capacity building initiatives over a wide spectrum of issues should be strengthened in future activities aimed to support SADC, SACU, COMESA, IOC, and IGAD. Specific areas in which the Bank could support RIAS in capacity building include knowledge-sharing partnerships between WBI and South African institutions, and monitoring and evaluation (M&E) to enable, better efficiency of the peer pressure/enforcement mechanisms. SADC is institutionalizing a peer review or surveillance mechanism for macroeconomic convergence. Extension of this or other mechanisms would be required to cover other indicators of trade, finance, and investment integration as well as structural and institutional dimensions of cooperation. The M&E program of support would be linked to ongoing statistical capacity building support to SADC, the IDF for Institutional Capacity Building to SADC, as well as to the work on monitoring and reporting as part of the aid-effectiveness initiative in SADC.

Recommendations and Next Steps

51. Besides the guidelines outlined in IDA14 and the AAP, discussions to operationalize the Bank's strategy to support deep integration and stronger cooperation in Southern Africa have been guided by four recommendations:

1. *Country work.* As in other regions, the Bank's regional integration approach in Southern Africa will continue to be directed primarily at individual countries and formulated through the CAS and PRSP processes. This is particularly appropriate in view of the extreme diversity of SADC member countries in every economic, social, or political dimension. More specifically, if SADC maintains as its priority the formation of a common market, raising the member countries to a common minimal level of macroeconomic stability and social cohesion becomes a clear imperative.
2. *The Bank's support to SADC should focus on extending and intensifying sectoral cooperation issues together with a selective—rather than comprehensive—agenda toward the long-term objective of deep integration.* Analysis of the region's initial conditions suggests that the Bank's assistance needs to focus on intensifying intraregional cooperation. This emphasis will strengthen the regional economy and thus facilitate its integration in the world economy in accordance with the notion of SADC as an open regional arrangement.
3. *Support for selected aspects of the common market agenda.* Even though it is recommended that the Bank emphasize sectoral cooperation, it also should not ignore the long-term objective of a SADC common market. Past and ongoing dialogue with SADC authorities has focused on the three pillars of deep integration: (1) principally trade issues, but also the (2) financial sector, and less so (3) macroeconomic policy convergence. Demand from RIAS continues to pursue these lines of activity. Therefore, the Bank should continue ongoing or already planned work on trade and financial integration issues, while selectively responding to RIAs on elements of trade and financial integration.
4. *Strengthening existing SADC capacity is needed to achieve stronger cooperation among countries across key sectors.* Cooperation with South African institutions as vehicles for capacity building initiatives over a wide spectrum of issues has worked well in the past. It should be strengthened in future activities, particularly since South Africa is a willing partner in reaching out to the subregion and beyond.

52. Following the comprehensive review to propose an appropriate strategic framework for a Southern Africa subRIAS, consultations are ongoing with the relevant RIAs and other stakeholders, RIAS' International Cooperating Partners, and the relevant sector and country teams on the content and modalities for Bank support to integration and cooperation in the subregion. This has necessarily been an iterative process, given that on SADC's side, its broad priority areas still need to be translated into a consistent set of regional-level programs, while many of its International Cooperating Partners, like the Bank, are either designing or redesigning their support programs for the region. On the Bank's side, it is clear that country regional

commitments, whether in protocols or multicountry agreements to implement protocols, have not always found expression in CASs, PRSPs, or dialogue with the Bank; it is expected that discussions with the individual country teams will lead to a stronger focus on the set of regional priorities to which the countries in Southern Africa have agreed. Critical issues and current and future activities under discussion include:

- *Support for the deep integration agenda*
  - *Trade integration.* Planned analytical work, supported through a trust fund, is aimed at assessing the progress made in integration in the COMESA area, broadening the COMESA FTA, drawing up a roadmap to a customs union, and sequencing of regional integration and the EPA; as well as analyzing the revenue implications of further regional integration and an EPA and designing appropriate responses. Analytical work planned with SACU, given that it is a revenue-sharing mechanism rather than a customs union in the general sense, would focus on aspects of deepening SACU, SACU enlargement and the impact on the regional trade architecture.

    Another area for Bank support is the extension of value-chain analyses that the Bank and others have already undertaken in several Southern African countries. The potential payoffs in terms of increased growth and employment from harmonization and coordination of policies and targeted interventions affecting for example the textile to garments, automotive, agro-industry and tourism value chains are very high.
  - *Financial integration.* Through an IDF grant to SADC, the Bank is currently providing support for strengthening of public sector accounting standards with as implementing agency the Eastern and Southern African Association of Accountants General (ESAAG). Another grant is for harmonization of accounting and auditing frameworks and standards for the private sector in the Eastern and Southern Africa region. A grant for harmonization of procurement systems has also been approved for COMESA.

    Upon request from the SADC Secretariat, the Bank has been undertaking a study which could partially meet the need for an overarching regional financial sector development strategy to inform and provide direction to the subsectoral strategies already under implementation. This will need to be coordinated with another study by the ADB on the development of capital markets in SADC. (As of June 2006, this study had not been initiated yet.)

    With regard to investment and the business environment in SADC, based on the ICAs and regular updates of the *Doing Business* indicators for most of the countries in the region, the Bank is well-placed to make a contribution through a study aimed at identifying the needs and steps required for harmonization in some of the key components of the investment climate.

The only lending initiative under the auspices of COMESA has been for the well-known Africa Trade Insurance (ATI) project, in 2001 as a joint initiative between African states and the Bank to facilitate trade and investment in Africa. ATI's goal is to reduce costs of trade and investment financing by providing risk insurance cover on political and commercial risk. Going forward, ATI will add a comprehensive risk insurance product to insure the credit risk of private sector companies in its member countries to more effectively support trade transactions and restructure current country security agreements into full capital subscriptions to enhance its capital base.

- *Sectoral cooperation*
  - *Transport and trade facilitation.* Apart from Africa-wide analytical work which is being undertaken, the Bank together with DfID and other donors are planning joint analytical work to gain a better understanding of the current regional transport situation and with a view to develop a lending operation in trade and transport facilitation.
  - *Telecommunications.* The Bank has currently limited dialogue with both SADC and COMESA on ICT issues, except for the well-known planned RCIP/EASSy project, which would be to the benefit of both COMESA and SADC countries.
  - *Energy.* Over the past few years, the Bank has been preparing the Southern Africa Power Market Development Project aimed at developing an efficient regional power market through the Southern Africa Power Pool, to supply stable electricity at lower prices in the SADC. This project is a multicountry APL to the amount of $500 million, of which $452 million is IDA. SADC has also identified a large number of priority energy projects. Given that these 'priorities' are regarded as of equal importance, the Bank is planning analytical work to gain a better understanding of the energy sector in Southern Africa, as well as with a view to further operational activities.
  - *Human resources development.* The Bank was approached to support a pilot project in regional collaboration, based on the priorities identified through the SARUA policy dialogue in higher education. Such support will depend on the availability of trust funds and grants.
- *Common goods*
  - *Shared water resources.* The GEF project on SADC Groundwater and Drought Management, aimed at the development of an SADC regional strategic approach to support and enhance the capacity of its member states in the definition of drought management policies, specifically in relation to the role, availability, and supply of potential groundwater resources, is ongoing.

    The Bank also is currently involved in discussions on the Zambezi Basin Support Project to support the ongoing development of the necessary legal

and institutional context for cooperative and joint investments in the river basin. While the medium-term aim is to engage in the financing of joint and/or cooperative investments in the Basin, there is a need to engage in initial activities which will highlight the incentives for joint development and provide a clear indication of costs of noncollaborative unilateral development. After consultation with SADC and water basin institutions, the Bank expects to undertake initial ESW aimed at the identification of potential joint and cooperative investment projects in the Zambezi Basin. This work, should agreement be reached with SADC institutions, also will be done in collaboration with other bilateral and multilateral development partners.

- *Marine ecosystems.* Through a GEF proposal, the Bank is responding to country requests from Kenya, Tanzania, Mozambique, South Africa and Madagascar for assistance in better managing the living resources and habitat of their shared marine ecosystems. The Southwest Indian Ocean Fisheries Project (SWIOFP) is seen as the first phase of a long-term commitment to sustainable management of offshore marine fisheries in the Western Indian Ocean. Its objective is to develop sufficient knowledge and sufficient legal and institutional capacity to act on that knowledge to manage the fishery in the 200-mile Exclusive Economic Zones (EEZ) of the participating countries to obtain maximum economic returns from this resource, consistent with a management strategy that stresses environmental sustainability and socially equitable distribution of the benefits of exploitation. Another GEF project on a marine highway in the South Western Indian Ocean to preserve fragile ecosystems is being planned.

- *Common problems.*
  - *Food insecurity.* The Bank has responded in various ways to SADC requests for support. Ongoing work includes a PHRD grant for the Bank-supported Multicountry Agricultural Productivity Program, which is expected to address some of the constraints to improvement in agriculture productivity, and analytical work on the use of water for small-scale agricultural irrigation schemes around the Zambezi River Basin. Together with SADC, this work is to be completed with the design of a Basin Irrigation Strategy, apart from that for the respective countries, during the course of FY2007.
  - *Communicable diseases—HIV/AIDS.* The Bank has had limited involvement with SADC on HIV/AIDS, except for its extensive knowledge and administrative support for the SADC Extraordinary Summit on HIV/AIDS, and knowledge sharing initiatives by CD1. Preventing the transport corridors from being channels of transmission of HIV/AIDS is probably the top priority in the framework of regional integration. Together with the SADC Thematic Group of International Cooperating Partners, as well as the Pharmaceutical Working Group, the

Bank also plans to explore the potential for joint procurement of pharmaceutical products.

- *Enhancing institutional capacity in central regional integration institutions.* Having responded with two grants to SADC to address weaknesses in mandate and capacity, the Bank is working with other donors on a comprehensive response to SADC's institutional capacity needs as well as to address SADC fiduciary, monitoring and reporting and other requirements toward achieving the aid effectiveness objectives as outlined in the New SADC-International Cooperating Partnership Framework. The World Bank Institute also is preparing to work with South African institutions to support and scale up their capacity building initiatives in Southern Africa and the rest of Sub-Saharan as well as to build and strengthen institutional networking in the region and beyond.

Table A5.1: Coverage of World Bank strategic approaches to subregional integration in Africa

Subregion/ Countries	Strategic Priorities/ Sectors	Activities
East Africa—East African Community (EAC)		
Burundi Kenya Rwanda Tanzania Uganda *Neighboring:* DR Congo Ethiopia Sudan	**Integration of economies:** • Trade • Agriculture • Production networks • Services • Investment flows and capital markets • Labor markets and migration **Commons/public goods:** • Water • Wildlife • Forestry • Health (control of infectious diseases) **Economies of scale/coordination:** • Transport • Power supply and energy • Telecommunications • Tourism • Higher education	**Under preparation:** • Lake Victoria Environmental Project II **Pipeline:** • East African Power Master Plan • East Africa Submarine Cable System • Completion of East African Road Network Project **Requiring further analysis:** • Kagera River Basin and Rusumo Falls Hydroelectric Project • Transport links with northern neighbors • Regional Cooperation on cross-border HIV/AIDS prevention along East African corridors **Proposed analytical work:** • Trade expansion • Cotton-to-garment chain • Regional tourism chain • Regional labor markets • EAC trade policy • Regional water resource management
Central Africa—Communauté Economique et Monétaire de l'Afrique Centrale (CEMAC)		
Cameroon CAR Chad Congo Equatorial Guinea Gabon	**Strengthening CEMAC institutions** • Oil reserve management policy • Regional infrastructure • Trade policy and transit facilitation • Business environment, especially for private sector development	**Proposed analytical work:** • Macroeconomic management of oil reserves • Trade and transport issues • Financial sector • Business environment

Subregion/ Countries	Strategic Priorities/ Sectors	Activities
	• Public goods/cross-border externalities	**Financial sector:** • Regional Payments Project • Regional Institutions Support Project **Trade and transport:** • West and Central Africa Air Transport Safety and Security Project • CEMAC Trade and Transport Facilitation Project **Telecommunications** • Regional Infrastructure Project/Central African Broadband Backbone **Natural resource management:** • Lake Chad Water Basin Project
West Africa—Economic Community of West African States (ECOWAS)		
Benin Burkina Faso Cape Verde Côte d'Ivoire The Gambia Ghana Guinea Guinea-Bissau Liberia Mali Niger Nigeria Senegal Sierra Leone Togo	**Macroeconomic convergence:** **Integration of markets:** • Trade policy • Infrastructure services • Telecommunications • Energy • Business environment • Financial services **Institutional strengthening:** • Agricultural policy • Water resources management • Regional institutions	**Energy:** • West Africa Gas Pipeline ($50m IDA partial risk guarantee) • West Africa Power Pool ($40m credit to Ghana, $100m APL credits to Ghana and Benin) **Air transport:** • Analytical work on air transport liberalization ($800k in IDF grants to member countries) • Possible APL for Burkina Faso, Guinea, and Mali to improve air safety and security standards **Telecommunications:** • $279k PPIAF grant—analytical work on market integration (policy and regulatory frameworks) **Business environment:** • Regional IDF grant to cofinance (with ADB) reform of public procurement in UEMOA member states **Financial markets:** • 2 projects to develop integration of UEMOA financial markets (payments system and capital markets)

Subregion/ Countries	Strategic Priorities/ Sectors	Activities
		Agriculture: • IDF grant to support Agriculture Policy Network inst. capacity (phytosanitary norms and food quality) **Water resources:** • 3 GEF projects—sustainable land/water management in Niger and Senegal river basins and Lake Chad **Regional integration capacity building:** • IDF grant to support ECOWAS implementation of NEPAD agenda
Southern Africa—Southern African Development Community (SADC)		
Angola Botswana DR Congo Lesotho Madagascar Malawi Mauritius Mozambique Namibia South Africa Swaziland Tanzania Zambia Zimbabwe	**Market integration:** • Financial integration • Investment in Southern Africa **Improved competitiveness:** • Trade facilitation and transport • Energy • ICT **Natural Resources/climate change:** • Water • Other natural resources • Climate change **Capacity Building:** • M&E capacity • Capacity building/knowledge sharing	**Trade integration:** • Analytical work on COMESA trade integration (through trust fund) • Analytical work on strengthening SACU **Financial integration:** • IDF grant to support public sector accounting standards • Grant for harmonization of procurement systems in COMESA member states • Study of financial sector development strategy for SADC • Africa Trade Insurance Project **Transport:** • Joint analytical work with DfID with view to eventual lending for regional trade and transport facilitation **Telecommunications:** • EASSy Project **Energy:** • $500m APL for Southern Africa Power Market Development Project • Analytical work on energy sector **Education and services:** • Trust fund for regional higher education pilot project **Shared water resources:** • GEF project for SADC groundwater and drought management • Initial activities on Zambezi River Basin Support Project (trust fund and Bank budget support)

Subregion/ Countries	Strategic Priorities/ Sectors	Activities
		Marine ecosystems: • GEF proposal to support participation of Kenya, Tanzania, Mozambique, South Africa, and Madagascar in Southwest Indian Ocean Fisheries Project • Possible GEF project to protect fragile ecosystems in Southwest Indian Ocean marine highway **Food insecurity:** • PHRD grant to prepare Bank-supported Multicountry Agricultural Productivity Project **Communicable diseases:** • Knowledge and administrative support for SADC Extraordinary Summit on HIV/AIDS • Possible partnership with other donors for joint procurement of pharmaceutical products **Regional capacity building:** • Two grants to address SACD mandate and capacity weaknesses • Further work with other donors to address SADC fiduciary and monitoring requirements • WBI partnerships with South African institutions to scale up capacity building in neighboring countries.

Table A5.2: East Africa: Key Economic Indicator

	Burundi	Kenya	Rwanda	Tanzania	Uganda	Total/ Average
Population (million)	6.37	33.83	8.44	36.77	27.27	112.68
Size of country (thousand square kilometers)	27.83	582.65	26.34	945.09	236.04	1817.951
Income**						
GDP (USD million)	0.66	15.6	1.8	10.9	6.8	35.76
Average Annual GDP Growth 1994–2004	0.3	1.6	9.1	5	6.4	4.48
GNI Per Capita (Atlas method)	90	460	220	330	270	274
Average Annual GDP Per Capita Growth 1994–2004	-1.6	-0.6	4	2.5	3.5	1.56
Structure of the economy (% of GDP)**						
Agriculture	51.4	15.7	40.5	44.8	32.2	36.92
% Change 1994-2004	4.6	-17.6	-9.3	-0.2	-17.7	-8.4
Industry	20	19.7	21.5	16.7	21.2	19.82
% Change 1994-2004	-2.5	2.5	0.3	1.6	7.3	1.84
Services	28.6	64.5	38.1	38.6	46.6	43.28
% Change 1994-2004	-2.1	15.1	9	-1.3	10.4	6.22
*From CIA fact books 2005. **From World Bank at-a-glance tables; data for 2004 unless otherwise indicated.						

Table A5.3: Exports from Burundi, Kenya, Rwanda, Tanzania, and Uganda, 2004

Burundi		**Kenya**		**Rwanda**	
Total Exports (USD Million)	**33.2**	**Total Exports (USD Million)**	**24757**	**Total Exports (USD Million)**	**726**
	(%)		(%)		(%)
Coffee, tea, and spices.	75.0	Coffee, tea, and spices	19.4	Coffee, tea, and spices	53.0
Pearls, precious stones	14.6	Live trees other plants	14.0	Ores, slag, and ash	39.2
Live trees other plants	1.5	Mineral fuels, oils	8.9	Raw hides and skins	1.5
Wood and articles of wood	1.4	Apparel clothing (suits)	8.8	Elect machinery and parts	0.7
Apparel clothing (t-shirts)	1.1	Edible vegetables	7.8	Man-made staple fibers	0.7
Ores, slag, and ash.	1.0	Prepared vegetables, fruit, nuts	3.8	Toys, games sports requisites	0.7
Mineral fuels, oils	0.6	Fish crustaceans	3.6	Live tree, plant, bulb, root	0.7
Boilers, machinery	0.5	Apparel clothing (jerseys)	3.5	Pearls, precious stones	0.4
Fish crustaceans	0.5	Edible fruit and nuts	2.7	Aircraft, spacecraft, and parts	0.4
Raw hides and skins	0.4	Salt, sulphur, earth plaste	2.1	Boilers, machinery	0.4
Apparel clothing access (shirts)	0.4	Raw hides and skins	2.0	Vehicles, railway	0.3
Tobacco	0.3	Iron and steel	1.8	Optical measuring equipment	0.2
Wool, fine/coarse animal hair	0.3	Prepared meat, fish, or crustaceans	1.4	Textile articles	0.2
Oil seed, oleagi fruits	0.2	Aircraft, spacecraft, and parts	1.3	Organic chemicals	0.2
Articles of iron or steel	0.2	Paper paperboard	1.1	Edible fruit and nuts	0.2
All other	2.0	All other	17.8	All other	1.2

Tanzania		Uganda	
Total exports (USD Million)	**9818**	**Total Exports (USD Million)**	**4589**
	(%)		(%)
Fish, crustaceans	16.0	Coffee, tea, and spices	30.6
Mineral fuels, oils	11.9	Fish crustaceans	26.6
Tobacco	8.8	Tobacco	12.5
Ores, slag and ash	8.1	Live trees other plants	8.1
Coffee, tea, and spices	7.8	Cotton	6.1
Pearls, precious stones	7.6	Other base metals; cermets	2.7
Cotton	6.5	Raw hides and skins	2.4
Edible fruit and nuts	6.4	Edible vegetables	1.3
Edible vegetables	2.9	Cereals	1.2
Oil seed, oleagi fruits	2.9	Pearls, precious stones	1.0
Wood and articles of wood	2.3	Clothing	1.0
Live trees other plants	2.0	Cocoa and cocoa preparations	0.8
Sugars, confectionery	1.8	Oil seed, oleagi fruits	0.8
Copper and articles thereof	1.6	Elect machinery and parts	0.8
Iron and steel	1.4	Boilers, machinery	0.5
All other	12.0	All other	3.6
Source: UNCOMTRADE Database HS 2002, 2-digit; using partner country reports.			

Table A5.4: Regional Trade Flows in East Africa, 1999-2004

USD Million	1999	2000	2001	2002	2003	2004	% change in regional trade	% change in total trade	% change in regional trade as fraction of total
Burundi							(%)	(%)	(%)
Exports	2.6	5.9	10.7	4.1	4	7.5	190	-12	228
Imports	13.9	32.1	22	31.1	53	50.9	266	31	180
Kenya									
Exports	474	369.2	291.2	464.9	721.2	805.3	70	63	4
Imports	11.4	18.9	13.9	18.9	28.7	38.1	235	64	105
Rwanda									
Exports	42.5	0	31.5	19.4	39.3	[39.3]	-7	-7	-1
Imports	78.6	0	80.6	91.8	109.4	[109.4]	39	4	34
Tanzania									
Exports	53.2	46.1	51.6	52.3	145.4	166.7	213	47	113
Imports	108.7	94.4	107.5	98.9	125.6	138.1	27	59	-20
Uganda									
Exports	56	79.7	87.4	86.9	30	132.5	137	22	93
Imports	253.8	295.9	288	321.2	368.1	359.3	42	63	-13
All									
Exports	628.3	500.9	472.4	627.7	939.9	1151.3	83	50	22
Imports	466.4	441.4	511.9	561.8	684.8	695.8	49	59	-6
Kenya's share of E.A. Exports	75	74	62	74	77	70			
Source: UNCOMTRADE data.									
Note: *Rwanda failed to report to UNCOMTRADE in 2004 so 2003 data were used for 2004 notionally.									

Table A5.5: Proposed Core and NonCore activities: Regional Integration Assistance Strategy for Central Africa, 2003

Domain	Integration	Cooperation
Core Activities	**Trade Policies—Customs Union** • Phase I: Corrective action plan • Phase II: Customs union reform **Financial Sector** • Banking sector monitoring • Microfinance development • Bills and bonds market • Institutional strengthening • Support to the Executive Secretariat • Monitoring programs	**Infrastructure** • Transport and trade facilitation • Regional road links • Air safety and regulation **Human Resources** • Regional HIV-AIDS
NonCore Activities	**Macroeconomic** • Monitoring policy convergence and surveillance units work • Export volatility study **Business Environment** • Legal and regulatory framework • Competitiveness observatory **Financial Sector** • BDEAC • Regional stock exchange	**Infrastructure** • Telecommunications Policy Harmonization • Energy (Power) strategy **Forestry/Water** • Support to COMIFAC/REIMP-II • Lake Chad Basin **Human Resources** • Higher education and training
Contingent Activities	Long-term issues studies	

Source: World Bank Report No. 25328, 28.

Table A5.6: ECOWAS: Basic Indicators, 2003

	Population	Density	Population Growth Rate	2015 Population Projection	Area	GNP	Per Capita GNP	GDP
	(Million)	person/ sq. mile	%	(Million)	sq. km	Billion USD	USD	Million USD
Benin	6.7	61	2.7	9.0	122,622	3.0	440	3,476
Burkina Faso	12.1	44	2.4	15.6	274,000	3.6	300	4,182
Cape Verde	0.5	19		0.6	4,033	0.7	1440	800
Côte d'Ivoire	16.8	53	2.7	20.2	322,463	11.2	660	13,734
Gambia	1.4	142	3.3	1.8	11,295	0.4	310	395
Ghana	20.4	90	2.3	25.8	238,533	6.6	320	7,624
Guinea	7.9	32	2.4	9.8	245,857	3.4	430	3,630
Buinea Bissau	1.5	53	2.9	2.0	36,125	0.2	140	239
Liberia	3.4	35	2.5	4.4	111,369	0.4	130	442
Mali	11.7	10	2.6	15.6	1,240,192	3.4	290	4,326
Niger	11.8	9	3.3	16.3	1,267,000	2.4	200	2,731
Nigeria	135.6	149	2.7	173.8	923,768	43.0	320	58,390
Senegal	10.0	52	2.6	13.0	196,722	5.6	550	6,496
Sierra Leone	5.3	75	2.2	6.7	71,740	0.8	150	793
Togo	4.9	89	2.6	6.2	56,785	1.5	310	1,759
ECOWAS	250.0			320.8	112,504	86.2	344	109,017
Source: World Bank Atlas and World Bank Indicators								

Table A5.7: Number of Procedures and Days Required to Start a Business, Register Property, and Enforce Contracts in ECOWAS

Country	Rank	Start Business		Register Property		Enforce Contract	
		Procedures	Days	Procedures	Days	Procedures	Days
Benin	129	8	32	3	50	49	570
Burkina	154	13	135	8	107	41	458
Côte d'Ivoire	145	11	58	7	340	34	525
Ghana	82	12	85	7	382	23	200
Guinea	144	13	49	6	104	44	306
Mali	146	13	42	5	44	28	340
Niger	150	11	27	5	49	33	330
Nigeria	94	10	44	21	274	23	730
Senegal	132	9	57	6	114	36	485
Sierra Leone	136	9	26	8	58	58	305
Togo	149	13	53	6	212	37	535
Best Performers		2	2	1	1	11	27
Source: Doing Business 2006, IFC							

Table A5.8: Number of Documents, Signatures, and Days for Cross Border Trade in ECOWAS

		Export			Import		
Country	**Rank**	**Documents**	**Signatures**	**Days**	**Documents**	**Signatures**	**Days**
Benin	104	8	10	36	11	14	49
Burkina	136	9	19	71	13	37	66
Côte d'Ivoire	110	7	11	21	16	21	48
Ghana	108	6	11	47	13	13	55
Guinea	118	7	11	43	12	23	56
Mali	148	10	33	67	16	60	61
Niger	154	--	--	--	19	52	89
Nigeria	139	11	39	41	13	71	53
Senegal	46	6	8	23	10	12	26
Sierra Leone	85	7	8	36	7	22	39
Togo	99	8	8	34	11	14	43
Denmark	1	3	2	5	3	1	5
Source: Doing Business 2006, IFC							

Table A4.9: Population, Income, and Land Area in SADC

	Population (millions)	**GNI per capita (Atlas method, US$)**	**GNI (Atlas method, US$ billions)**	**Surface area (sq. km)**	**Urban population (% of total)**
Angola	14	1,030	14.4	1,247	35.7
Botswana	1.7	4,340	7.5	582	51.6
DRC	54.8	120	6.6	2,345	31.8
Lesotho	1.8	740	1.3	30	18
Madagascar	17.3	300	5.2	587	26.6
Malawi	11.2	180	2	118	16.3
Mauritius	1.2	4.64	5.7	2	43.3
Mozambique	19.1	250	4.8	802	35.6
Namibia	2	2,370	4.8	824	32.4
South Africa	45.8	3,650	166.4	1,221	56.9
Swaziland	1.1	1.66	1.9	17	23.6
Tanzania	36.6	330	---	945	35.4
Zambia	10.5	440	4.6	753	35.9
Zimbabwe	13.2	610	8	391	35
SADC	**234,1**	**1,350**	**315**	**9,864**	
Source: World Bank Database					

Table A5.10: SADC Imports, 2001

	SADC	Rest of Africa	EU	NAFTA	South America	East Asia	South Central Asia	South East Asia	Rest of the world	Total
Imports by Source in 2001 (Thousand USD)										
Botswana	1,354,913	811	156,191	34,358	0	27,012	6,552	7,416	144,934	1,732,188
Malawi	320,729	7,014	84,198	29,292	9,718	50,393	33,481	9,014	17,757	561,597
Mauritius	243,882	63,759	551,989	66,045	32,500	323,957	191,269	173,139	345,272	1,991,812
Namibia	1,343,101	2,119	92,812	14,423	13,059	24,487	3,709	15,174	40,967	1,549,851
Seychelles	16,661	1,448	74,740	123,314	184	6,634	5,572	13,867	15,956	258,374
South Africa	313,389	375,365	8,385,374	2,801,495	510,447	3,155,678	284,082	845,627	5,013,695	21,685,153
Swaziland	712,959	21	7,966	1,570	956	24,888	343	2,043	77,827	828,573
Tanzania	220,375	120,960	380,934	86,987	11,910	244,478	103,918	116,417	443,567	1,729,545
Zambia	743,936	9,320	268,336	11,191	9,185	88,096	27,900	15,746	127,511	1,301,221
Zimbabwe	1,057,837	6,220	190,308	49,974	15,278	71,178	15,243	32,963	256,484	1,695,485
SADC	6,327,783	587,037	10,192,847	3,218,649	603,236	4,016,802	672,069	1,231,407	6,483,970	33,333,799
Weighted Average Annual Import Growth 1997-2002										
Botswana	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Malawi	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Mauritius	6.2%	-4.1%	-5.8%	-2.2%	5.8%	-2.6%	-5.4%	3.8%	3.4%	-1.4%
Namibia	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Seychelles	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
South Africa	-3.2%	31.6%	-2.9%	-3.3%	2.6%	1.2%	18.2%	-0.5%	-3.0%	-1.2%
Swaziland	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Tanzania	-24.7%	0.5%	0.2%	-64.3%	0.0%	-46.7%	-77.3%	-49.7%	29.2%	4.4%
Zambia	9.9%	26.2%	11.7%	-3.5%	17.4%	10.6%	5.1%	-1.7%	-22.3%	5.3%
Zimbabwe	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
SADC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Share of SADC's Imports from Source in 2001										
Botswana	21.4%	0.1%	1.5%	1.1%	0.0%	0.7%	1.0%	0.6%	2.2%	5.2%
Malawi	5.1%	1.2%	0.8%	0.9%	1.6%	1.3%	5.0%	0.7%	0.3%	1.7%
Mauritius	3.9%	10.9%	5.4%	2.1%	5.4%	8.1%	28.5%	14.1%	5.3%	6.0%
Namibia	21.2%	0.4%	0.9%	0.4%	2.2%	0.6%	0.6%	1.2%	0.6%	4.6%
Seychelles	0.3%	0.2%	0.7%	3.8%	0.0%	0.2%	0.8%	1.1%	0.2%	0.8%

	SADC	Rest of Africa	EU	NAFTA	South America	East Asia	South Central Asia	South East Asia	Rest of the world	Total
South Africa	5.0%	63.9%	82.3%	87.0%	84.6%	78.6%	42.3%	68.7%	77.3%	65.1%
Swaziland	11.3%	0.0%	0.1%	0.0%	0.2%	0.6%	0.1%	0.2%	1.2%	2.5%
Tanzania	3.5%	20.6%	3.7%	2.7%	2.0%	6.1%	15.5%	9.5%	6.8%	5.2%
Zambia	11.8%	1.6%	2.6%	0.3%	1.5%	2.2%	4.2%	1.3%	2.0%	3.9%
Zimbabwe	16.7%	1.1%	1.9%	1.6%	2.5%	1.8%	2.3%	2.7%	4.0%	5.1%
SADC	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Source's Share of Total Imports in 2001										
Botswana	78.2%	0.0%	9.0%	2.0%	0.0%	1.6%	0.4%	0.4%	8.4%	100.0%
Malawi	57.1%	1.2%	15.0%	5.2%	1.7%	9.0%	6.0%	1.6%	3.2%	100.0%
Mauritius	12.2%	3.2%	27.7%	3.3%	1.6%	16.3%	9.6%	8.7%	17.3%	100.0%
Namibia	86.7%	0.1%	6.0%	0.9%	0.8%	1.6%	0.2%	1.0%	2.6%	100.0%
Seychelles	6.4%	0.6%	28.9%	47.7%	0.1%	2.6%	2.2%	5.4%	6.2%	100.0%
South Africa	1.4%	1.7%	38.7%	12.9%	2.4%	14.6%	1.3%	3.9%	23.1%	100.0%
Swaziland	86.0%	0.0%	1.0%	0.2%	0.1%	3.0%	0.0%	0.2%	9.4%	100.0%
Tanzania	12.7%	7.0%	22.0%	5.0%	0.7%	14.1%	6.0%	6.7%	25.6%	100.0%
Zambia	57.2%	0.7%	20.6%	0.9%	0.7%	6.8%	2.1%	1.2%	9.8%	100.0%
Zimbabwe	62.4%	0.4%	11.2%	2.9%	0.9%	4.2%	0.9%	1.9%	15.1%	100.0%
SADC	19.0%	1.8%	30.6%	9.7%	1.8%	12.1%	2.0%	3.7%	19.5%	100.0%
Source: UNComTrade, 0% growth rated assigned where any period observations are missing										

Table A5.11 SADC Exports, 2002

	SADC	Rest of Africa	EU	NAFTA	South America	East Asia	South Central Asia	South East Asia	Rest of world	Total
Exports by Destination in 2002 (Thousand USD)										
Angola	12,235	33,656	2,111,842	3,270,619	13,539	1,659,362	7,162	63,689	47,476	7,219,579
Botswana	51,641	280	1,593,328	30,481	37	579	45	22	81,082	1,757,497
DRC	6,143	0	1,133,893	209,947	604	44,313	57	882	1,395,839	0
Lesotho	350	1,601	3,974	346,268	2	310	5	77	415	353,002
Malawi	51,752	10,992	153,300	81,236	1,419	26,695	1,729	10,610	80,674	418,407
Mauritius	40,026	5,512	1,169,430	309,845	3,993	24,938	17,157	7,494	34,626	1,613,022
Mozambique	98,898	5,278	646,716	9,349	3,395	72,440	27,643	5,873	13,539	883,132
Namibia	6,807	2,492	597,550	76,591	153	56,989	3,251	1,040	28,889	773,763
Seychelles	34,303	5,477	249,256	25,353	99	23,599	3,730	1,367	4,300	347,484
South Africa	2,899,278	563,416	12,997,068	4,520,015	374,530	4,916,084	2,161,353	529,630	2,427,093	31,388,466
Swaziland	16,321	39,107	115,652	129,721	984	82,210	458	5,695	57,158	447,305
Tanzania	28,583	32,995	277,649	28,192	1,112	126,818	90,856	17,644	38,765	642,614
Zambia	102,643	7,210	85,778	9,029	188	120,345	14,687	15,004	150,574	505,457
Zimbabwe	302,253	37,968	558,404	115,106	11,234	300,256	16,528	24,924	127,664	1,494,336
SADC	3,651,231	745,985	21,693,841	9,161,751	411,288	7,454,939	2,344,658	683,952	4,488,093	47,844,063
Weighted Average Annual Export Growth 1997-2002										
Angola	12.8%	99.6%	30.9%	5.5%	-22.6%	22.5%	0.0%	211.8%	-9.5%	13.6%
Botswana	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
DRC	-8.6%	0.0%	6.6%	-5.8%	-44.4%	-9.7%	-71.3%	-14.8%	0.0%	0.0%
Lesotho	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Malawi	-12.7%	32.9%	-7.1%	0.6%	-28.3%	-3.6%	36.7%	51.9%	-1.0%	-4.6%
Mauritius	44.2%	-23.1%	-2.2%	3.0%	-3.4%	-4.7%	28.4%	-20.4%	5.0%	-0.8%
Mozambique	24.2%	9.4%	45.3%	-23.1%	47.5%	20.5%	-2.7%	44.6%	24.5%	32.1%
Namibia	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Seychelles	72.1%	9.6%	25.4%	76.6%	239.3%	36.3%	0.0%	47.1%	21.2%	30.3%
South Africa	49.7%	-4.4%	3.8%	8.1%	-9.0%	-4.2%	18.2%	-0.6%	4.6%	5.4%
Swaziland	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Tanzania	16.7%	-4.4%	2.1%	-2.4%	67.2%	2.9%	-2.0%	-14.3%	-1.4%	0.1%
Zambia	17.3%	22.1%	-19.1%	-38.0%	-32.8%	-2.9%	-32.0%	-12.9%	47.9%	-6.0%
Zimbabwe	2.8%	-4.0%	-8.5%	-8.4%	11.4%	1.4%	1.5%	-2.1%	-4.4%	-4.0%
SADC	36.9%	-2.3%	7.3%	7.2%	-9.4%	0.4%	13.7%	0.0%	7.4%	7.3%

	SADC	Rest of Africa	EU	NAFTA	South America	East Asia	South Central Asia	South East Asia	Rest of world	Total
Share of SADC's Exports to Destination in 2002										
Angola	0.3%	4.5%	9.7%	35.7%	3.3%	22.3%	0.3%	9.3%	2.8%	15.1%
Botswana	1.4%	0.0%	7.3%	0.3%	0.0%	0.0%	0.0%	0.0%	4.8%	3.7%
DRC	0.2%	0.0%	5.2%	2.3%	0.1%	0.6%	0.0%	0.1%	31.1%	0.0%
Lesotho	0.0%	0.2%	0.0%	3.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.7%
Malawi	1.4%	1.5%	0.7%	0.9%	0.3%	0.4%	0.1%	1.6%	4.8%	0.9%
Mauritius	1.1%	0.7%	5.4%	3.4%	1.0%	0.3%	0.7%	1.1%	2.0%	3.4%
Mozambique	2.7%	0.7%	3.0%	0.1%	0.8%	1.0%	1.2%	0.9%	0.8%	1.8%
Namibia	0.2%	0.3%	2.8%	0.8%	0.0%	0.8%	0.1%	0.2%	1.7%	1.6%
Seychelles	0.9%	0.7%	1.1%	0.3%	0.0%	0.3%	0.2%	0.2%	0.3%	0.7%
South Africa	79.4%	75.5%	59.9%	49.3%	91.1%	65.9%	92.2%	77.4%	54.1%	65.6%
Swaziland	0.4%	5.2%	0.5%	1.4%	0.2%	1.1%	0.0%	0.8%	3.4%	0.9%
Tanzania	0.8%	4.4%	1.3%	0.3%	0.3%	1.7%	3.9%	2.6%	2.3%	1.3%
Zambia	2.8%	1.0%	0.4%	0.1%	0.0%	1.6%	0.6%	2.2%	8.9%	1.1%
Zimbabwe	8.3%	5.1%	2.6%	1.3%	2.7%	4.0%	0.7%	3.6%	7.5%	3.1%
SADC	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Destination's Share of Total Exports in 2002										
Angola	0.2%	0.5%	29.3%	45.3%	0.2%	23.0%	0.1%	0.9%	0.7%	100.0%
Botswana	2.9%	0.0%	90.7%	1.7%	0.0%	0.0%	0.0%	0.0%	4.6%	100.0%
Lesotho	0.1%	0.5%	1.1%	98.1%	0.0%	0.1%	0.0%	0.0%	0.1%	100.0%
Malawi	12.4%	2.6%	36.6%	19.4%	0.3%	6.4%	0.4%	2.5%	19.3%	100.0%
Mauritius	2.5%	0.3%	72.5%	19.2%	0.2%	1.5%	1.1%	0.5%	2.1%	100.0%
Mozambique	11.2%	0.6%	73.2%	1.1%	0.4%	8.2%	3.1%	0.7%	1.5%	100.0%
Namibia	0.9%	0.3%	77.2%	9.9%	0.0%	7.4%	0.4%	0.1%	3.7%	100.0%
Seychelles	9.9%	1.6%	71.7%	7.3%	0.0%	6.8%	1.1%	0.4%	1.2%	100.0%
South Africa	9.2%	1.8%	41.4%	14.4%	1.2%	15.7%	6.9%	1.7%	7.7%	100.0%
Swaziland	3.6%	8.7%	25.9%	29.0%	0.2%	18.4%	0.1%	1.3%	12.8%	100.0%
Tanzania	4.4%	5.1%	43.2%	4.4%	0.2%	19.7%	14.1%	2.7%	6.0%	100.0%
Zambia	20.3%	1.4%	17.0%	1.8%	0.0%	23.8%	2.9%	3.0%	29.8%	100.0%
Zimbabwe	20.2%	2.5%	37.4%	7.7%	0.8%	20.1%	1.1%	1.7%	8.5%	100.0%
SADC	7.6%	1.6%	45.3%	19.1%	0.9%	15.6%	4.9%	1.4%	3.5%	100.0%
Source: UNComTrade, 0% growth rated assigned where any period observations are missing										

APPENDIX VI.
CAS REVIEW FY2000–FY08

1. This review includes all the Country Assistance Strategies (CAS), Interim Strategy Notes (ISN), and Country Partnership Strategies (CPS) from FY00 to FY08 (through December 2007) available in the Bank's IRIS system.[1] The research encompasses the review of 66 documents (39 CASs, 24 ISNs, and 3 CPS), all of which will be referred to as "CASs" in the following lines and tables and which can be divided by year as follows:

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008
No	7	5	3	8	10	10	4	15	4

2. Only 39 of 47 Sub-Saharan African countries[2] could be included in the review, as no CASs were available for 8 countries (Botswana, DRC, Equatorial Guinea, Guinea-Bissau, Seychelles, South Africa, Swaziland, and Togo).

3. The criteria to establish whether and to what extent regional integration issues and considerations appear in the documents become more specific as the review goes deeper. We begin by simply reviewing whether regional integration considerations are mentioned in the documents. Second, we verify whether regional integration is specifically mentioned in the Bank's strategy. Then we go a step further and see if the Bank's lending programs also include regional projects. Subsequently, we observe whether regional integration projects' impacts are reflected in the results matrix and/or in spillover effects. Last, we see whether regional integration considerations also are reflected in other programmed activities. Table A6.1 summarizes the results of the CAS review.

Table A6.1: Results: SSA CAS Review FY2000–FY08

Criteria	FY00-FY01		FY02-FY03		FY04-FY05		FY06-FY08		TOT	
	No	%	No	%	No	%	No	%	No	%
CASs reviewed	12		11		20		23*	*	66	
RI issues mentioned	5	42	6	55	13	65	19	83	43	65
RI mentioned in Bank's strategy	4	33	3	27	12	60	17	74	36	55
RI projects occur in lending program	3	25	3	27	11	55	15	65	32	48
RI projects impact reflected in results matrix and/or the spill-over effects	0	0	2	18	7	35	10	43	19	29
RI considerations reflected in other programmed activities	0	0	1	9	5	25	0	0	**6**	**9**

Note: *= To Dec 2007.

[1] FY 08 until December 2007.

[2] Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo Republic of, Côte d'Ivoire, Democratic Republic of the Congo, Equatorial Guinea, Eritrea, Ethiopía, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Níger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, Sudan, Swaziland, Togo, Uganda, United Republic of Tanzania, Zambia, and Zimbabwe.

4. The percentages in the table are relative to the number of CASs reviewed in each of the four periods considered. They show that, even though regional integration considerations are included in 65 percent of CASs and regional projects are included in 48 percent of lending programs, only 9 percent of CASs reflects regional integration considerations in other programmed activities. The 6 CASs included in this percentage are FY03 Malawi; FY04 Cameroon, Ghana, Kenya, Mozambique; and FY05 Burkina Faso. However, looking at the repetition of the documents over the years, clearly attention to the issue is growing. Sixty-five percent of CASs included regional projects in their lending programs in FY06–FY08, compared with 25 percent in FY00–FY01.

APPENDIX VII. REGIONAL IMPLEMENTATION PLAN FOR RIAS-- INITIAL GUIDELINES ON PROCESS AND CONTENT[1]

A. Country Groupings

1. The regional implementation plans (RIPs) are expected to cover the following four subregions:

- West Africa: Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone and Togo
- Central Africa: Cameroon, Central African Republic, Chad, Equatorial Guinea, Gabon, Democratic Republic of Congo and Republic of Congo
- East Africa: Burundi, Comoros, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Rwanda, Seychelles, Sudan, Tanzania, Uganda, Zambia and Zimbabwe
- Southern Africa: Angola, Botswana, Lesotho, Mauritius, Madagascar, Namibia, South Africa and Swaziland.

B. Frequency, Roles, Responsibilities and Processes

2. The implementation plans are expected to be prepared on a two-year rolling basis, with the first batch finalized in FY09, the next batch in FY11, etc. The preparation of RIPs should be timed so that they can inform the budget/business planning process that is, be finalized in the 3rd quarter of the fiscal year. It is proposed that the first batch of regional implementation plans be including as part of the proposed mid-term implementation review of RIAS, to be discussed with the Board in FY10.

3. The Regional Integration Department will be responsible for initiating the RIPs and developing these jointly with the concerned Country Departments. Country Directors or their designate will be co-responsible for establishing and leading the team that will prepare their RIP. Preparation of each RIP will involve relevant departments in IFC and MIGA and will be coordinated with the regional operational plans of other partners, the ADB in particular.

4. The process of preparing a RIP will be initiated with a Concept Note, which, upon approval from the Director of the Regional Integration Department and the relevant Country Directors, will serve to launch the process. The RIP will be considered final following review and approval by the respective Directors involved of the fully elaborated regional plan, including as regards arrangements for monitoring and evaluation.

5. The Concept Note is expected succinctly to set out: (i) regional strategic objectives among the group of countries concerned (or subgroups among them); (ii) the extent to which these are formalized in existing regional strategic plans and national Poverty Reduction Strategies; (iii) regional priorities expressed in the CAS of the concerned countries; (iv) the tentative pipeline of regional projects and knowledge activities responding to these priorities; (v)

[1] It is envisaged that these initial guidelines will be revised and updated in view of experiences gained as implementation plans are actually prepared and executed.

opportunities to further leverage country programs through regional activities, and to create additional regional public goods; (vi) views on the capacity needs of the concerned REC and other regional bodies in the areas of focus of the RIP, and how these needs can be addressed; (v) the proposed lending envelope available for the subregion (for the two-year period); (vi) quality challenges associated with the existing portfolio and how risks can be addressed; (vii) a proposed monitoring and evaluation framework; (viii) staff and budget resources needed to prepare the RIP; (vii) resources needed to implement the plan; and (ix) a timeframe for producing the RIP.

C. Objective, Coverage and Content of Regional Implementation Plans

6. ***Objectives:*** The overarching aim of each RIP will be to establish the Bank's lending and nonlending program of activities in support regional integration for the subregion within the parameters set out by RIAS strategic framework. In addition, the RIP will serve to ensure:

- Subregional adaptation of RIAS, to cast the strategy's continent-wide strategic framework more specifically within the political economy of a neighborhood of countries; hence to identify and provide a priority ordering of regional integration priorities among the countries concerned. This will enable country teams to coordinate CAS objectives and business plans in areas in which regional solutions hold potential to strengthen outcomes at the national level, or which facilitate creation of important regional public goods not achievable through national action alone.
- That regional integration priorities and regional issues of particular importance are brought to the attention of the Bank's country teams and national authorities, and progressively reflected in CAS and Bank country programs.
- By including the IFC and MIGA in the RIP team, that World Bank Group collaboration and solutions are strengthened with a view to leverage assistance to regional integration and regional programs.
- That explicit emphasis is given to: (i) developing strategic partnerships to leverage RIAS in each subregion, including with MICs; and (ii) capacity development of regional policy bodies.

7. ***Coverage and Content:*** The RIPs will be brief and succinct (10-12 pages approximately) and will cover the following elements:

(i) *Background:* Brief background on key developments, recent events in the subregion of relevance to regional integration and/or regional programs notably as they concern economic integration, regional connectivity (transport, energy, telecommunication, etc.), macroeconomic stability and financial integration as well as developments in areas related to regional public goods, shared natural resources, etc. A brief account of main challenges facing the REC and other regional bodies should also be provided.

(ii) *Key Issues of Relevance to Regional Integration/Programs:* The RIP should briefly discuss and present key challenges and opportunities for the regional integration agenda in the subregion, regrouped with the three pillars and cross-

cutting theme of RIAS (that is, regional infrastructure, institutional cooperation for economic integration, coordinated interventions to provide regional public goods, and regional strategic planning and connections with national development plans, including regional bodies and RECs). For the identified issues, the RIP should briefly discuss the extent to which the opportunities and challenges are perceived by national or regional authorities (and identify which authorities), whether any actions are being taken or envisaged, engagement of other development partners and donors, etc.

(iii) *Proposed Bank Activity Program:* Based on the foregoing discussion and taking into account the tentative project & AAA pipeline, the RIP should present in detail:

a. Projects to be financed through topping-up for the Regional Program for the ensuing two fiscal years (that is, for the first RIP, for FY10-FY11), specifying funding commitments from the Regional Integration Department and concerned Country Departments.

b. AAA program for the period, providing details on main activities pieces and with suggestions regarding financing.

c. Implications for developing the regional aspect of CAS and country programs going forward, including how and in what specific adjustments are needed in light of the RIP

d. Specific suggestions for collaboration with the IFC and MIGA and details on how these will be turned into action.

8. ***Results Framework:*** The RIP will include a results based monitoring and evaluation framework, which takes as point of departure the draft framework developed for RIAS *(and presented in Appendix VIII of RIAS*). Each RIP will propose adjustments and refinements in view of the implementation plans themselves. Furthermore, the RIP will include plans progressively to harmonize the monitoring and evaluation framework with those of the concerned CAS, with the objective of full harmonization by the end of the IDA 15 period.

APPENDIX VIII: RESULTS FRAMEWORK FOR THE REGIONAL IMPLEMENTATION PLANS

Regional Level Long Term Development Goals		Outcomes Influenced by RIAS		Bank Programs and Partnerships
Strategic Regional Goals	**Challenges/ Issues**	**RIAS Outcomes/ Outcome Indicators**	**Milestones (Intermediate Outcome Indicator, Activities, Outputs)**	**Lending, Grants, Guarantees and AAA**
Pillar I: Regional Infrastructure ***Long-term impact: Improved cross-border physical connectivity***				
Expand and Upgrade Road Networks and Transit Corridors (AAP VI) *Development of an integrated, efficient, cost-effective and adequate transport system for economic growth, trade facilitation and meeting MDGs.* *(AU/NEPAD-APF Joint Action Plan)*	• Poorly developed and maintained transport and logistics systems • High transport costs (the highest among developing countries) and delays • Inefficient transport practices • Weak coordination among donors	**1. Reduced physical and nonphysical barriers along the main <u>roads</u> corridor** • Reduced transport time through the main corridors • Increased traffic volume in main corridors • Border Post Harmonization	• Number of Km of intraregional network road paved • Number of KM of intraregional network road rehabilitated	
		2. Improved ports efficiency • Port dwell time (standard 20-foot TEU) (days) • Container terminal productivity in main ports (Number of TEU per Crane per Hour)	• Number of ports rehabilitated	
		3. Improved railway services along rail corridors • Reduced number of KMs of track subjected to slow downs for more than 90 days. • Number of operational rail concessions	• Number of Km of rail tracks rehabilitated along main transportation corridors	

Regional Level Long Term Development Goals		Outcomes Influenced by RIAS		Bank Programs and Partnerships
Strategic Regional Goals	**Challenges/ Issues**	**RIAS Outcomes/ Outcome Indicators**	**Milestones (Intermediate Outcome Indicator, Activities, Outputs)**	**Lending, Grants, Guarantees and AAA**
		4. Improved civil aviation and airport safety and security in main international airports • Compliance rate with ICAO/CAA's security standards. • Compliance rate with ICAO/CAA's safety standards.	• ICAO recommendations enforced in Safety and Security • Establishment of subregional civil aviation safety and security oversight organizations • Number of airports improved	
Improve Access to and Reliability of Clean Energy (AAP V) *Secure reliable and affordable access to energy for social and economic development (AU/NEPAD-APF Joint Action Plan)*	• Energy access gap due to high electricity prices and unreliable connections. • High cost of establishing power generation and transmission infrastructure • Lack of adequate structure • High cost of power in the region	**1. Increased cross border power trade among countries** • Quantity (MW) and value of electricity traded between countries • Power supply reliability within countries **2. Enhanced reliability of the interconnected grid.** • Percent of power loss along the principal transmission interconnection links • Number of power outages within the principal transmission interconnection **3. Improved power connectivity among countries** • Number of inter-connections within regional systems **4. Cost-effective systems in place** • Unit cost of traded power	• Effective electricity trading mechanisms in place • Number of harmonized Regional Regulatory Energy Framework • Number of countries with upgraded transmission lines interconnected. • Establishment of power pooling mechanism • MW of power generated per country	

Regional Level Long Term Development Goals		Outcomes Influenced by RIAS		Bank Programs and Partnerships
Strategic Regional Goals	**Challenges/ Issues**	**RIAS Outcomes/ Outcome Indicators**	**Milestones (Intermediate Outcome Indicator, Activities, Outputs)**	**Lending, Grants, Guarantees and AAA**
Improve Telecommunication Connectivity *African countries connected by ICT broadband and to the rest of the world* *ICT used as a strategic tool for development* *(AU/NEPAD-APF Joint Action Plan)*	• ICT Access Gap • Cost of connectivity too high (limits access, burden to business development) • Low quality of bandwidth	**1. Improved access of Telecommunication services** • Internet users (per 1000 people) • Mobile subscribers (per 1000 people) • Telephone main lines (per 1000 people) **2. Improved quality of telecommunication services** • International Internet bandwidth (bits per person) • Broadband subscribers(per 1000 people) **3. Reduced cost of telecommunication** • Average cost of international calls • Average cost of domestic calls • Cost of internet bandwidth	• Open regulatory regimes established • Harmonization of ICT Policy and Regulation at regional levels • Number of cross-border backbone networks • Number of countries linked to the international cable systems increases • Number of countries connected with broad bandwidth • Number of countries linked to international gateways • Number of service providers	
Pillar II: Institutional Cooperation (to advance economic integration) **Long-term impact: Increased trade and investment with regional and nonregional economies and facilitation of intraregional migration**				
Increased Trade with Regional and nonregional Economies *(and enhanced competitiveness of African economies to improve global integration)*	• Countries cannot take advantage of economies of scale and scope because markets are small and segregated • National economies are not competitive enough to integrate regionally and globally.	**1. Reduction on border barriers** • Reduction of tariffs and non tariff barriers in intraREC trade • Support to Customs Union and establishment of FTAs in the subregions. • Intra regional trade as percent of total trade	• At least one joint border posts established by subregion • Regulatory framework for liberating service sectors developed. **For <u>COMESA, EAC, and SADC</u>:** • Harmonized customs procedures to reduce clearance time and costs to traders.	

Regional Level Long Term Development Goals		Outcomes Influenced by RIAS		Bank Programs and Partnerships
Strategic Regional Goals	**Challenges/ Issues**	**RIAS Outcomes/ Outcome Indicators**	**Milestones (Intermediate Outcome Indicator, Activities, Outputs)**	**Lending, Grants, Guarantees and AAA**
		2. Reduction in Trade barriers against nonregional economies. • Regional exports as a percent of GDP	• For all the EPA RECs representatives • Number of countries fulfilled capacity to negotiate for EPAs particularly in RoO, trade services and aid for trade for specific projects.	
Strengthen the African Private Sector (AAP I) *Increase private investment, productivity and employment in SMEs* *Stimulate deepening of financial sector as a catalyst for shared growth.*	• Poor and uncertain environment for business and private investments • Insufficient scale in banking, securities markets and payments systems leading to high unit costs and larger interest rate spreads • Low financial services, especially for poor/rural populations • Modest private sector investment	**1. Regional capital markets improved** • Volume of commercial financing for infrastructure and regional transactions **2. Increased cross-border financial flows between countries.** • Volume of financial flows between countries. • Cost of making cross border payments **3. Greater outreach in the provision of financial services and access to term financing** • Percentage of households with Bank deposits	• Volume of line of credit and the guarantee facilities • Number of users of private comprehensive trade credit insurance • Harmonization of banking, financial market regulation • Reduction of delays in payment clearing and settlement • Harmonized policies and systems for cross-border payments • Banking legislation and supervision improved and harmonized	
Raise Agricultural Productivity (AAPIV)	• Agricultural growth in Africa has been stagnant and investments in the sector very limited	**1. Reduced vulnerability to pests, droughts and diseases** • Number of countries with Early Warning and Response (EWR) in place.	• Government adopts International Code of Conduct on Pesticide distribution and Use. • Information sharing mechanisms in place	

Regional Level Long Term Development Goals		Outcomes Influenced by RIAS		Bank Programs and Partnerships
Strategic Regional Goals	**Challenges/ Issues**	**RIAS Outcomes/ Outcome Indicators**	**Milestones (Intermediate Outcome Indicator, Activities, Outputs)**	**Lending, Grants, Guarantees and AAA**
	• Productivity and earning-power vulnerable to droughts and weather conditions • Pests and crop failures are frequent and mitigating measures insufficient.	**2. Reduced risks to health and ecosystems from accidental leaks from pesticide stockpiles** • Percent of inventoried publicly held obsolete pesticide stockpiles eliminated **3. Increase investments in agricultural technology by 2011** • Percent growth in agriculture value added • Cereal yield (kg per hectare)	• Three regional economic communities complete regional strategies for cooperation in agriculture technology development by 2009.	
Pillar III. Coordinated Interventions to Provide Regional Public Goods **Long-term impact: Improved regional environmental, health, and social conditions**				
Increased Access to Safe Water and Sanitation (AAP VII) *Sustainable management and development of water resources for social and economic development (AU/NEPAD-APF Joint Action Plan)*	• Current weak regional (and national) institutions for transboundary water resources • National development plans not fully realizing regional opportunities • Current unsustainable use of water from the regional perspective	**1. Improved management of transboundary integrated water resources** • Number of transboundary river basins with integrated sustainable management plan **2. Improved management of wildlife and forests** • Percentage of area under protected status.	• Transboundary River Basin strategies available for effective management of water resources • Adoption of legal, policy and regulatory framework of utilization and conservation of natural resources by river basin countries.	

Regional Level Long Term Development Goals		Outcomes Influenced by RIAS		Bank Programs and Partnerships
Strategic Regional Goals	**Challenges/ Issues**	**RIAS Outcomes/ Outcome Indicators**	**Milestones (Intermediate Outcome Indicator, Activities, Outputs)**	**Lending, Grants, Guarantees and AAA**
Build Skills for Competitiveness in Global Economy (AAP III) *Improved regional collaboration in higher education*	• Weak implementation and management of higher education on regional level • Weak management and building capacity for Science and Technology	**1. Increased capacity to design regional strategies/policies** • Number of new collaborations and partnerships and institutional links among countries **2. Enhanced capacity in post-basic science and technology education for accelerated economic growth and well-being of people.**	• Regional centers of learning and excellence established	
Strengthened Health Systems and Combat HIV/AIDS and Malaria (AAP VIII) *Reduce the expansion of HIV/AIDS amongst vulnerable populations along the intra transport corridors*	• Incidence of infection of HIV/AIDS and TB is high in the region • Access to treatment for HIV/AIDS and related diseases remains limited Lack of capacity in individual countries to train in all medical specialties (HRH), particularly in the area of HIV/AIDS related service delivery	**1. Increased access to HIV/AIDS prevention methods along the main transport corridor.** • Proportion of high risk group(drivers, sex workers) along main transport corridors who report using condom in last 12 months (men and women) **2. Increased access to HIV/AIDS treatment and care services for refugees and transport sector workers.** • Percentage of high risk group (drivers, sex workers) along main transport corridors with advanced HIV infection receiving ARV therapy.	• HIV/AIDS inter-country coordination and partnerships mechanism of participating countries developed • HIV/AIDS Prevention awareness raising campaigns along the border towns in main transport corridors.	

Regional Level Long Term Development Goals		Outcomes Influenced by RIAS		Bank Programs and Partnerships
Strategic Regional Goals	**Challenges/ Issues**	**RIAS Outcomes/ Outcome Indicators**	**Milestones (Intermediate Outcome Indicator, Activities, Outputs)**	**Lending, Grants, Guarantees and AAA**
Improved control of region/subregional epidemics (Malaria/Avian Flu/TBC).	• High risk for cross border spread of epidemics • Low levels of emerging pandemic preparedness • Lack of capacity in individual countries to train in all medical specialties (HRH)	**1. Improved preparedness to respond to transboundary pandemic, (i.e. avian flu) and other infectious diseases** • Number of countries with effective • disease control and prevention system	• National integrated preparedness, control and response plans accepted by WHO, OIE and FAO	
Promote Good Governance and Strengthened Capacity of Regional Institutions *Harmonized accountability and transparency to strengthen the regional integration* *Support more effective regional economic communities and regional entities to improve regional integration*	• Weak governance structures at the regional level • Weak capacity of Regional Economic Communities • Lack of IDA instruments to support capacity development initiatives	**1. Harmonized accounting and auditing practices and standards in the private sectors.** • Number of countries adopting IPSAS and INTOSAI Auditing standards **2. Improved public procurement regulations** • Number of countries with procurement laws that are based on UNCITRAL model **3. Developed capacity in 4 Regional Economic Communities (RECs) and subregional institutions (as part of the CDMAP)**	• The review of accounting, financial reporting and auditing practices in member countries completed • The number of countries completing self-assessments for the Africa Peer Review Mechanism increased • Regional training on accounting policies and regulations • Regional training on auditing policies and regulations • Regional training on procurement policies and regulations	

APPENDIX IX. MONITORING FRAMEWORK FOR THE ROLL-OUT OF RIAS

RIAS Roll-Out: Key Performance Indicators related to Internal Bank Group Actions				
Objectives		**Outcomes Influenced by Regional Integration Department**		**Actions by Regional Integration Dep**
Objectives	**Challenges/Issues**	**Outcomes/Outcome Indicators**	**Key Departments**	
Mainstream regional integration in Bank country programs and sector strategies (by end of IDA15)	Bank CASs are increasingly taking RI issues on board. However, RI considerations and priorities do not routinely inform country programs and policy dialogue. The country focus of the Bank's work remains deeply embedded, especially in field-based teams, while staff incentives do not yet reflect the corporate importance attached to regional integration Regional programs require seasoned TTLs yet staff shortages in key sectors limit delivery capability. Country M&E arrangements do not easily enable aggregation to track outcomes and milestones at regional level	• RIAS roll-out programs in place for 4 regions (West, Central, East and Southern Africa) • RIAS priorities appropriately reflected in CASs & country programs • RIAS priorities appropriately reflected in continent-wide sector strategies	• CDs, SDs, AFRFO • CDs, SDs, AFRFO • SDs, AFRFO	• Prepare RIAS implementation plans for 4 regions with concerned country teams, drawing on RIAS objectives, PRS and CAS of countries and sector strategies • Identify countries where RI issues are of particular importance and work up-stream with country teams to ensure. RI issues are reflected in CASs • Review all CASs to ensure RI priorities are reflected • Work with country and sector teams to harmonize M&E frameworks in new operations and to retro-fit the portfolio • Identify planned/envisaged sector strategies and work up-stream with Sector Departments to ensure RI priorities are appropriately reflected

RIAS Roll-Out: Key Performance Indicators related to Internal Bank Group Actions				
Objectives		**Outcomes Influenced by Regional Integration Department**		**Actions by Regional Integration Dep**
Objectives	**Challenges/Issues**	**Outcomes/Outcome Indicators**	**Key Departments**	

Consolidate the Bank's knowledge program in support of regional integration and leverage in country and regional engagements	Corporate incentives, as above.	• Improved knowledge of Africa regional issues to underpin development of project pipeline
		
		• Stronger knowledge base in area of regional public goods aimed at policy makers, civil society and private sector
			• DEC/PREM Trade Department, AFTPM, AFRCE, CDs
			
			• DEC/PREM Trade Department, AFTPM, AFRCE, CDs
				• Establish Bank-support modules aimed at regional and national clients and stakeholders on:
				  • Implications of EPAs and options for trade reforms
				  • AfT and how to attract and use it
				  • Behind-the-border reforms
				  • Regional sector strategies and investment priorities
				  • Regional dimensions of private sector development
				  • Regional public goods
				
				• Partner with African universities and other research/academic institutions for implementation

Strengthen REC capacity	IDA provides limited means to assist capacity development in regional institutions	• Partnership with AU to promote rationalization of REC membership and delineation of roles and responsibilities • Improved ability of target RECs to lead on regional integration, harmonization of trading regimes and other "behind-and-at-the-border" policies • Strengthen RECs ability to create regional knowledge and drive policy debate	• AFCRI, CDMAP, AFTPM, Partnerships Unit	• With the AU and ADB, establish multidonor facility to provide on-demand capacity building support to RECs • Mobilize grant funding in support of REC capacity building • Implement staff exchange program between RECs and World Bank, ADB and bilateral donors

RIAS Roll-Out: Key Performance Indicators related to Internal Bank Group Actions				
Objectives		**Outcomes Influenced by Regional Integration Department**		**Actions by Regional Integration Dep**
Objectives	**Challenges/Issues**	**Outcomes/Outcome Indicators**	**Key Departments**	
Strengthen collaboration & cofinancing with IFC & MIGA	More opportunistic and transaction-focused approach of IFC and MIGA.	• Strengthen pipeline of operations co-sponsored with IFC or MIGA in each infrastructure sector • Further collaborations among IDA, IBRD, IFC and MIGA to leverage private financing for regional infrastructure	• SDs, AFCRI, IFC, MIGA • SDs, IFC, MIGA	• AFCRI to screen with SD all projects selected into the pipeline for potential collaboration with IFC and MIGA
Improve Portfolio Performance and Quality	Regional programs are technically more complex than single country operations. Bank systems need adapting to provide comparable support to regional programs. Regional programs are more costly to prepare and supervise than single country programs. Bank reporting systems are systematically inclined to treat regional programs as "at risk"	• Reduction in proportion of portfolio in "problem" and "at risk" status • Increased pro-activity of portfolio • Improved disbursement rates • Reduced time between Board Approval and Effectiveness • Streamlined procedures for processing regional projects • Standard information packs on process and support for regional integration projects	• SDs, AFCRI, QK, QAG, AFRFO	• Complete restructuring and Board presentation of problem projects (FY08) • Work with QAG to ensure feedback from QER, QAE and implementation reviews are incorporated in project design and supervision plans • Ensure implementation is appropriately staffed and adequately resourced • Work with QAG to identify adjustments to Bank processes able to enhance the quality of supervision • Work with QK to remove systemic negative bias in the reporting of regional portfolio performance

RIAS Roll-Out: Key Performance Indicators related to Internal Bank Group Actions				
Objectives		**Outcomes Influenced by Regional Integration Department**		**Actions by Regional Integration Dep**
Objectives	**Challenges/Issues**	**Outcomes/Outcome Indicators**	**Key Departments**	
				• Develop a 'regional business toolkit' for TTLs • Work with TTLs to improve project-level M&E arrangements • Enhance tracking of implementation within AFCRI, and early identification of issues
Integrated MICs in Regional Programs and Solutions	Limited incentives for MICs to work with the Bank: • No IBRD advantage comparable with IDA Regional Pilot • Lack of Regional IBRD Instruments	• MIC knowledge institutions engaged to assist regional capacity development • MIC investors partner with Bank Group to develop key regional infrastructure programs • Progress in engaging MICs in managing regional public goods and regional commons	• AFCSI, AFCRI, SDs • SDs, MIGA, IFC • AFCSI, AFCRI	• Identify specific opportunities to partner with SA institutions under CPS to assist SADC, COMESA capacity development • Assist in marketing IBRD products to MICs, including complementary IDA assistance • Use regional AAA to develop partnerships dealing with climate change, fisheries and migratory diseases

APPENDIX X. RISK MATRIX

Risk Matrix				
Risk Factors	**Description of Risk**	**Mitigation Measures**	**Rating of Risk**	
			Initial	**Residual**
Political Support	While current support remains strong, there is potential for weakening or collapse of political commitment to integration at the individual institution, subregional and continental level. Such risks may be exogenous or stem from lackluster performance or failure of regional initiatives and institutions.	• Focusing primarily in project areas and on regional institutions with preexisting, demonstrated political support, while placing less emphasis on new areas of collaboration and nascent or low-functioning institutions • Ensuring alignment between regional and national priorities and support from national champions before commencing activities. • Partnering with the AU Commission, NEPAD, ADB and the EC will help establish a coherent, shared regional agenda behind which all can lend collective political weight and diffuse exposure to political risk • Preestablishing clear exit strategies which outline a plan for withdrawing from nonviable projects in a manner that maximizes gains, minimizes damage and ensures efficient resource reallocation to more promising activities/subregions • Spreading assistance across multiple subregions (continent wide collapse of integration agenda less likely than collapse in a particular region)		
Institutional Architecture	Continuous proliferation and the increasingly overlapping country memberships and responsibilities of Africa's regional institutions may constrain their effectiveness in project implementation and ability to drive political progress toward integration. Similarly this tangled institutional architecture can lead to diffusion of limited resources from development partners, including the Bank and complicate monitoring and implementation efforts.	• Assisting REC rationalization efforts led by the AU • Providing assistance to the ECA to extend previous work on the economic and social implications of adjustments to REC country groupings. (To assist the AU by providing data and analysis for strategic planning and country/REC consultations on configuration adjustments) • Focusing primarily on areas with alignment of national support (with some projects cross-cutting RECs) and less on assisting respective REC strategies		

Risk Matrix				
Risk Factors	**Description of Risk**	**Mitigation Measures**	**Rating of Risk**	
			Initial	**Residual**
		• Designing activities with expected outcomes likely to underscore the advantages of REC rationalization, aiming to spur political debate (trade agreements, customs unions and management of natural resources)		
Institutional Capacity	There is currently a significant lack of capacity in many regional institutions to both promote the regional integration agenda and effectively implement priority initiatives. While successful RIAS implementation is not predicated on stronger RECs, enhanced institutional capacity could provide a valuable catalyst for improved outcomes.	• Finalizing and implementing the capacity development support initiative currently being undertaken in collaboration with the ADB, AU and other partners • Focusing activities on areas with existing alignment of national political support for regional initiatives, likely to persist even if a particular REC is not able to lead coordination or implementation		
Linkages with Country Programs	Regional programs can be handicapped by their dependence on national level political support and implementation as well as the limitations of the Bank's country-based business model.	• Developing implementation plans for West, Central, East and Southern Africa to tie RIAS strategic objectives with national government priorities and embed them in each country's CAS • Including the measurement of a country's progress in implementing RIAS within CAS results frameworks to help ensure ownership at the national level.		
Alignment and Harmonization	Leveraging additional resources from the private sector and official development partners is essential to achieve maximum impact of RIAS and to fulfill the financing needs of Africa's ambitious regional integration agenda, particularly in infrastructure. Despite progress, alignment and harmonization in regional programs has mot matched improvements achieved at the country level.	• Catalyzing private know-how and investment, particular in infrastructure programs • Grounding implementation of most RIAS activities in country assistance programs to provide firm linkages to country level harmonization frameworks, so that regional activities are coordinated among donors with comparable discipline. • Assisting capacity development of regional bodies will strengthen the ability of these organizations to lead and coordinate donor engagements.		

Risk Matrix				
Risk Factors	**Description of Risk**	**Mitigation Measures**	**Rating of Risk**	
			Initial	**Residual**
Program Complexity	Regional programs are by nature more complex than national programs, involving multiple clients, national agencies and stakeholders. While agreement on core objectives is required, ancillary objectives often do not fully overlap—with a tendency for regional programs to incorporate national components reflecting individual country priorities, resulting in increased complexity, fragmentation and overextending implementation capabilities.	• Adopting a disciplined approach to program design, focusing activities on core objectives not achievable through stand-alone national actions. (With ancillary, country specific objectives supported through country programs). • Grounding implementation of RIAS in country programs to ensure that associated national priorities are followed-up and resourced in a timely manner. • Tailoring the complexity of regional programs in line with the implementation capabilities of all partners—including the Bank.		
Implementation challenges	Regional programs often bring together different national systems of procurement, financial management and approaches to safeguards. Compared with national programs this poses additional challenges to timely implementation for both clients and the Bank.	• Providing adequate resources both financially and in terms of specialized project staff. • Paying specific attention to strengthening capacity of regional technical organizations (power pool and river basin authorities, for example) to manage implementation. • A mid-term review in IDA 15 will assess implementation arrangements and recommend adjustments where needed.		