

AFRICAN DEVELOPMENT BANK AFRICAN DEVELOPMENT FUND



**ECONOMIC COOPERATION
AND REGIONAL INTEGRATION POLICY**

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LIST OF ACRONYMS

AADFI	Association of African Development Finance Institutions
ADB	African Development Bank
ADF	African Development Fund
ACM	African Common Market
AEC	African Economic Community
Afrexim Bank	African Export/Import Bank
AMSCO	African Management Services Company
AMU	Arab Maghreb Union
APDF	Africa Project Development Facility
ASEAN	Association of Southeast Asian Nations
BDEGL	Development Bank of Great Lakes States
BOAD	Bank for West African Development
CBI	Cross Border Initiative
CCD	Convention to combat Desertification
CILSS	Permanent Inter-State Committee for Drought Control in the Sahel
CEAO/WAEC	West African Economic Community
CEMAC	Central African Economic and Monetary Union
CEPGL	Economic Community of the Great Lakes Countries
CFA	African Financial Community
CIMAO	West African Cement Mill
CINERGIE	Regional Integration promotion Unit for West and Central Africa
COMESA	Common Market for Eastern and Southern Africa
CPA	Country Performance Assistance
EAC	East African Community
EADB	East African Development Bank
ECA	Economic Commission for Africa
ECOWAS	Economic Community of West African States
EU	European Union
FECA	Federation of African Consultants
IGGAD	Intergovernmental Authority on Drought & Development
IGOs	Inter-Governmental Organizations
IOC	Indian Ocean Commission
IMF	International monetary Fund
ICZM	Integrated Coastal Zones Management
IWRM	Integrated Water Resources Management
MRU	Mano River Union
NAFTA	North American Free Trade Area
NGOs	Non Governmental Organizations
NTF	Nigeria Trust Fund
OAU	Organization of African Unity
OHADA	Organization for the Harmonization of Business Law
OMVG	Gambia River Basin Development Organization
OMVS	Senegal River Development Organization
PTA	Preferential Trade Area for Eastern and Southern African
PTCI	Inter-University Graduate Training Program in Economics for Francophone Africa
SACU	South African Customs Union
SADCC	Southern African Development Co-ordination Conference

SADC	Southern African Development Community
SAR	Southern African Region
RAN	Regie Abidjan-Niamey
RASCOM	Intra-African Satellite Communication System
RI	Regional Integration
UDEAC	Central African Customs and Economic Union
UEMOA	West African Economic and Monetary Union
UMOA	West African Monetary Union
UNDP	United Nations Development Programme

GLOSSARY OF TERMS

Common Market	An economic market of an integration unit where, in addition to the free flow of goods and non-factor services and the adoption of a common external tariffs, factors of production also move freely within the market.
Customs Union	An integration arrangement in which intra-trade barriers are removed among members and a common external tariffs (CETs) are imposed on imports from non-members.
Economic Union	A common market in which the members' national economic policies on trade, monetary, fiscal and welfare are harmonized.
Economies of scale	A process (production, marketing, distribution) which exhibits a declining average unit cost over a particular range of output or units sold.
Free trade area	An integration arrangements in which all tariff restrictions among participating countries are removed but each country retains its own national tariff barriers against non-members.
Growth triangles	Trans-national economic zones spread over relatively large, but well-defined, geographically adjacent areas in which differences in the factor endowments of three or more countries are exploited in order to promote external trade and direct investment. Growth triangles are also referred to as sub-regional economic zones
Import substitution	A set of policies which, as a common objective, aims to substitute domestically produced goods and services for imported goods and services. Under this policy framework restrictive barriers are imposed on targeted imports.
Open regionalism	An integrating region which maintains an outward trade policy with the rest of the world; through economic liberalization, regional and global market interactions are encouraged.
Regionalism	Preferential trading agreements among a subset of countries.

- Trade creation Increased trade at lower unit in an integration arrangement resulting from the substitution of inefficient (higher-cost) domestic production by specialization-induced more efficient regional partner country production.
- Trade diversion Shifts in trade flows from low-cost, non-member countries, to member countries in response to tariff discrimination produced by the formation of a customs union.
- Variable geometry An integration process which recognizes and encourages a core of very committed members of an integrating unit/region to proceed with deeper integration at a faster pace than the less committed with built-in flexibility for lagging members to voluntarily join the core, implement the necessary reforms and share the benefits and costs of deeper integration.

Economic Cooperation and Regional Integration Policy

I. INTRODUCTION

1.1 Background

- 1.1.1 The fragmentation of Africa into many nation states with scant economic coherence led African leaders, following political independence, to embrace regional integration as a central element of their development strategy. The small size and primary production structure of the typical African economy provided the rationale for pursuing mutually beneficial economic cooperation and regional integration particularly among adjacent states.
- 1.1.2 Under the import-substitution model, which characterized development strategy during the 1960s, African countries saw opportunities for economies of scale in production and trade from a larger regional economy. There was also a strong desire to overcome the industrialization-retarding hub and spoke production and trade patterns that these countries inherited from their colonial past. Regional integration was, therefore, viewed as a vehicle for achieving efficient industrialization with dynamic neighborhood effects and regional spillovers. In order, therefore, to realize these benefits from integration, African countries, during the 1960s and up to the mid-1980s, enthusiastically established a wave of regional and sub-regional organizations.
- 1.1.3 Apart from the economic motivations, Pan African political aspiration for continental identity, unity and coherence also influenced the early drives for regional integration in Africa. The pursuit of these ideals derive mainly from the desire to overcome the vestiges of Africa's colonial past which led to the political and economic fragmentation of the continent. Over time, this political aspiration for African unity has reinforced the desire for regional and inter-regional economic cooperation as integral building blocks for continental cooperation and economic development.
- 1.1.4 However, in spite of the enthusiasm for and creation of a large number of regional integration organizations, African economies continue to be constrained by political boundaries, marginalized, and remain un-integrated into the rapidly globalizing world economy. Responding to the poor outcome of their initial integration efforts, African countries are showing renewed interests in developing appropriate frameworks for integration in order to realize the benefits of enlarged markets with the attendant opportunities for economic transformation, growth and sustainable development.
- 1.1.5 The facilitation of economic cooperation and regional integration is an integral part of the mandate and goal of the African Development Bank (ADB) to promote economic growth and development in Africa. The Agreements establishing the ADB, the African Development Fund (ADF) and the Nigerian Trust Fund (NTF) explicitly enjoined them, inter alia, "to contribute to economic and social development of regional members – individually and jointly and to assist the Bank in making an increasingly effective contribution to the economic and social development of the Bank's member countries and to the promotion of

cooperation (including regional and sub-regional cooperation...”. Accordingly, since its establishment, the Bank has undertaken several initiatives, including the financing of studies and other operations aimed at the enhancement of regional integration of African economies. In the process, the Bank has maintained close cooperation with regional integration organizations in Africa. It has further reaffirmed this commitment to the integration of Africa in its recently adopted strategic operational Vision/Niche Statement “**A Re-invigorated Bank: An Agenda for Moving Forward**” which underlines regional integration as one of the focal intervention areas of the Bank. In addition, under the recently completed Eighth Replenishment of ADF resources, the Deputies approved management’s request to earmark ten percent of the new resources for multinational projects/programs. A guideline outlining the modalities for using the earmarked resources is under preparation. This Economic Cooperation and Regional Integration Policy provides a formal framework for operationalizing the regional integration plank of the Vision to foster economic transformation, growth and poverty reduction in Africa.

1.2 **Objective of the Policy**

In support of the Bank’s overarching goal to assist member countries to achieve sustainable development and poverty reduction, this Economic Cooperation and Regional Integration Policy outlines a broad set of guiding principles which will underpin Bank Group strategy on economic cooperation and regional integration of African economies in a rapidly globalizing world economy. To permit the attainment of this objective, the Bank will draw from the experience of its past activities in support of integration and strengthen its on-going cooperation with regional integration organizations.

1.3 **Organization of the Policy Paper**

Section 2 reviews trends in regional cooperation and integration efforts in Africa since the attainment of independence during the 1950s and the 1960s. The section highlights the enthusiasm, but largely unsuccessful efforts, of African founding fathers to forge strong Pan African unity leading to continental economic integration. Furthermore, the section outlines the factors leading to the dismal outcome of earlier initiatives, underscores the rekindled interests in economic cooperation and regional integration and the elements of the new approaches. Section 3 gives an overview of past Bank Group efforts and initiatives aimed at enhancing regional cooperation and integration and highlights lessons from past experience that could guide future interventions. Section 4 presents the guiding principles of Bank Group’s regional integration and strategy. Section 5 outlines the Bank’s possible areas of intervention and the underlying approach. The final section provides a conclusion and makes recommendations. Annex I presents the Action Plan for the **Policy**.

II TRENDS IN AFRICA'S REGIONAL INTEGRATION EFFORTS

2.1 Rationale for Economic Cooperation and Regional Integration

- 2.1.1 Since attaining independence during the fifties and sixties, African countries have embraced economic cooperation and regional integration as part of a strategy for the structural transformation of Africa. The vision and commitment of African leaders to the ideals and principles of political and economic cooperation, as a means of mitigating the development constraints faced by many small-nation economies led them to, among other initiatives, create the Organization of African Unity (OAU) and the ADB in 1963 as instruments for fostering African development and unity. This commitment was later reiterated in the Lagos Plan of Action in 1980 and, subsequently, in the Abuja Treaty of 1991 which envisions the ultimate creation of the African Economic Community.
- 2.1.2 The desire to overcome the economic disadvantages of fragmentation gave rise to the establishment of a plethora of treaties and regional institutions whose overriding objective was the creation of self-reliant development of member states. These include, the Customs and Economic Union of Central Africa [UDEAC, (1964)] which later became the Central African Economic and Monetary Community (CEMAC); East African Community (1967-1977); the South Africa Customs Union [SACU, (1969)], the Southern African Development Coordinating Conference [SADCC, (1980)], which was later transformed into the Southern African Development Community [SADC, (1992) and Common Market for Eastern and Southern Africa, [COMESA, (1995)]; the West African Economic Community [CEAO, (1972)], the Economic Community of West African States [ECOWAS, (1975)] and the West African Economic and Monetary Union [UEMOA, 1994]; the Preferential Trade Area [PTA (1981)] which was later succeeded by COMESA in 1995; and, the Arab Maghreb Union [AMU (1989)]. In addition to this first tier of regional bodies, numerous sub-regional organizations have since been established.
- 2.1.3 In addition to the political objective of continental unity, African leaders also pursued regional integration in order to overcome three fundamental, development constraints characteristic of African economies, namely: (a) small size of the economies (b) the lack of structural complementarities as manifested in the narrow set of similar, low-value primary export products and basic minerals; and, (c) dependence on import of intermediate and final goods. Regional integration was viewed as offering opportunities leading to market expansion, economies of scale and diversification of the economic base. Consequently, economic cooperation and regional integration arrangements were established as protected regional markets offering expanded economic space for factors of production, industrial production and trade.
- 2.1.4 In the ensuing period, several organizational trading arrangements were established. The aspirations and mandates of these organizations varied and included: (i) **free trade areas**, such as the PTA, where barriers to trade are progressively removed among members while each member maintains its restrictive practices, including tariffs, against non-members; (ii) **customs unions**, as embodied in mandate of SACU, involving a common external tariffs

and the pooling and sharing of revenues generated from trade tariffs on imports; (iii) **common markets**, as envisaged under the COMESA charter, in which capital and labor join the free flow of goods and non-factor services among members states; and, (iv) **economic unions**, the eventual goal of UEMOA, involving common fiscal and monetary policies among members. These integration arrangements reflect varying degrees of deepening of integration with their associated benefits and costs to participating members.

2.2 **Performance**

2.2.1 Independent assessment of the impact of Africa's initial efforts to integrate between 1960 and 1990 suggests that the expected benefits have eluded the continent. The participation of Sub-Saharan Africa and, indeed, the continent in world trade², prior and following attempts to integrate, remains negligible at 2 percent (1990); in some areas, the level of participation has even declined. This compares to Asia's share of World Trade of 16.2 percent in 1991; and, Latin America, 9 percent. Intra-regional trade has also remained low, amounting to only 6 percent of total foreign trade of African nations in 1990. A comparable proportion for Asia, including trade with Japan, was about 35 percent in 1991; 41 percent for the North American Free Trade Area (1990); and, 14.2 percent for the Central American Common Market area. Furthermore, intra-regional export trade within the major regional groupings in Africa has also been negligible. For example, between 1970 and 1990, trade within UDEAC declined from 2.9 percent to 2.1 percent; for the ECOWAS sub-region, the percentage fluctuated from 5.2 percent in 1985 to 8.3 percent in 1990 and to 7.2 in 1992. Only the CEAO sub-region showed a steady but modest increase, from 8.9 percent in 1980 to 10.5 percent in 1990.

2.2.2 Equally noteworthy is the absence of any significant change in the structure of African economies. Exports are still confined to basic minerals and primary products. There is no clear evidence of a causal link between the proliferation of regional and sub-regional institutions and the development of regional infrastructure. In spite of the latter's enormous potential, its development has not progressed commensurate with the expected benefits.

2.2.3 The dismal outcome of Africa's initial efforts to integrate can be attributed to the low level of structural complementarity of the economies. This, in turn, has inhibited expansion in production and opportunities for trade creation and led to unmet expectations about gains from integration. Several other factors have also contributed to the poor outcome. These include:

- (i) **Lack of political will to establish supranational institutions and to implement agreed treaties and mandates:** African governments showed little desire to subordinate domestic political and economic interests to supranational institutions with long term regional goals. Consequently, there was a proclivity to create inter-governmental institutions with multiple and overlapping protocols and mandates and little enforceable mechanisms. In effect, national

² From various sources but primarily from: "New Dimensions in Regional Integration", Table 8.3, page 247; Publishers: Centre for Economic Policy Research, 1992; editors: Jaime De Melo and Arvind Panagariya

sovereignty and interests have often been placed ahead of long term regional goals. Furthermore, member states showed little commitment and enthusiasm to implement the mandates of their various sub-regional organizations;

- (ii) **Pursuit of Import substitution policies:** These have led to the establishment of inefficient industries protected by high tariff barriers and the maintenance of overvalued exchange rate systems;
- (iii) **Heavy reliance on tariffs for fiscal revenue:** this has stifled official inter- and intra-regional trade, encouraged parallel markets with rent-seeking characteristics. In a perverse way, this has also limited the scope for fiscal revenue expansion given the small size of each protected economy;
- (iv) **Over-ambitious goals** of regional organizations coupled with unrealistic time frame for achieving these goals. This has led to unrealistic expectations concerning the gains from trade which, for the most part, were not met;
- (v) **Pervasive weaknesses in regional structures.** This is exemplified by the existence of weak industrial structures and the absence of intra-industry linkages, which was compounded by poor or lack of transport and communication infrastructure and, except in the UEMOA and CEMAC areas, the non-convertibility of currencies in most countries;
- (vi) **Overlapping membership** since most countries belonged to several regional groupings with duplicative mandates and structures, thus leading to inefficient use of resources;
- (vii) **Inadequate mechanisms for equitable sharing of the costs and benefits of regional arrangements,** which ultimately eroded members' commitment to and support for regional groupings.
- (viii) **antipathy to markets** and state domination of production through pervasive and inefficient parastatals which depended on state subsidies;
- (ix) **lack of policy credibility** resulting from vacillation and reversals in the implementation of reforms;
- (x) **endemic political instability** which, in some cases, has led to debilitating civil conflicts;
- (xi) **lack of rule of law and good governance.**

2.3 **Africa's Renewed Interest in Regional Integration**

2.3.1 Notwithstanding the dismal outcome from the first generation of integration initiatives, African countries have, since the 1990s, shown renewed and keen interest in reinvigorating their integration efforts. This has, in part, been influenced, by rising trends of globalization and deepening regional integration with demonstrable gains in trade, investment and economic growth in Europe, North America and Asia at the same time that Africa was becoming more

isolated and marginalized. The trend in global regionalism is reflected in the creation and increase in the membership of North America Free Trade Area (NAFTA); European Union leading to the adoption of Euro; and Association of South East Asian Nations (ASEAN). There is a rising realization among African countries that progressive integration holds great potentials for minimizing the costs of market fragmentation and thus, represents a precondition for integrating African economies into the global economy. These observable benefits from progressive integration in other parts of the world appear to have contributed to the rising trend in the adoption of outward-looking, export-oriented development approaches vis-a-vis the old and discredited inward-looking import substitution development strategy.

- 2.3.2 The new integration efforts are also being carried out in an environment that is considerably different from that of the past. Most countries are undertaking wide-ranging economic reforms and opening their economies through extensive trade and exchange system liberalization. The emphasis on an outward development strategy and political liberalisation in many countries are creating new opportunities for and changing the pattern of regional integration. Current integration initiatives are building on existing institutions but at the same time, broadening the objectives of economic cooperation and regional integration to include and emphasize the co-ordination and harmonization of macroeconomic policies; the lowering of trade tariffs and the removal of some non-tariff barriers to trade; and, the facilitation of capital mobility, the free movement of persons and improving the business environment. Furthermore, countries and their development partners are increasingly paying more attention to cross-cutting, national and **regional** developmental issues, particularly those related to the mainstreaming of gender concerns, health, education, population and the protection of the environment. In addition, progress at different speeds is increasingly accommodated through the 'multi-speed/variable geometry approach' in ways that are consistent with the applicable treaties and mandates of sub-regional organizations while several functional initiatives are emerging that broaden the participation of key stakeholders in the decision-making process for economic cooperation and regional integration activities.
- 2.3.3 The Preferential Trade Area for Eastern and Southern Africa (PTA), for example, has, since 1995, been transformed into the Common Market for Eastern and Southern Africa (COMESA). Since then, the new COMESA treaty which aims at establishing a supranational agency with a common market, has guided integration efforts. The process has commenced with the lowering of intra-regional tariffs, the removal of some non-tariff barriers and the movement toward a common external tariff and rules of origin; strengthening and deepening co-operation among member countries in the areas of monetary and financial policies; encouraging the coordination of macroeconomic policies, free movement of persons, goods and services, capital mobility, and moving toward currency convertibility and common currency.
- 2.3.4 Similarly, the Southern African Development Coordination Conference (SADCC) which was founded to coordinate projects and programs of mutual interest to member countries has, since 1992, been transformed into the Southern African Development Community (SADC). **The new SADC, with enlarged**

membership, now comprise Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe. Its agenda has explicitly added market integration to the project and sectoral co-ordination role that was the main focus of its predecessor institution, SADCC. The SADC Trade Protocol which was adopted by heads of state in Maseru, Lesotho in August, 1996 includes deeper integrating features leading to the creation of a free trade area within an eight-year time frame.

- 2.3.5 **The defunct East African Community (EAC) has been revived and reestablished.** Under the Treaty which was signed by Member States on 30 November, 1999, Kenya, Tanzania and Uganda undertake to establish a customs union, a common market and, subsequently a monetary union. Their ultimate objective is the establishment of a political federation. Member States also agreed to strengthen their industrial, commercial, infrastructure, cultural, social and political relations and to harmonize their development policies in order to achieve sustained economic development.
- 2.3.6 Also in Eastern and Southern Africa and the Indian Ocean, the Cross-Border Initiative (CBI), co-sponsored by the ADB, the World Bank, the International Monetary Fund, and the European Union, has been facilitating cross-border trade, investment and payments system. The CBI, by fostering consistency of national adjustment programs, seeks to create the conditions for more beneficial integration of countries of Eastern and Southern Africa and the Indian Ocean into the world economy. Operating under the principles of “variable geometry”³, the initiative is open to countries in the region that are willing to implement policy reforms leading to macroeconomic convergence among the participating countries. The participating countries are progressively implementing reforms leading to trade liberalization, including removal of tariffs on trade in goods and the abolition of non-tariff barriers; investment deregulation; freer movement of persons, exchange system liberalization, including the elimination of restrictions on current account transactions; and, the strengthening of financial intermediation.
- 2.3.7 A Treaty establishing the Indian Ocean Commission (IOC) was signed in Victoria, Seychelles in January, 1984. Its membership consists of the Indian Ocean island countries of Comoros, Madagascar, Mauritius, Reunion (France) and Seychelles. The Commission, which aims to promote trade and functional economic cooperation among its members, has progressively widened the areas of cooperation among members. Its primary functions include the coordination of developmental issues of island economies and the integration of economies into the larger sub-regional markets and global economy. Other areas of functional cooperation among the Commission members include: capacity development, establishment of the Indian Ocean University, and the implementation of PRIDE (Programme Regional Integre de Developpment des Echanges) under which member states are implementing measures to harmonize their macroeconomic and trade policies, commercial law practices and exchange rate systems.

³ Please see glossary of terms.

2.3.8 In West Africa, the CEAO and several member countries of the West Africa Monetary Union (UMOA) have evolved into the West African Economic and Monetary Union (UEMOA). Similar developments took place in Central Africa, with the Customs and Economic Union of Central Africa (UDEAC) evolving into the Central African Economic and Monetary Community (CEMAC). The UEMOA and CEMAC, which bring together countries sharing common supranational central banks and currency, have made substantial progress in several areas including:

- Budgetary and monetary policies for which convergence criteria have been set, and surveillance is exercised through independent counsels. This will enhance the predictability of policies and the stability of the macroeconomic framework at the sub-regional level.
- Tax reforms and harmonization of tax systems and customs within a regional framework. The UEMOA countries have agreed to implement a common tariff by 2000. Similarly, members of the CEMAC agreed, in June 1999, to adopt a common tax and customs tariffs.
- Law harmonization: a treaty creating the Organization of Business Law (OHADA) has been effective since September 1995.
- Central bodies have been established for bank supervision and regional stock exchange in the UEMOA and CEMAC areas. A treaty establishing the Inter-African Insurance Market Conference has been in effect since February 1995. This treaty has established a single insurance code and a supervisory body with responsibility for granting and withdrawing authorizations and inspecting insurance companies.

2.3.9 There is also a dawning realization that while integration holds ample promise for industrialization and growth for Africa, it can be viewed and pursued as a bottom up, incremental process, involving countries and economic agents with shared common goals and interests, concentrating on the attainment of specific common narrow objectives. Consequently, many African countries, while still committed to the principle of an African Common Market, are increasingly participating in pragmatic, some donor funded, functional economic cooperation and integrating schemes. In general, these new initiatives are based on the recognition that past errors and failures must be avoided and replaced by workable frameworks. Some of the arrangements that have emerged include:

- (i) Club du Sahel **which** actively promotes studies and disseminates knowledge on different development challenges. The Club also organizes outreach activities in support of integration on behalf of a large number of enterprise networks in West Africa, including the Regional Integration Promotion Unit for West and Central Africa (CINERGIE);
- (ii) The Permanent Interstate Committee for Drought Control in the Sahel (CILSS) **which** created in 1973 to address the growing menace of drought and desertification. Since then, it has been the focal point for

- both external and local efforts aimed at controlling ecological degradation and promoting sustainable development in the Sahel
- (iii) The Afristat project which aims at the development of a reliable economic database for the CFA zone in West and Central Africa; and,
 - (iv) Several river basin authorities; **and**,
 - (v) The Cissokho initiative, which involves the ministers of agriculture and rural development in 15 West and Central African countries, focuses on agriculture and livestock issues. It advocates the establishment of a regional free trade zone for grain, meat and **oilseeds**.

III. **BANK GROUP EXPERIENCE IN PROMOTING REGIONAL INTEGRATION**

3.1 **Introduction**

As indicated in paragraph (1.1.5), the Bank places high priority on national and regional development operations which strengthen intra-African economic cooperation and regional integration. In pursuit of its mandate, the Bank has since its establishment, collaborated with other regional institutions, financed integration-enhancing studies, supported multinational projects; provided resources to regional development finance institutions for on-lending; co-operated with regional integrating institutions and promoted and facilitated the creation of regional capacity building institutions.

3.2 **Collaboration with Other Regional Institutions**

The Bank, the Economic Commission for Africa (ECA) and the OAU have a shared-vision of the importance of regional integration for Africa's sustainable development. This is reflected in their collective support of the ideals of African Economic Community as the ultimate goal of integration and their longstanding collaborative efforts aimed at facilitating the creation and nurturing of African regional organizations. This cooperation culminated in the creation of a joint ADB/ECA/OAU Secretariat which coordinates their development efforts and initiatives. To give practical meaning to their cooperation, the heads of these institutions hold regular joint meetings during which current and emerging developmental issues of interest to Africa, including economic cooperation and regional integration, are discussed. Furthermore, their regular joint appearances and participation at the Annual Ministerial and Heads of State meetings of the OAU provide them with opportunities to discuss and obtain political support for their various development initiatives.

3.3 **Integration and Investment Studies**

- 3.3.1 The Bank has financed several studies aimed at facilitating regional integration. The first major study, "Economic integration and Development in Africa" (African Development Report, 1989), surveyed integration arrangements, noted the complexities of integration and underscored the need for flexibility in the evolution of integration organizations, pragmatism in the speed of integration and, the necessity for political will on the part of the participating countries to ensure the implementation of agreed measures. Given the low level of

complementarity of African economies, the study noted the limitations of trade-based integration and advocated production-focussed approach that will generate growth and ultimately create the scope for increased trade.

- 3.3.2 The next major study titled “Economic Integration and Structural Adjustment” (African Development Report, 1993) noted the importance of adjustment programs for the attainment of economic fundamentals necessary for growth and poverty reduction. It however, emphasized the need to ensure that adjustment policies and integration objectives mutually reinforce each other. The study recommended the broadening of adjustment programs to include policy harmonization among adjacent countries in order to achieve synergy between adjustment programs and regional integration initiatives and objectives.
- 3.3.3 With financial assistance from the Nordic countries, the Bank, during 1991-1993, conducted a third major study – “Economic Integration in Southern Africa” (SEISA)- which explored the prospects and opportunities for economic integration in the Southern African Region (SAR). Apart from highlighting the need for regional infrastructure development, power generation, regional facilities for training in education and health and, coordinated sectoral policy and investment, the study underscored the need for integration to proceed on a “multi-speed” basis with several focal points. In addition, the study recognized the important funding and technical roles that external donors could play in the design and implementation of adjustment programs with regional dimensions aimed at encouraging policy harmonization through multilateral agreements in SAR.
- 3.3.4 The Bank has also financed several other studies. Among these are a study funded by **Sweden**, which aims at the establishment of an ECOWAS community levy, which, if successfully implemented would enhance the financial independence of the organization and thus strengthened its status as a supranational agency; the feasibility study on establishing an intra-African satellite communication system (RASCOM); and, a study which has led to the establishment of the **African Export/Import Bank (Afreximbank)**. Furthermore, the Bank is planning a major study on integration in the East African region.

3.4 **Multinational Investments**

- 3.4.1 The Bank’s integration promotion efforts have not been limited to studies. The Bank, the World Bank, the IMF and the European Union are the co-sponsors of the CBI which is described in section (2.3.7). Under the CBI framework, these institutions have promoted trade and investment facilitation reform and are encouraging policy harmonization among the 14 participating countries. The Bank also has a long history of financing regional/multinational projects and national investments, which increase the complementarity of member countries’ economies. These investments include several industrial and agricultural lines of credit to regional development banks. The beneficiary institutions include: the East African Development Bank (EADB) based in Kampala, Uganda; the Bank for West African Development (BOAD) in Lome, Togo, which supports development initiatives in francophone West Africa; Development Bank of Great

Lakes States (BDEGL) based in Goma, Democratic Republic of Congo, which aims at supporting development initiatives of the Great Lake States; and a direct line of credit to ECOWAS in 1988 to finance a 3-year industrial development program.

- 3.4.2 In addition to providing lines of credit resources to regional development finance institutions for national and regional projects, the Bank has also financed several major regional projects. These include: loans to finance dam construction projects under the auspices of the Liptako Gourma Community which joins Burkina Faso, Mali and Niger in an irrigation scheme aimed at promoting regional agriculture, mining, energy and health; an industrial loan to the West African Cement Company (CIMAO), a regional enterprise owned by Cote D'Ivoire, Ghana and Togo; the Bamako Regional Solar Energy Center; a loan to the Regie Abidjan-Niamey (RAN) for the purchase of rolling stock for the rail line linking land locked Burkina Faso and Niger to Cote D'Ivoire; and, a loan to Air Afrique, a regional carrier owned by eleven West and Central African countries. Others include, various river basin authorities, such as the "Organization pour la Mise en Valeur du Fleuve Senegal (L'OMVS)" established in 1968 for Senegal, Mauritania and Mali; a similar organization, L'OMVG, formed in 1965 by Senegal and the Gambia; the River Niger Basin created in 1965 and which serves several countries in the River Niger area; and, the "Comite Inter-Etats pour la Lutte Contre La Secherese dans le Sahel" (CILSS) set up in 1973 to coordinate anti-drought activities in Senegal, Mali, Burkina Faso, Mauritania, the Gambia, Tchad and Cape Verde.
- 3.4.3 Furthermore, the Bank has also financed several national projects with complementary regional spillover effects. Among these are: the Trans-Kalahari Highway (TKH) linking Botswana to Walvis Bay port in Namibia; the Athi-River – Namanga road, linking Kenya and Tanzania; the Yala-Busia and Eldoret-Tororo road linking land-locked Uganda with Kenya; **the Kyotera-Mutukula-Bukoba-Muhuntwe road, connecting Uganda and Tanzania**; the Tubman Bridge-Bomi Hills, linking Liberia and Sierra Leone; and, several national roads which form part of the Trans-Saharan Highway: the El-Golea – Inhabala road in Algeria and the Nefta-Hazana road in Tunisia.
- 3.4.4 With respect to regional institutional capacity building, the Bank has played a key role in the establishment of regional institutions, such as the Shelter Afrique, the Africa Project Development Facility (APDF), the African Management Services Company (AMSCO), Africa Re to promote insurance and re-insurance business in Africa, and the Federation of African Consultants (FECA). In addition, the Bank also established the Association of African Development Finance Institutions (AADFI) to foster cooperation among national financial institutions on a regional basis

3.5 **Assessment of Experience To-date and Lessons**

- 3.5.1 Since post evaluations have not been conducted for several of these multinational projects, it is difficult to draw definite conclusions about the impacts of the above Bank's interventions aimed at fostering regional integration.

However, a review of supervision- and project completion report-based performance assessments point to some useful insights which can guide the development of the Bank regional integration policy and the preparation of guidelines for future multinational projects. The review shows that physical infrastructure projects, especially those in the transport sector, have performed well. Performance of lines of credit has, however, been mixed and points to the need to be more selective in the choice of national development banks as on-lending institutions. In the industrial sector, the CIMAO project, due to high production costs, has experienced severe capacity under-utilization and lacked market competitiveness.

- 3.5.2 The lessons learned from the implementation of these projects point to the need for selectivity in the choice of areas of intervention, development of a prudent integration policy underpinned by sound guiding principles, and, the need to develop a guideline for selecting multinational projects and programs. In addition, given the complexity of multinational projects, there is a need for good governance and strife-free environment, regionally harmonized macroeconomic policy and regulatory environment all of which are necessary for the establishment of a conducive and market-based integration initiatives. In this connection, the need for the Bank to proactively promote the creation of an enabling environment in which the private sector can play its role as the primary source of investment and engine of growth in Africa cannot be overemphasized. There is also a pressing need to develop close partnership with other facilitators of economic cooperation and regional integration. Apart from the formal regional integration organizations, these include organizations and programs with relatively narrow, technical objectives and a wide range of regional activities designed to give practical expression to integration, national and regional chambers of commerce, private industry councils/manufacturers' associations, research institutions and civil society **organizations** with interest in promoting economic cooperation.
- 3.5.3 Furthermore, since integration initiatives, including multinational projects, involve two or more countries both individually and collectively, the relevant countries must demonstrate commitment to and own the initiatives and be integrally involved in all phases of project/program cycle. In addition, to ensure sustainability of regional initiatives, there is need for the Bank to collaborate closely with the relevant regional and sub-regional institutions and to incorporate their integration features and mandates into project loan agreement and implementation modality. Finally, since multinational projects tend to be large, costly and involve high sunk costs, the Bank should vigorously pursue co-financing arrangements with other development partners and the beneficiary countries. Above all, the Bank should be selective, concentrating on projects that facilitate cooperation and integration confidence building among participating countries.

IV. GUIDING PRINCIPLES OF BANK GROUP POLICY ON ECONOMIC COOPERATION AND REGIONAL INTEGRATION

4.1 Guiding Principles

4.1.1 This policy provides the Bank with the opportunity to clearly **define** a framework to guide its efforts aimed at promoting economic cooperation and regional integration in Africa. In preparing this framework the Bank has taken note of the trend towards globalization, the role of the state as development facilitator and the increasing role of the private sector as the primary engine of growth. The Bank has also attempted to draw some lessons from the experience gained from its prior integration interventions. Deriving from these factors, outlined below are the key guiding principles to underpin Bank Group's activities aimed at facilitating economic **cooperation** and regional integration among African countries in the rapidly globalizing world economy.

Open Regionalism

4.1.2 This principle entails progressive integration of the regional economies into the global economy through complementary unilateral and multilateral liberalization in parallel with the adoption and implementation of regional integrating initiatives. In the process, countries will be encouraged to pursue integration measures consistent with rules-based world trading system and to undertake and/or continue to implement outward-oriented trade and exchange reforms under the stabilization and structural adjustment programs supported by other relevant development partners. In addition, in order to enhance the credibility of liberalization policies, the Bank will support preferential trade arrangements that lock in policy reforms thereby reducing the risks of policy reversals.

4.1.3 Given the apparent irreversibility and growing importance of globalization, open regionalism requires the creation of regional infrastructure, large integrated regional market with economies of scale in production, credible policy environment to attract foreign and domestic investment, the adoption of new productivity-enhancing technology leading to improvements in international competitiveness of the regions' industries. This process will not only increase the regional production base; it will also foster the creation of a large economic space for trade creation with dynamic regional effects. In addition, it would provide regional entrepreneurs the competitive environment for production and entry into the global export market.

4.1.4 To facilitate this dynamic process, the Bank will encourage and actively promote the creation of a conducive environment for private sector led growth, development of domestic and regional financial and capital markets and stock exchanges, removal of non-tariff barriers, implementation of intra-regional preferential agreements and the adoption of low common external tariffs. Furthermore, through its investments in regional institutions and infrastructure, the Bank will provide the impetus for increased trade and efficient utilization of productive resources.

Private Sector Participation

- 4.1.5 As a major stakeholder in regional integration in Africa, the private sector must be given a greater role in the integration process. For regional economic integration to succeed, private sector investors and entrepreneurs who will be intimately involved in investment decisions – financial/services and production- and cross border trade should be able to review and discuss planned policy initiatives and contribute to the decision-making process. In recent years, many countries have begun to include the private sector in regional integration schemes but far more remains to be done. The Bank should take the lead in bringing member states to recognize and enhance the role of private entrepreneurs and nongovernmental organizations in the pursuit of regional integration and co-operation.
- 4.1.6 In this regard, support should be given to private sector organizations and institutions, such as national and regional chambers of commerce and industry associations to enhance their capacity and ability to influence economic policy and promote projects and programs that contribute to regional integration. The active participation of private sector organizations in regional arrangement will facilitate and contribute to the realization of the expected benefits from economic cooperation and regional integration initiatives.

Progressive Integration Using Bottom-up and Variable Geometry Approaches

- 4.1.7 The Bank will pragmatically encourage and promote integration from the bottom up by selectively working with organizations capable of building political momentum for wider economic cooperation and deeper regional integration over time. It will encourage flexibility in regional integration arrangements by supporting regional organizations to adopt a multi-speed, variable geometry approach that allows integration to proceed at different speeds for different subgroups within a given community as they progressively move from regional co-operation to co-ordination and harmonization before attaining full regional economic integration. The advantage of this approach is that it recognizes that countries differ in terms of size, level of development, and the needs and extent of reforms and therefore allows the participating countries to pursue economic integration at different **paces** in a manner that is consistent with the applicable treaties. In this way, the most prepared countries could move ahead and take advantage of the opportunities offered by the regional integration arrangements in their sub-regions as well as beyond.
- 4.1.8 A complementary advantage of integration within a multi-speed/variable geometry setting is that it facilitates macroeconomic policy convergence among participating countries. In this regard, the Bank, in close collaboration with the relevant development partners, will incorporate regional features and promote economic policy harmonization in member countries' structural adjustment programs. Furthermore, the Bank will encourage greater cooperation between the fast and lagging reformers aimed at attaining the objective of regional integration.

Encouraging Member Countries to Support regional Integration Initiatives

- 4.1.9 A major reason why regional integration schemes in Africa have, **thus far**, achieved limited success can be traced to the failure of African governments to implement integration measures called for in the mandates and protocols of these organizations. The main reason for this was that regional integration policies were not a priority in national development plans of these countries. This, for example, explains the continued pursuance of import substitution policies when the mandates of their regional organizations called for trade liberalisation. Similarly, the harmonization of trade, fiscal and monetary policies envisaged in several treaties did not materialize as planned. The outcome of this poor implementation record is the continued existence of various constraints to efficient integration.
- 4.1.10 The reluctance of member countries to implement integration policies stems mainly from the uncertainty about the gains from integration; the perceived inequalities in the distribution of gains; the lack of adequate compensation mechanisms; overlapping memberships; and financial and human constraints. The Bank should encourage member countries to support and implement regional policies by helping to put in place measures and mechanisms that will adequately address the foregoing issues. Countries need to be convinced that regional integration can be an effective strategy for addressing national problems and enhancing the prospects for economic growth. In this regard, the Bank will give emphasis to economic cooperation and integration during the preparation and implementation of its Country Strategy Papers.
- 4.1.11 To facilitate member countries' support for regional integration organizations, the Bank will encourage and work closely with RMCs that demonstrate sustained commitment to the organizations that they belong to. This will be in the context of the Bank's Country Performance Assessment (CPA) process. Appropriate incentive mechanisms are in place and will be utilized to encourage member countries' support for regional integration organizations.

Addressing the Compensation Issue

- 4.1.12 An undesirable feature of regional integration is that member countries are unlikely to benefit equally because of the existence of economic and social disparities among the countries. Since the purpose of integration is to improve the efficiency of resource allocation, manufacturing industry and related activities may become localized in few countries leading to the emergence of a few poles of industrialization. Theoretically, if regional integration leads to higher economic growth rates than would have otherwise been the case because of efficiency **gains**, it should be possible to compensate the losers. The key issue, however, is that differences in size and level of development are a real obstacle to successful integration because they create problems in terms of the equitable sharing of the costs and benefits from regional integration. Larger and more developed economies stand to gain more than the smaller and least developed economies in the regional groupings.

4.1.13 There is, therefore, a need to carefully monitor the integration process to ensure that every country benefits from its participation. In particular, there is a need for compensation mechanisms that will adequately address the financial losses that member countries may suffer as a result of trade liberalization measures undertaken in the context of regional integration. The Bank should, therefore, encourage the establishment of temporary or time-bound compensation mechanisms that will ensure equitable distribution of the benefits and burdens from integration across member countries through fact-finding studies and policy dialogue with regional member countries. Furthermore, since the financial losses are essentially of short-term duration and directly related to the budget, the Bank could provide balance of payments/budget support within the framework of policy-based operations, preferably under co-financing arrangements with the World Bank and/or the IMF. The Bank should assist member countries to identify not only their individual national interests, but also those of their partners in the region in order to build into the process the necessary sensitivities for successful negotiation based on the principles of balance, equity and mutual benefits. The stronger economies must be prepared to assist the weaker ones; the weaker countries must fully exploit the opportunities offered by economic integration; and both categories of countries must realize from the process of integration benefits superior to what they would have achieved if they had acted alone.

Rationalizing Regional Integration Activities

4.1.14 A distinguishing feature of regional integration in Africa is the large number of regional integration groupings, many of them with overlapping goals. This has led to duplication of effort, and inefficient allocation of scarce resources while putting heavy strains on the national budgets and expertise of member countries. It is widely accepted that rationalizing regional activities is necessary to permit faster progress toward regional integration. However, the rationalization process that is underway in most sub-regions is hampered by two major constraints related, on one hand, to the unwillingness of Governments to give up Intergovernmental Organizations (IGOs) located within their countries and, on the other hand, to the lack of adequate mechanisms for carrying out rationalization strategies. The challenge for the future is to accelerate the rationalization process by addressing these and related constraints. Although there are calls for the rationalization of activities at the regional or continent-wide level, primarily through the establishment of the African Economic Community (AEC), the priority should be to provide support to rationalization efforts at the sub-regional level.

4.1.15 The Bank will assist the rationalization process by selectively encouraging those organizations that demonstrate their relevance to Africa's integration process. To this end, transparent selection criteria will be outlined and disseminated in the context of the Bank's information disclosure policy. As a general principle, however, the Bank will not confine its support to the existing regional organizations such as ECOWAS, UEMOA, SADC or COMESA. The Bank will also strive to encourage grassroots or informal regional institutions that facilitate and add momentum to Africa's integration process.

Promoting Collaborative Work with Other Institutions

- 4.1.6 The Bank Group welcomes the contributions of other development partners, bilateral and multilateral, to the efforts to promote of economic cooperation and regional integration in Africa. The Bank strives to coordinate its integration-promoting activities with these organizations and institutions through joint programs and co-financing arrangements. The following paragraphs summarize the activities of several of these organizations.
- 4.1.17 The United Nations Economic Commission for Africa (ECA), the UNDP, The European Union (EU), the World Bank and the IMF are already sponsoring a range of activities aimed at promoting regional integration. In 1997 the ECA Conference of Ministers responsible for Trade, Regional Co-operation and Integration and Tourism established the Committee on Regional Co-operation and Integration whose main role is to facilitate and co-ordinate the activities of the ECA with those of other institutions involved in the process of regional integration in Africa. The ECA has recently conducted a number of studies that have analyzed the constraints to regional economic integration and proposed several financing mechanisms to accelerate the integration process in Africa.
- 4.1.18 The **UNDP** has provided support to IGOs with a mandate to promote economic integration; to River and Lake Basin organizations; and to specialized regional organizations. In recent years, UNDP assistance to regional integration efforts in Africa has emphasized strengthening the linkages between regional activities and policies at the national level; building managerial capacity; and the promotion of 'growth triangles' as integration mechanism. This mechanism, which was pioneered and is being successfully implemented in Asia, is an innovative regional economic co-operation and integration concept. It advocates the creation of complementarities among the economies of three or more adjacent countries through trade and investment by exploiting differences in their resource endowments so as to stimulate economic growth in all the participating countries. The UNDP has launched a demonstration project to identify potential growth triangles in Africa. A pre-feasibility study, which the ADB has been requested to finance, will cover the West, East and Southern Africa regions. It will build on the results of the technical working session on the application of growth triangles in Southern Africa (Zambia, Malawi, and Mozambique), which was sponsored by the UNDP in collaboration with the ECA and COMESA in June 1999.
- 4.1.19 The IMF and the World Bank are supporting the efforts of African countries aimed at eliminating economic distortions through greater reliance on market clearing prices for resource allocation, and at opening their economies to world trade by reducing and rationalizing effective protection through tariff reform and the elimination of quantitative restrictions. It is worth underscoring that these efforts, geared toward achieving a greater integration of African economies in the world trading system, are being supported in part through structural adjustment programs and also through the Cross-Border Initiative. The main influence of the IMF has been through technical support leading to policy reforms. With respect to the World Bank, it is worth noting that it has recently commissioned a study on regional integration arrangements with a view to

developing a formal policy. It has, however, supported integration through funding for multinational projects.

4.1.20 The European Union remains a consistent advocate of regional integration in Africa as well as an important source of finance for regional integration schemes. As an advocate of the variable geometry approach to regional integration in Africa, the EU provides support to the CBI along side the IMF, the World Bank and the ADB. In terms of project activities, the EU has, in recent years, provided project finance for regional transport and communication infrastructure. It has also provided support to regional organizations such as the Permanent Committee for Drought Control in the Sahel (CILSS); regional research; regional health projects; and made contributions to ECOWAS. The Lome IV agreement (1991 - 2000) allocated approximately 10% of the European Development Fund to economic cooperation and regional integration activities. It is expected that Lome V, which is currently under discussion, will also include agreements and resources in support of regional integration.

4.1.21 The Bank will take appropriate supportive and complementary measures to reinforce the efforts of these development partners. These will entail the recognition and acceptance of the similarities and differences in the approaches of the various partners to the promotion of economic cooperation and regional integration in Africa. The Bank is quite aware that some partners have, in broad terms, shown preference for incremental, albeit comprehensive, approaches that focus on strengthening specific aspects of cooperation, financing regional projects, and policy reforms aimed at creating an enabling environment for the free movement of goods, services, labor and capital. There are, however, other partners and institutions which have shown preference for a unified and integrated approach leading to the creation of an African common market in the near future. The Bank believes that each of these seemingly divergent approaches has merits and adds momentum to Africa's integration and will harness the energies these approaches, individually and collectively, bring to the process of integration. Through the various partnership coordination fora and processes, the Bank will engage in systematic information exchange and will enter into co-financing arrangements for projects and programs that facilitate integration through trade and exchange liberalization, economic policy harmonization, promotion of good governance and regional security. The Bank will also cooperate with other partners in their efforts to assist the rationalization and strengthening of Africa's regional integration organizations.

Promoting Regional Co-operation on Cross-cutting Themes

4.1.22 In pursuit of its mandate to assist member countries' efforts aimed at sustainable development and poverty reduction, the Bank has developed or is in the process of developing policies on several cross-cutting themes such as gender, population, human capital development, good governance and the environment. It is instructive to note that several of these themes have regional dimensions. Consequently, the Bank's policy and activities bearing on economic cooperation and regional integration will be guided by the provisions of these policies. For example, the Bank will assist member countries' development efforts aimed at: the establishment of common educational

standards and curricula; the development of a coordinated regional approach on HIV/AIDS; family planning, cross-border migration; and environmental protection particularly with respect to common river basin and power generation projects. In these respects, the Bank will collaborate with the other regional organizations, the relevant RMCs and their sub-regional organizations, and other development partners to ensure that these cross-cutting issues are mainstreamed in all programs and interventions dealing with economic cooperation and regional integration.

V. **AREAS OF INTERVENTION AND IMPLEMENTATION STRATEGY**

5.1 **An Overview**

While aiming at the ultimate creation of the African Economic Community as envisaged in the Abuja Treaty and the integration of Africa in the global market, the Bank is mindful of the need for an evolutionary sequencing of the process of integration. As indicated in section II of this paper, past integration efforts met with limited success because of the choice of inappropriate import-substitution model, lack of adequate regional infrastructure and the proliferation of sub-regional organizations with poor and inadequate institutional frameworks and overlapping objectives and mandates. Under this Economic Cooperation and Regional Integration Policy framework, the Bank's interventions will, therefore, be guided by the need to overcome these constraints to economic cooperation and regional integration. Consequently, the approach will be selective and pragmatic – nurturing regional cooperation leading to integration. It will be underpinned by efforts to promote regional cooperation through infrastructure development, policy harmonization, market enlargement and promotion of cross-border trade and investment as practical tools for facilitating cooperation and deeper regional integration. Furthermore, the Bank will cooperate with regional and sub-regional institutions involving cohesive groups of countries that are committed to the implementation of economic cooperation and regional integration measures. In sum, the Bank will endeavor to leverage its comparative advantages as Africa's premier development bank by focussing its intervention in the following thematic areas:

- Policy Based Operations
- Regional co-operation in infrastructure
- Private sector promotion
- Institution building
- Ensuring Sustainable Development

5.2 **Areas of Focus and Strategy**

Policy Based Operations

5.2.1 Since the mid 1980s, many African countries involved in regional integration arrangements have also been implementing structural adjustment programs (SAP) designed in collaboration with the relevant development partners. To varying degrees, these adjustment programs have been outward oriented and

aim at restoring internal and external stability in order to lay a sound macroeconomic foundation for economic transformation. Under these programs, several member countries have implemented and are continuing to implement reforms aimed at restoring domestic macroeconomic stability and enhancing the efficiency of resource allocation. In this context, measures have been taken to achieve fiscal stability through revenue mobilization and expenditure and improve the management of monetary policy. In addition, trade and exchange rate liberalization have been implemented leading to the lower of tariffs and tariff-bands reduction, removal of some non-tariff barriers, facilitation of the movement of persons, and the introduction of market-determined exchange rate systems.

- 5.2.2 An important lesson that emerges from the reform experience is the need for complementarity and coherence of national policies with regional integration objectives. In this connection, there is a need to harmonize fiscal, monetary and exchange rate policies at the regional level in order establish sound convertible currencies, attract domestic and foreign investments to enlarged regional markets, facilitate regional and global trade and improve the efficiency of resource mobilization and allocation. The challenge for the Bank, therefore, will be to support adjustment programs that encompass and support the integrating elements of the charters and mandates of the relevant regional institutions. In this respect, it is anticipated that through collaboration with the relevant development partners, the Bank's policy-based lending operations will complement project lending and serve as a leverage **for** promoting economic reforms **and** an anchor for locking in sound economic policies leading to the attainment of policy credibility.

Co-operation in Regional Infrastructural Projects

- 5.2.3 Lack of adequate social and economic infrastructure remains one of the key constraints to long-term development in Africa. In most countries, the road network is poorly developed; telecommunications and water supply systems are both inadequate and inefficient; and power supply is insufficient and unreliable. These deficiencies in the supply and quality of infrastructural services have translated into high transaction costs which, in turn, have inhibited investment and hampered cross-border trade. Greater regional co-operation in infrastructure will reduce transaction costs; facilitate market integration; and increase the incentives for investment, particularly by the private sector. Clearly, improved provision of infrastructural services will facilitate the movement of goods and services, enhance productive capacity in all sectors and promote economic integration and growth in Africa.
- 5.2.4 As indicated in section (3.4), infrastructural development has been one of the major areas of past Bank Group multinational interventions and investments aimed at the promotion of economic cooperation and regional integration in Africa. The strategy for the future would entail promoting, strengthening and expanding infrastructure development through regional co-operation in projects and programs. Even though it is widely known that the potential gains for participating countries in regional infrastructure can be quite large and significant, evidence on the ground show regional co-operation in infrastructure

has remained very low. With the aim of improving on performance and concentrating resources in areas with large integrating potential and benefits, the intervention strategy should selectively emphasize and direct resources to the following key productive sectors (i) energy; (ii) transport infrastructure, including roads, railways, air transport and ports; posts and telecommunications; and water resources development. Particular attention should be paid to the needs of land-locked countries for road and other ancillary infrastructure development to facilitate the movement of goods and persons. Moreover, resources should be used to finance studies that will analyze and quantify the benefits from regional co-operation that will accrue to every participating country as well as indicate the opportunity costs to countries not participating in regional infrastructure co-operation schemes.

Private Sector Promotion

- 5.2.5 The private sector has a key role to play in the economic integration process. It is the sector that produces the goods and services for trade and the sector that will have to move these goods and services outside national frontiers for intra-regional trade. Market integration, therefore, requires the full participation of the private sector in co-operation with governments.
- 5.2.6 The Bank Group should work with the existing Business Councils, Associations, Chambers of Commerce, NGOs and other relevant elements of civil society to enhance private sector co-operation aimed at the promotion of economic cooperation and regional integration, especially in the following sectors where the private sector is active: (i) manufacturing, (ii) mining, (iii) agriculture, (iv) construction, (v) financial services, (vi) and, tourism. These private sector **organizations** and agencies have already achieved some success in bringing the regional business community together; and in undertaking product and services-based market surveys, buyer-seller meetings, marketing missions and trade fairs. However, a persisting constraint is the lack of information on business opportunities in regional member countries and impediments to cross-border movement of merchants and traders. The Bank should address this constraint by designing new projects and/or supporting existing initiatives aimed at establishing efficient regional computerized networks of trade information system to facilitate investment promotion, joint ventures and other forms of co-operation between export-oriented public and private sector enterprises. In addition to addressing the need for information, the Bank should help to strengthen the institutional framework for regional investment through the harmonization of laws and procedures and simplification of border-crossing procedures. To this end, the Bank should support the work of organizations, such as ABR and OHADA, that aim at improving contact among African entrepreneurs and harmonizing business laws and practices.
- 5.2.7 The Bank will further facilitate regional co-operation and integration by expanding its line-of-credit for on-lending activities undertaken through viable financial institutions. To-date, the Bank has committed over US\$ 500 million to small- and medium-sized enterprises in the regional member countries. There is a need to strengthen the institutions and frameworks that facilitate efficient transfer of resources for promoting regional investments and policies.

5.2.8 Finally, the Bank should play an active role within the framework of the Africa Project Development Facility (APDF) and the African Management Services Company (AMSCO), by providing: (i) technical assistance for the development of sound project proposals; and (ii) direct professional management assistance, including staff training, to existing private enterprises facing transitional difficulties. Within this framework, the emphasis should be on projects and enterprises with the potential to promote regional economic integration.

Building and Strengthening Capacity

5.2.9 There is an acute shortage of skilled persons in technical and professional occupations in most African countries. At the same time resources are scarcely available at the tertiary level to produce these skills; and, while diversified and growing, the training sector, as a whole, still lacks the capacity to address the needs for skilled manpower development on a sustainable basis.

5.2.10 The possibilities for economies of scale and information sharing justify regional initiatives to build and strengthen capacity through higher education, research, and training. In the area of higher education and training, there is a range of alternative formulas that can reinforce higher learning through regional cooperation, which the Bank could support. One formula is the attachment of regional programs to national institutions. A fairly successful example of this formula is the regional graduate-training program in agricultural economics that is attached to the University of Abidjan. Another formula, which also builds on national training programs, consists of setting up regional standards and providing regional support for improving training facilities. A third formula is to mobilize funding for regional schools that provide professional training in targeted fields such as the “Ecole Superieure Inter-Africaine de Bingerville” in Cote-d’Ivoire. **It is worth noting that, even though similar arrangements exist in other regions, there is a need to expand and strengthen them.** The essential feature of these formulas is that they do not involve the creation of new regional institutions of higher learning; rather they are designed to increase the efficiency and effectiveness of national programs by pooling support through regional cooperation. In this connection, the Bank would explore the possibility of using the facilities of the newly created Joint African Institute to improve the policy formulation and implementation capacity of African countries.

5.2.11 In the area of research, regional research institutions have emerged as centers of excellence **for** fostering and supporting quality research through a network of national research institutions in fields such as economics and agriculture. The Bank already provides support to regional research institutions such as the African Economic Research Consortium and other institutions in the agricultural sector. The Bank should continue to support research initiatives **that address regional issues and problems.** These may include monetary reforms and integration; regional comparative advantages; formal and parallel trade flows between regional countries; trade liberalization; and sectoral policies that promote regional integration.

5.2.12 Finally, information sharing constitutes a significant area of intervention. In this area, the Bank could support regional information systems for the collection and coordination of basic statistical information, particularly social and economic data, which will assist in the design of public policies within and among RMCs. The Bank could also support the development of a business network as a vehicle for building the private sector.

Ensuring Sustainable Development

5.2.13 The following paragraphs summarize some of the key priority issues which the Bank should keep in focus in the choice and design of projects and programs in order to ensure that its interventions in regional and sub-regional initiatives will be sustainable.

5.2.14 The **Bank**, as part of its ongoing collaboration with the Convention to Combat Desertification (CCD), particularly through the establishment of the Regional Collaboration Unit (RCU) at the Bank Headquarters, will assist CCD, to develop sub-regional and regional plans of actions to combat land degradation and desertification. The Bank should also encourage RMCs to adopt an Integrated Water Resources Management (IWRM) approach which gives full consideration to all the ecosystems and socio-economic structure existing in given river basins, as a basis for planning and investing in water resources development projects. Watershed protection should also be an integral part of water resources management in a river basin context. To rehabilitate watersheds, the Bank should encourage the involvement of local communities and NGOs, where appropriate. Furthermore, the Bank should encourage RMCs through the existing **sub**-regional organizations to develop legally binding agreements for sustainable forestry management as negative impacts of poor forest management practices in one country usually spill over to its neighbors.

5.2.15 Coastal areas of sub-Saharan Africa are presently experiencing coastal degradation in the form of coastal erosion, flooding, pollution, deforestation, salt water intrusion and subsidence. Many of these problems are caused or exacerbated by over-exploitation of coastal resources. A holistic, Integrated Coastal **Zones** Management (ICZM), approach is needed for solving coastal degradation problems. Thus, in dealing with environmental issues, the Bank would encourage member countries to adopt and implement harmonized policies on environment.

5.2.16 In the areas of health, population and gender, the Bank will work closely with the relevant sub-regional organizations and other development partners including NGOs and civil society organizations to support initiatives aimed at improving the quality of life of present and future generations. In this context, the Bank will support stakeholder participation in regional projects and programs that address the needs for family planning, infant mortality and morbidity, reproductive health and the control of endemic diseases, including HIV/AIDS and malaria. In addition, the Bank will support RMCs efforts to introduce universal primary education especially those that also promote the education of females.

VI. CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusions

6.1.1 Regional economic integration has an important role to play in the pursuit of accelerated economic growth and sustainable development in Africa. Regional integration will permit:

- The expansion of market size which will facilitate greater specialization and industrialization through economies of scale, thereby helping to overcome the small size problem of African economies;
- Improved donor coordination, leading to a systematic exchange of information and mutually beneficial efficiency in the use of scarce development resources;
- The acceleration of domestic and foreign direct investment and competitiveness of African economies in a globalizing world economy;
- Greater trade among member countries through removal of trade barriers; and
- Rapid and extensive improvement in allocative and dynamic efficiency through enhanced competition among the participating countries and increased incentives for the adoption of new technologies and methods of production alongside rapid innovation.

6.1.2 For a number of reasons, including the lack of adequate compensation mechanisms to ensure an equitable distribution of gains and concerns about loss of political sovereignty, past efforts at regional integration have not been successful in expanding trade and investment and in stimulating growth. With the renewed interest in regionalism throughout the world, new initiatives are building on the lessons learned from past experience and broadening the objectives of regional integration arrangements beyond trade integration to include the harmonization of policies, the free movement of people and capital, and sectoral co-operation while permitting greater flexibility in membership through the variable geometry approach.

6.1.3 The Bank's strategy to promote regional integration should be flexible and pragmatic. It should be evolutionary, recognizing that **comprehensive trade and factors** integration will entail sustained economic reforms in order to achieve convergence of macroeconomic and trade policies of **the** integrating member countries. The main priorities at this time should be the coordination of economic policies and the promotion of greater sectoral cooperation in the provision of public goods. In general, The Bank's interventions should aim at **removing the constraints to effective integration by focusing on areas which will yield immediate pay-offs** in terms of overcoming the costs of economic fragmentation and compartmentalized national development strategies. These include:

- Policy-based operations;
- Regional cooperation in the provision of infrastructure;
- Private sector;
- Building and Strengthening Capacity
- Sustainable development.

6.1.4 In pursuing this strategy **of promoting** economic cooperation and regional integration schemes **with significant lasting impact on** economic development in Africa, the Bank Group's interventions should be guided by a set of principles that comprise: (i) open regionalism; (ii) encouraging greater private sector participation; (iii) rationalizing regional integration activities; (iv) facilitating the adoption of the multi-speed/variable geometry approach; (v) encouraging member countries to support regional integration initiatives; (vi) addressing the issue of compensation; (vii) rationalizing regional integration activities and initiatives; (viii) promoting collaborative work with other institutions; (ix) promoting regional cooperation on cross-cutting theses.

6.2 **Recommendation**

The Boards of Directors are requested to approve the proposed Economic Cooperation and Regional Integration Policy.

ACTION PLAN FOR BANK GROUP POLICY ON ECONOMIC COOPERATION AND REGIONAL INTEGRATION

1. INTRODUCTION

1.1 The importance of regional integration for Africa's future can hardly be overemphasized. Most observers agree that regional integration is a key component of the strategy to accelerate economic growth, achieve sustainable development and reduce poverty in Africa. At the same time, however, there is a clear realization that achievement of economic integration will require long and sustained efforts and commitment and that the expected results may materialize gradually.

1.2 This action plan underscores the importance as well as the difficulty of fostering the integration of African economies. Its principal objective is to define the steps and actions that are required by the Bank Group, in collaboration with Regional member Countries, donors and other stakeholders to launch, strengthen and sustain the integration process as articulated in the policy on economic co-operation and regional Integration. The next section summarizes the actions expected by the Bank, within the Bank, with the RMCs and stakeholders including donors. The third and last section proposes actions aimed at setting up a delivery mechanism that would translate the Bank Group policies into concrete actions and deliverable outputs.

2. THE BANK GROUP ROLE IN REGIONAL INTEGRATION

2.1 The action plan outlined below aims to firmly integrate the theme of economic co-operation and regional integration into the Bank Group's operational activities; and to ensure that the policy on economic co-operation and regional integration is reflected in the Bank's programs and activities. The action plan will be implemented at three levels, separately and/or collectively, (i) within the Bank Group; (ii) with the Regional Member Countries; and (iii) with stakeholders through a combination of advocacy, policy dialogue, economic sector work, project implementation and greater collaboration with all stakeholders in a participatory framework.

Actions within the Bank

2.2 The Bank Group will undertake to implement the following actions:

- (i) Apply the Country Performance Assistance (CPA) and resources allocation methodology, which emphasizes the importance of appropriate policies and institutions for sustained growth and poverty reduction and rewards good performance. The CPA methodology includes a cluster on regional integration and co-operation, which enables the Bank to assess the extent to which RMCs show commitment to regional integration arrangements.
- (ii) Preparation of guidelines on the utilization of the ADF VIII Multinational Operations Facility, which will, among other things, provide a set of criteria for the preparation, appraisal and implementation of multinational operations

financed by the Fund as well as criteria for choosing the regional institutions that the Bank may support;

- (iii) Firmly establish the importance of regional integration for African economies in country strategy papers, encouraging countries to take advantage of regional integration arrangements to stimulate investment and economic growth;
- (iv) Organize a stakeholder seminar to obtain the views and aspirations of stakeholders and reflect them in the implementation of the policy;
- (v) Undertake macroeconomic and economic sector work on the theme of economic co-operation and regional integration aimed at facilitating and demonstrating the benefits of regional integration;
- (vi) Define the modalities for the implementation of the guiding principles particularly with respect to the issues of compensation and the rationalization of regional integration organizations; and
- (vii) Effective utilization of the Multinational Operations Facility (MOF) to finance projects, programs, technical assistance and studies that will foster greater economic co-operation and regional integration.

Actions with RMCs

2.3 Actions that are to be taken jointly with the RMCs would include the following:

- (i) Promote dialogue on regional integration with RMCs in the context of CSPs and the CPA with the view of encouraging RMCs to support regional integration initiatives;
- (ii) Joint assessments of Governments' policies and programs for regional integration in the context of the implementation, supervision and evaluation of multinational operations;
- (iii) Strengthen capacity and mechanisms for the implementation of protocols and agreements ratified by Governments;
- (iv) Identifying projects and activities that foster regional integration for financing under the MOF; and
- (v) Promote greater collaboration on environmental protection.

Actions with other Partners and Stakeholders

2.4 Donors and other stakeholders, including the civil society, would play a critical role in the integration process. The Actions to be taken with donors and other stakeholders would include the following:

- (i) Improving co-ordination with members of the joint ADB-OAU-ECA secretariat on regional integration;

- (ii) improving co-ordination with other multilateral donors through policy dialogue, exchange of information, and periodic meetings;
- (iii) enhancing dialogue between regional integration organizations and donors;
- (iv) promoting the role of the private sector in regional integration activities; and
- (v) Increasing the participation of civil society in the regional integration process through consultative policy dialogue.

3. INTERNAL DELIVERY MECHANISM

3.1 To effectively translate the policy on economic co-operation and regional integration into activities and programs that would foster the integration of African economies, the Bank Group would need to build up its own institutional capacity for analyzing, monitoring, evaluating and addressing regional integration issues as well as implementing regional projects. This will require setting up an internal delivery structure that will not only keep abreast of developments in regional integration but also co-ordinate the Bank's activities, both internally and with those of development partners.

A. Current organisational Set Up

3.2 At present, there is no focal point for regional integration within the Bank. Each country department has a designated Task Manager who monitors developments in their region and advises Management. However, there is no organised interaction among these Task Managers and no mechanism for systematically sharing information and co-ordinating the Bank's activities and programs in pursuit of regional integration. This is a vacuum that needs to be filled as proposed below.

B. Improving the Delivery Structure

3.3 There is need to strengthen the existing loose organisational set up on regional integration to support the leadership role the Bank is expected to play. To this end, the following actions will have to be taken:

- (i) Set up a focal unit in OCOD or elsewhere in the Bank to co-ordinate, integrate and disseminate information on Bank Group's efforts on regional integration;
- (ii) Prepare a terms of reference for the unit: an important function of the unit will be to lead, co-ordinate and facilitate the implementation of the Bank's policy on economic co-operation and regional integration;
- (iii) Survey in-house expertise on regional integration with the aim of mobilizing and harnessing their expert views and knowledge to foster the role of the Bank in facilitating integration; and
- (iv) Liaise and co-operate with RMCs, sub-regional and other external organizations and experts on regional integration in order to facilitate the implementation of

the policy and obtain maximum synergy from the Bank's interventions aimed and economic cooperation and regional integration.