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AFRICAN DEVELOPMENT FUND

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REGIONAL DEPARTMENTS – EAST I & EAST II
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ACRONYMS AND ABBREVIATIONS

AAP:	African Action Plan
ADB:	African Development Bank
ADF:	African Development Fund
AEC:	African Economic Community
AFT:	Aid for Trade
APRM:	African Peer Review Mechanism
AU:	African Union
AUC :	African Union Commission
CEDAW :	Convention on the Elimination of all forms of Discrimination Against Women
CEMAC :	Communauté Économique des États d'Afrique Centrale
CIDA:	Canadian International Development Agency
CITES:	Convention in International Trade in Endangered Species
COMESA:	Common Market for Eastern and Southern Africa
CSO:	Civil Society Organization
CSP:	Country Strategy Paper
DFI:	Development Financing Institution
DFID:	Department for International Development
DRC:	Democratic Republic of Congo
EAC:	East African Community
EAPP:	Eastern Africa Power Pool
EASSy:	East Africa Submarine System
ECCAS:	Economic Community of Central African States
ECOWAS:	Economic Community of West African States
EITI:	Extractive Industries Transparency Initiative
EPA:	Economic Partnership Agreement
ESW:	Economic and Sector Work
EU:	European Union
FDI:	Foreign Direct Investment
FSAP:	Financial Sector Assessment Program
FSF:	Fragile States Facility
FSU:	Fragile States Unit
FTA:	Free trade Area
GCI:	General Capital Increase
GDP:	Gross Domestic Product
GNI:	Gross National Income
ICT:	Information and Communication Technology
IMF:	International Monetary Fund
IGAD:	Inter-Governmental Authority on Development
IOC:	Indian Ocean Commission
IPPF:	Infrastructure Project Preparation Facility

JICA:	Japan International Cooperation Agency
LIC:	Low Income Countries
MDG:	Millennium Development Goals
MIC:	Middle Income Countries
MTS:	Medium Term Strategy
NEPAD:	New Partnership for Africa’s Development
NRE:	New and renewable Energy
ODA:	Official Development Assistance
OINF:	Infrastructure Department
ONRI:	NEPAD, Regional Integration and Trade Department
OREA:	Regional East 1 Department
OREB:	Regional East 2 Department
PBA:	Performance-Based Allocation (for ADF country allocation)
PIDA:	Program for Infrastructure Development in Africa
PRSP:	Poverty Reduction Strategy Paper
RSC	Regional Service Center of the Bank
RFI:	Regional Financial Integration
RIS:	Regional Integration Strategy
RISP:	Regional Integration Strategy Papers
RMC:	Regional Member Country
RO:	Regional Operation
RPG:	Regional Public Good
SADC:	Southern African Development Community
SDI:	Special Development Initiative
SFCD:	Strategic Framework for Capacity Development
SFRD:	Special Fund for Reconstruction and Development
SIDS:	Small Island developing States
SME:	Small and Medium-sized Enterprises
TMEA:	Trade Mark East Africa
UNECA:	United Nations Economic Commission for Africa
WB:	World Bank
WTO:	World Trade Organisation

EXECUTIVE SUMMARY

1. **Regional Integration is a core mandate of the Bank as reflected in its Medium Term Strategy (MTS), 2008-2012, and the Regional Integration Strategy (RIS), 2009-2012.** Under the RIS, the Bank is committed to prepare Regional Integration Strategy Papers (RISPs) aimed at providing an analytical framework for streamlining regional operations (ROs) in the Bank, as well as identify Regional Public Goods (RPGs). This is the first RISP for East Africa, which comprises 13 countries: Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Rwanda, Seychelles, Somalia, Sudan, Uganda and, as of 9 July 2011, the newly-independent Republic of South-Sudan. It draws on the analyses and conclusions of various sector studies and benefits from discussions with the country and regional stakeholders. At the same time, it pays close attention to specific concerns in the region such as fragility, insecurity, cross-border conflicts, governance challenges, as well as cross-cutting issues related to gender, the environment and climate change.

2. The RISP is underpinned by the Strategic Frameworks of both EAC and COMESA and the COMESA-EAC-SADC (CES) Tripartite Arrangement. Support for the Tripartite Arrangement is a key feature of the RISP. In line with the vision and objectives of the region, the Bank's agenda for Eastern Africa is to create a well-connected, economically prosperous and peaceful region by supporting both public and private sector actors engaged in the regional integration process.

3. Eastern Africa has the largest number of RECs and intergovernmental regional bodies in Africa. South-Sudan, recognized by the African Union (AU), has indicated its commitment to be an active player in regional organizations. The 12 other countries are members of six of the eight RECs recognized by the African Union, with most of them belonging to 2-4 RECs/regional intergovernmental organizations (IGOs), notably IOC and IGAD that also have strong influence on the regional integration process. This multiple membership feature is counter-productive and often results in duplication of resources and conflicting goals and policies. The CES Tripartite Arrangement is a bold attempt aimed at addressing this multiple membership issue.

4. **Consolidating peace and security and strengthening democratic process remain a key challenge in the region.** Over the decade, Eastern Africa, especially the Horn of Africa, has been plagued by civil wars, cross-border conflicts, social strife, and arms trafficking. Of late, piracy in Somalia has added a new dimension to the insecurity problem in the region, posing threats to ships navigating the Indian Ocean. The state of democracy also remains fragile.

5**. Over the decade (2000-2009), economic growth has been strong in East Africa, with regional real GDP growth averaging 6.6% annually.** The EAC partner states (6.1%) and countries in the Horn (6.9%) demonstrated strong growth performance, but the island countries (2.9%) lagged behind other countries, due to instability in Comoros and the debt burden and past policy failures in Seychelles. Other macroeconomic indicators show mixed performance. Inflation remained at a single digit level, real export growth rates were positive, and external debt was sustainable, while debt servicing burden was relatively low. On the negative side, the fiscal, trade and current account balances were in deficit, thereby posing a challenge for macroeconomic convergence.

6. In the medium- to long term, the CES Tripartite Arrangement, launched in 2008, will define the vision and regional strategic objectives of both Eastern and Southern Africa. Support for the Tripartite Arrangement is therefore a major focus of the RISP. The Tripartite Arrangement, covering 26 countries which constitute 50% of the continent's population is a bold initiative aimed at promoting inter-RECs collaboration and trade expansion. It extends the EAC and COMESA regional integration vision to a larger vision **of a single REC at an undefined future date, which is in consonance with the long run continental vision of a United States of Africa**.

7. **A number of issues pose challenges for regional integration effort in the region, but there are also opportunities.** The key challenges include: inadequate and poor regional infrastructure network, water scarcity and difficulty in managing shared water resources, weak institutions and human capacity, and insecurity and political instability. Other challenges are diversity across the economies and divergent country attitudes towards regional integration. The availability of abundant natural resources offers opportunities for productive activities. Likewise, the CES Tripartite Arrangement, backed up by political commitment at the highest government level, also holds the prospect for heightened infrastructure development and trade expansion efforts in the region. Furthermore, enabling the flow of capital, management know-how and technologies within the sub-region, and between the sub-region and the rest of the continent is a priority outcome of the regional integration process. In this respect, the pattern of intra-regional investment, led by Kenyan private enterprises operating across the EAC market, of the emerging footprint of pan-African financial institutions and increasing presence of multi-country private equity funds in the region are a positive development, which should be further encouraged.

8. Regional infrastructure and capacity building are the two pillars of the RISP. Regional Public Goods (RPGs), private sector development, knowledge management and networking are also covered in the RISP strategic framework, which conforms to the operational thrusts of the Bank Group MTS (2008-2012). The infrastructure pillar will focus on: transport, energy, ICT and development of shared water resources. In particular, the Bank will promote environmental and climate-friendly infrastructure development (in energy and transport) aimed at reducing carbon emissions. The financing needs are huge. To that end, the Bank will play a catalytic role by mobilizing both its sovereign and non-sovereign financing instruments. Under the capacity building pillar, the Bank will provide support to the CES Tripartite process, notably through technical assistance, for the harmonization of infrastructure master plans, the Tripartite Fee Trade Area (FTA) and the development of Tripartite Strategic Framework. Capacity building activities will also support to a large extent the infrastructure focus areas of the RISP, especially corridor approach and clean energy development. The Bank will also selectively consider investing in undertakings and institutions that augment public and private actors' capacity to promote regional integration. It will provide an enabling environment on one hand, and investment in wealth creation and shared growth on the other.

9 In line with the agreement during the ADF-12 negotiations, regional operations (ROs) will be screened following a two-step filter. First, the focus areas will depend on: (i) MTS Strategic Thrust and ADF XII pipeline prioritization; (ii) RECs/NEPAD-AAP priorities and member countries' priority regional projects; (iii) regional growth drivers and related areas of focus; and (iv) lessons learned and Bank's comparative advantage. At the second stage, the Bank will take into account: (i) resource envelope constraints for regional operations; and (ii) readiness assessment of potential projects and continued dialogue with RECs and regional member countries on priorities and selectivity. Annex 3 presents the filtering methodology. RPGs are treated separately through a three-step filtering framework.

10. **The Bank will undertake dialogue with the regional and country stakeholders on a number of issues crucial to enhance regional integration efforts.** These include: need to balance

national and regional commitments, and ensure synergy between regional and national priorities; harmonization of policies, regulations and standards; and the need for better commitments to quality implementation of ROs at RECs and country level. Others issues include the need to strengthen multinational operations monitoring teams and to put in place an effective monitoring and evaluation mechanism for ROs at both the Bank and the RECs level as well as in RMCs.

11. Four main potential risks to successful implementation of the RISP are identified: (i) weak institutional and human capacity of RECs and national implementation units; (ii) poor performance of ROs, which poses a serious risk to their ability to deliver the expected benefits of regional integration; (iii) limited capacity to mobilize the participation of private sector actors in the structures and processes leading to the creation of a regionally integrated market; and (iv) insecurity and cross-border conflicts. To mitigate the latter risk in particular, the Bank will play a supportive role and coordinate closely with relevant international and regional institutions whose core mandate focuses on promotion of peace and security. It will be done through a number of opportunities offered by the UN, the AU, IGAD and other Development Partners.

12. **Conclusion: The Bank's strategic goal and agenda is to create a well-connected, economically prosperous and peaceful Eastern Africa with the support of public and private sector actors engaged in the regional integration process**. This will be followed through: (i) regional infrastructure development in transport, energy, ICT and shared water resources; (ii) capacity building, with emphasis on support for the CES Tripartite process; sustainability of the strategy's infrastructure focus; and (iii) selective institutions, undertakings and stakeholder platforms that augment public and private capacity towards regional integration. The Bank will also promote cross-cutting issues (gender, environment and climate change), and knowledge management and networking.

13. **Recommendation**: The Board are requested to consider and approve the strategy proposed in the RISP for Eastern Africa, covering the period 2011-2015.

1. INTRODUCTION

1.1 **Regional Integration is at the core of the African Development Bank's mandate and is a key priority area in its Medium Term Strategy (MTS), 2008-2012.** The Boards approved a Regional Integration Strategy (RIS), 2009-2012, in March 2009. Under the RIS, the Bank is to prepare Regional Integration Strategy Papers (RISPs) aimed at providing an analytical framework for streamlining regional operations (ROs) and identifying the Regional Public Goods (RPGs). The timing is significant since it coincides with the Twelfth Replenishment of the African Development Fund (ADF-12) and the Sixth General Capital Increase (GCI-6), both of which seek enhanced resources for ROs. In the Bank's regional groupings, Eastern Africa covers 13 countries: Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Rwanda, Seychelles, Somalia, Sudan, Tanzania, Uganda and, as of 9 July 2011, the newly independent Republic of South Sudan.[1]

1.2 **Support for the Tripartite Arrangement is a key feature of the RISP.** The COMESA-EAC-SADC (CES) Tripartite Arrangement (see Section 3.2 and Annex 9), launched in October 2008, is aimed at synchronising, harmonising and coordinating the market integration, infrastructure and industrial development of the three regions. This RISP also focuses on the two regional economic communities (RECs) -- the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA). It also takes into account the critical role of the Inter-Governmental Authority on Development (IGAD) and the Indian Ocean Commission (IOC) in the regional process. **The Bank's Eastern Africa strategic objective is to create a well-connected, economically prosperous and peaceful region by providing support to: (a) the public sector to implement measures that facilitate the flow of capital, goods and services across the East African market; and (b) to the private sector, which invests in and finances economic activities and infrastructure across the region.**

1.3 The RISP is organized into six chapters. Besides the Introduction, Chapter 2 presents continental initiatives and African Agenda, Chapter 3 covers regional context and prospects, Chapter 4 articulates Bank Group Strategy for the region, and Chapter 5 highlights management and delivery, while Chapter 6 presents conclusion and recommendation. This RISP is the first to be prepared by the Bank for Eastern Africa. It draws on the analyses and conclusions of various sector studies[2] and benefits from discussions with the country and regional stakeholders.

2. CONTINENTAL INITIATIVES AND AFRICAN AGENDA

2.1 **Regional Integration has been part of Africa's strategy for economic transformation since the 1960s** and concrete agreements have subsequently been adopted, including the Lagos Plan of Action (1980) and the Abuja Treaty (1991). The latter recommended the rationalization of RECs to address multiple membership issues. Using the RECs as building blocks, continental integration

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[1] South Sudan becomes independent on 9 July 2011 following a referendum in January 2011 in which its population voted for self-determination and separation from the Republic of Sudan. South Sudan has formally applied for membership in the Bank Group. The Bank is fast-tracking interim arrangements and membership as well as in creating the conditions for preparing an appropriate programming document for a full-fledged engagement. The Bank will remain engaged and enhance its support to South-Sudan, with instruments at its disposal, in critical capacity building activities to ensure a smooth transition to building an independent new state. Somalia and Sudan are under sanctions by the ADB for having defaulted on their debt repayments for several years. Nevertheless, the Bank remains engaged, primarily through monitoring of the political and economic situation, capacity building operations, knowledge generation work and dialogue on arrears clearance. In the context of this RISP, the use of instruments suited to the particular situation of these countries will be pursued.

[2] These include studies on the macroeconomic context and governance, energy sector, transport sector, Information and Communications Technology (ICT) and private sector.

culminating in the long-run vision of a United States of Africa is to be achieved progressively[3]. Other initiatives include the Constitutive Act of the AU and the New Partnership for Africa's Development (NEPAD). Eastern Africa has been taking decisive steps towards the achievement of the continental vision. The programs of both COMESA and EAC are closely aligned with the AU/NEPAD African Action Plan (AAP), 2010-2015, and both RECs are involved in the Program for Infrastructure Development in Africa study[4]. Development partners and private investors also recognize that regional integration is vital for accelerating Africa's development and poverty reduction.

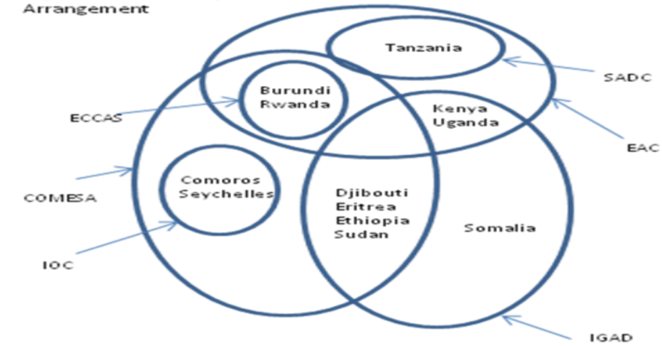
3. REGIONAL CONTEXT AND PROSPECTS

3.1 Special Consideration, Regional Setting, Political, Economic and Social Context

3.1.1 **Special Consideration and Regional Setting:** East African countries constitute a diverse group: four are landlocked, two island states, and the remaining six have access to sea. Of the eight with port facilities, three are either under international sanctions or remain plagued by conflict. The region reflects a diversity of culture, language, ethnic and religious identities. The challenge here is to increase their interconnectivity and trade patterns beyond the current sub-regional blocks, namely, the five EAC Partner States, the five countries in the Horn of Africa and the two Indian Ocean island countries.[5] (See Annex 4 for details).

3.1.2 Institutional Arrangements in the Region: Eastern Africa has the largest number of RECs and intergovernmental regional bodies. Nearly all of the countries are members of four of the eight RECs[6]. Most belong to at least two RECs while some belong to up to four RECs/ IGOs. This multiple membership (Fig 1) often results in duplication of resources and conflicting goals and policies. In addition, these countries are also members of development finance institutions that span across different regional groupings. These include among other the PTA Bank, East African Development Bank, and Agency for Trade insurance.

Figure1: Overlapping RECs Membership in the Institutional Arrangement



Source African Development Bank, 2009

3.1.3 Political Context: Consolidating peace and security and strengthening democratic process are critical to attract FDI, enhance growth and reduce poverty. Over the decade, Eastern Africa has been plagued by civil wars, cross-border conflicts, social strife, and arms trafficking. Current security concerns in the region include the volatile situation in Somalia, conflict in Darfur, stalemate between Ethiopia and Eritrea, Djibouti-Eritrea conflict, piracy off the coast of Somalia and the Gulf of Aden and some outstanding post-referendum issues between Sudan and South-Sudan, including border demarcation and the status of Abyei. There are also intermittent outburst of civil conflicts among the various constituent islands of Comoros and

[3] The intermediate steps are creation of a Free Trade Area (FTA), Customs Union, Common Market, Monetary Union (and ultimately a single currency) and the African Economic Community (AEC).
[4] The PIDA study is being task-managed by the Bank in collaboration with the AU and NEPAD.
[5] With the exception of Seychelles, all of the countries considered in the RISP for Eastern Africa are classified as ADF countries. Moreover, Burundi, Comoros, Djibouti, Eritrea, Somalia, and Sudan qualify for the Fragile States Facility (FSF). The composite averaged ADB and World Bank's Country Policy and Institutional Assessment (CPIA) score for most of these countries is 3.2 or below. South Sudan will most likely qualify for the FSF.
[6] The eight RECs are CEMAC, CEN-SAD, COMESA, EAC, ECCAS, ECOWAS, SADC and UEMOA.

restive situation along the border between Rwanda and DR Congo. All these factors pose threat to private investment in East Africa. So, it is vital for the countries to consolidate peace and stability for deepening regional integration.

3.1.4 The region has made significant strides in strengthening political stability, civil liberty and openness. Nevertheless, democratic system remains fragile. While electoral processes have been reinforced, credibility of political institutions and election outcomes need to be enhanced. One notable exception was the successful completion of the South Sudan referendum in January 2011. The outcomes of the 2011 and 2012 elections in Seychelles and Kenya respectively will have significant medium to long-term impacts on peace and stability in the region.

3.1.5 The AU, COMESA, EAC, IGAD and IOC have been implementing regional conflict prevention and arbitration mechanisms in line with the African Peace and Security Architecture with some degree of success. Although the Bank is apolitical, it contributes to the peace building efforts through relevant regional institutions, its Fragile States Facility, governance initiatives and programs. Annex 5 presents details on the role of IGAD, including piracy issues, and the Bank.

3.1.6 **Economic Performance and Growth Drivers: In terms of weight, Eastern Africa accounts for about 26 % of Africa's population, 16 % of the combined GDP in 2009 current prices, and 22% of the continental landmass.** It clearly shows that an integrated Eastern Africa has great potential for trade expansion and poverty reduction. Figures 2-7 illustrate the region's key macroeconomic features. On balance, the region weathered the global economic crisis relatively well with positive real growth (5.8%) achieved in 2009[7]. Regional GDP growth was propelled by rising oil output in Sudan[8]; mineral exports in Ethiopia and Tanzania; and ongoing reforms across the region. Kenya is the regional trade hub and the transport link to the world for many of the countries (see Annex 6). A robust services sector in the region would complement, integrate markets and boost demand for goods manufactured in the region. The uneven levels of enterprise competitiveness and productivity in some countries may dampen policy level appetite for greater regional integration in the short term. However, over the medium term, freer flow of capital, goods, services, skilled labor and technology will benefit all the countries. This issue is particularly relevant for countries with small populations and undeveloped internal markets.

3.1.7 **Foreign Direct Investment :** Eastern Africa had the lowest share of FDI flow out of the five African regions in 2008 and 2009 (Fig 8), attributable to the civil conflict and governance challenges. Sudan attracted the highest share of FDI, mostly in the oil sector, followed by Uganda and Ethiopia (Fig 9). The flow is likely to improve in the medium term due to: (i) potential new investment in oil and mineral exploration in South Sudan, Uganda and Ethiopia; (ii) intensified reforms in business led by Rwanda; and (iii) on-going large infrastructure projects in corridor investments. A number of these investments are expected in the form of public-private-partnerships. The scale of initial capital outlay required to finance these new investments is likely to result in long lead time to implementation-- whether through public or PPP operations. However, in the shorter term, significant gains could be made by mobilizing private investment and management capacity in the upgrading and operation of existing regional infrastructures (including those located in one country but serving regional markets). Furthermore, there is a need for improving foreign and domestic capital investment climate.

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[7] albeit below the convergence rate of 7% for EAC

[8] Sudan's contribution to regional GDP growth is expected to decrease over time unless new oil reserves are discovered given a decline in oil production.

Regional GDP growth performance has been strong over the decade, particularly in the EAC and the Horn, but the island countries lagged behind the two groups.

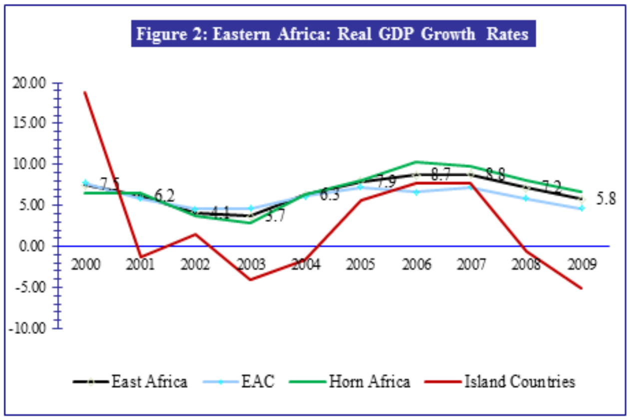


Figure 2: Eastern Africa: Real GDP Growth Rates

Source: ADB Development data platform, August 2010

Uganda, Tanzania, Ethiopia and Rwanda, with over 6% average annual real GDP growth rates drive the regional growth process.

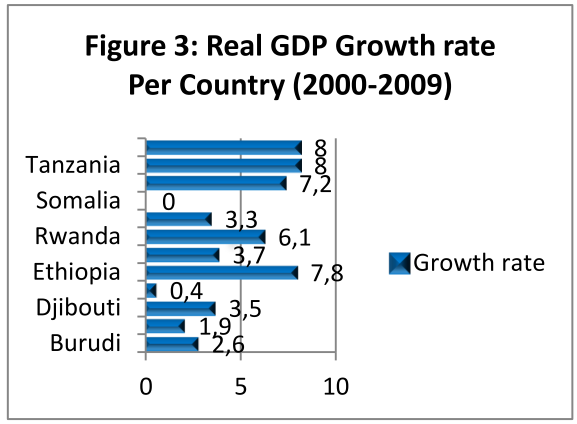


Figure 3: Real GDP Growth rate Per Country (2000-2009)

Source: ADB Development data platform, August 2010.

The EAC and the Horn contributed about 54% and 45% of regional GDP respectively in 2009.

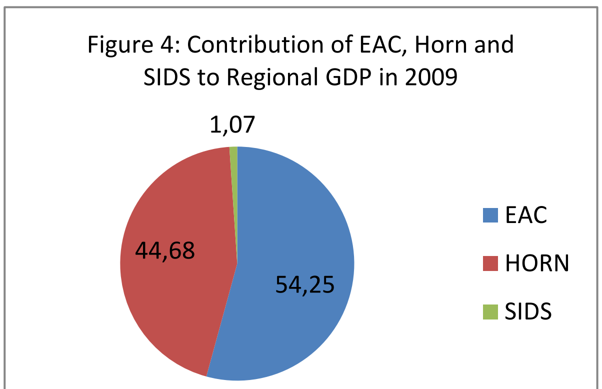


Figure 4: Contribution of EAC, Horn and SIDS to Regional GDP in 2009

Source: ADB Development data platform , Augu

...and Sudan, Tanzania, Kenya, Ethiopia and Uganda have the highest shares of regional GDP in 2009.

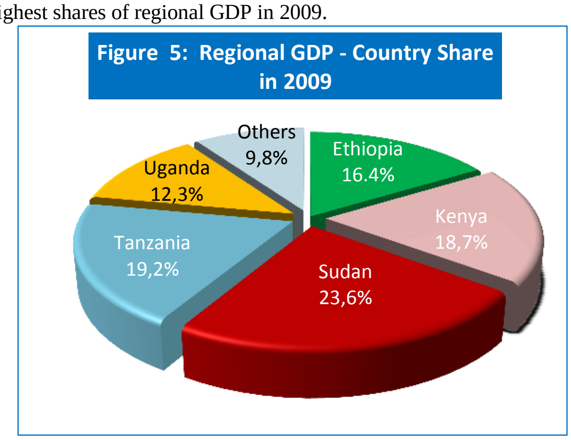


Figure 5: Regional GDP - Country Share in 2009

Services (45.1%), agriculture (32%) and minining and quarrying (14.9%) drive the regional growth, while the contribution of manufacturing (8%) is relatively small. Enhancing value chain in the agricultural production system, would enhance diversification and the contribution of the manufacturing to GDP.

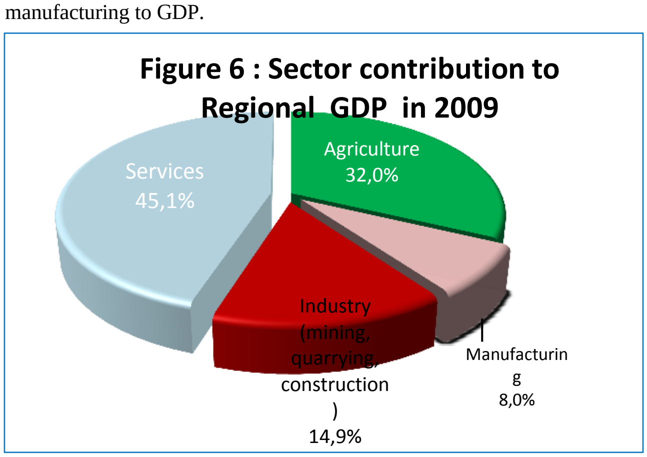


Figure 6 : Sector contribution to Regional GDP in 2009

Source: ADB Development data platform, August 2010

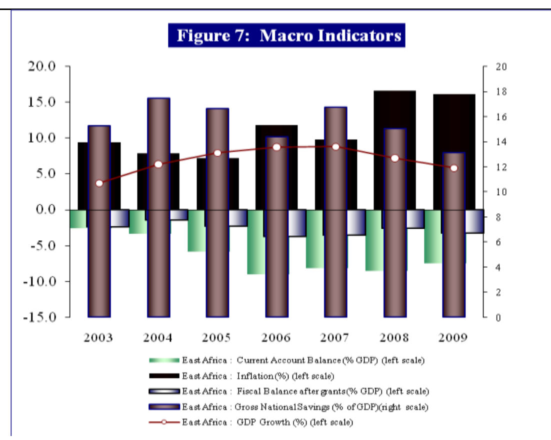
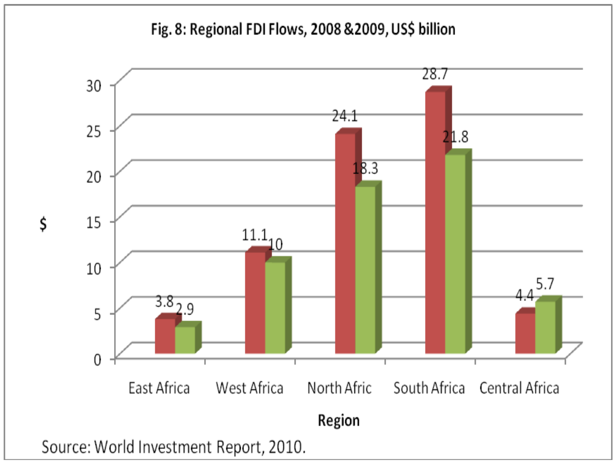


Figure 7: Macro Indicators

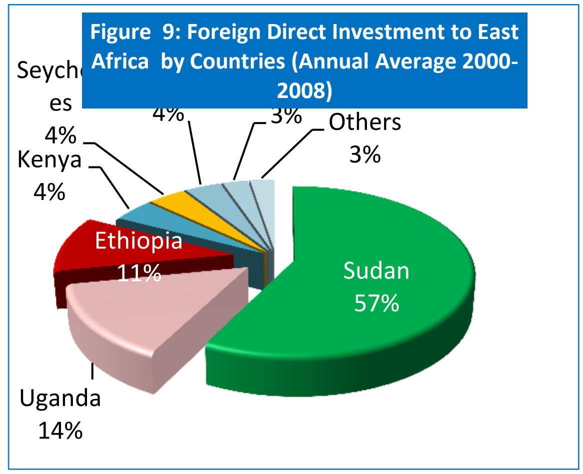
The other macroeocnomic indicators showed mixed performance with single digit inflation rate, positive real exports/GDP ratio and sustainable external debt. Negative fiscal, trade and current account balance pose a challenge for macroeconomic convergence and hence the integration process.

Source: ADB Development data platform, August 2010

In all the five regions, FDI declined in 2009 due to the global recession and the EAC had the lowest share.



...and Sudan attracted the highest share of FDI in the region, followed by Uganda and Ethiopia.



Source: ADB Development Data Platform, August 2010

3.1.8 **Regional Financial Integration:** There has been progress in integrating the financial market in Eastern Africa, especially within the EAC. Liberal access to foreign banks and cross-border bank ownership are allowed in most countries[9]. For example, Kenyan banks operate across the region, with subsidiaries in Rwanda, Sudan and Uganda. The past decade has also seen the emergence of pan-African banks, facilitating intra-continental trade and investment. Even though efforts are underway to strengthen national level regulatory frameworks and supervision, development of uniform products for cross-border transactions will be difficult to achieve without harmonized regulations governing the structure and terms of financial products. Also, in the absence of cross-border credit information, which enhances lenders' ability to collect debts effectively, domestic commercial banks may find it difficult to compete in the larger regional market. The EAC integration policy is to create a single harmonized market in financial services. In this regard, Partner States are modernizing and integrating payment and settlement systems, which will facilitate regional trade. Annex 7 presents a detailed picture.

3.1.9 **Trade:** In 2008-2009, the average share of intra-regional trade in Eastern Africa was 9 %. Among the three regional groups, the EAC countries dominated intra-regional trade with a share of 71.82 %, followed by the Horn of Africa (27.74%). The island countries had a lower share (0.44%), illustrating their limited trade link with the mainland. Kenya is the regional trade hub accounting for 33% of intra-regional trade, attributed to its larger private sector, followed by Uganda (21%) and Tanzania (11%). It is worth noting that official statistics often underestimate intra-regional trade as a substantial portion of cross-border trade is regarded as illegal. Significant trade barriers still persist. The lack of harmonized trade policy instruments in Eastern Africa limits inter-RECs trade. Cumbersome trade logistics along transport corridors and time-wasting border procedures result in excessive delays and high transit costs. Efficient customs operations are hampered by excessive documentary requirements, insufficient use of automated systems, and lack of cooperation among customs and other government agencies. It results that Eastern African countries have the lowest trade logistic perception in the world in 2010.

3.1.10 In the context of the Common Market, the primary focus in EAC is currently now on consolidating the regional market and deepening national and regional level reforms, in order to enable removal of domestic barriers and foster the liberalisation of services. Similarly, COMESA

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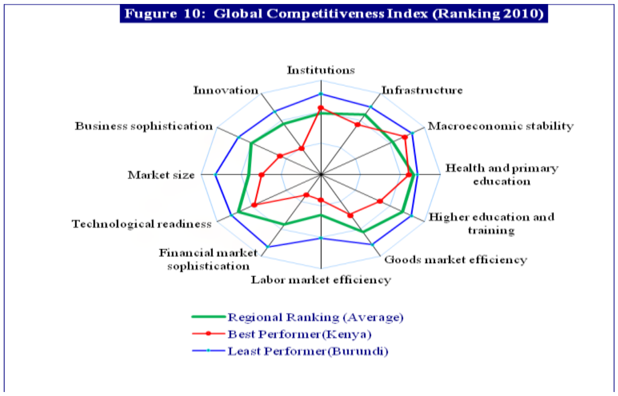
[9] Eritrea and Ethiopia are exceptions.

is also making progress in implementing the services regulations. Both the COMESA and the EAC member countries need to undertake extensive and significant reforms of their respective services regimes, particularly on the removal of domestic barriers. Successful implementation of the reforms in some key areas, for instance in the transportation, financial, ICT, energy and logistics sectors, would create the appropriate conditions for developing complementarities and facilitating the full implementation of the Customs Unions in the two RECs. Completion of the proposed CES Tripartite FTA and the EPA negotiations would have a signalling effect to the region's openness, transparency and maturity in conforming with the multilateral trade practices. (See Annex 6 for details).

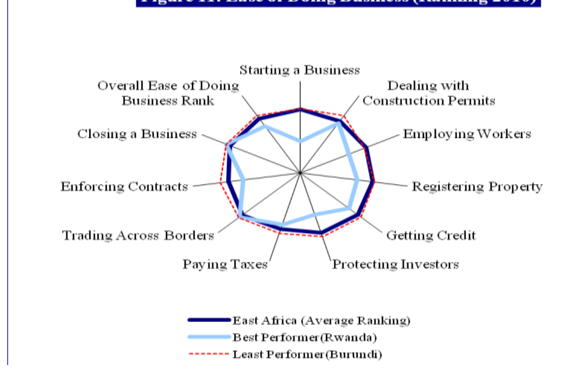
3.1.11 **<u>Competitiveness and Business Climate</u>**: The World Economic Forum 2010 Global Competitiveness Report placed the region within the African average in terms of competitiveness of economies (Fig 10). Creating an enabling business environment, including broadly governance issues, remain a challenge in most countries. While there is progress in some countries in the area of institutional, legal and regulatory frameworks, the cost of doing business remain high and largely explained by infrastructure bottlenecks. Kenya, ranked number 98 globally among 133 countries, was the top performer in entire Africa (see Annex 8). It performed especially well in the areas of financial market sophistication (37), labor market sophistication (40), innovation (48), business sophistication (59) and goods market efficiency (73). Furthermore, the region's track record in attracting private investment in infrastructure is particularly uneven. While Uganda and Kenya lead the way, particularly in the energy sector, few countries have established the necessary regulatory and institutional reform required to attract private capital and technology.

Fugure 10: Global Competitiveness Index (Ranking 2010)



Source: World Economic Forum, 2010

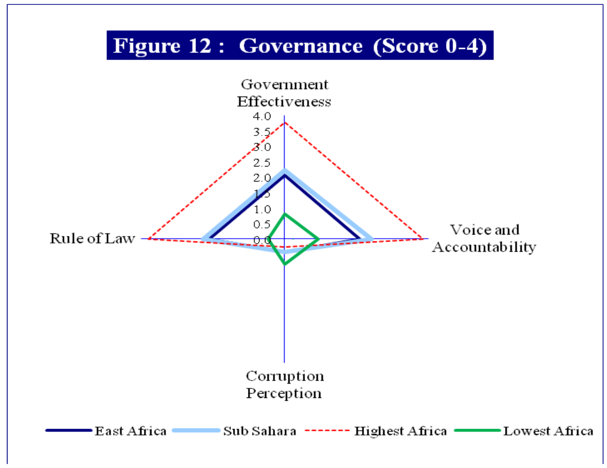
Figure 11: Ease of Doing Business (Ranking 2010)



Source: World Bank Doing Business, 2010

3.1.12 Ease of Doing Business Rankings (Fig 11) shows that, on average, regional performance aligns closely with that of the least performer (Burundi). However, the best performer, Rwanda, ranked 67 globally among 181 countries in 2010 (see Annex 8), was named a top reformer in 2010 and second best reformer globally in 2011. It earned the distinction by enacting sound business policies and removing bottlenecks to establish small-to-medium size firms. For doing business, Rwanda has reduced the number of procedures from 8 to 2, and the length of time it takes to register a business from 14 days to 24 hours. If other countries emulate Rwandan example, they can attract more FDI. Other areas of focus are in the realms of financial sector deepening, education quality, and technological readiness, as well as institutional robustness and transparency, including contract enforcement and investor protection. The Bank will address common general features of the business environment through the RISP, while country specific issues will be dealt in a consistent manner in the context of the CSPs.

3.1.13 **Governance**: Figure 12 presents a composite picture of relative governance situation in Eastern Africa, in terms of Effectiveness, Rule of Law, Voice and Accountability and Corruption Perception. The region's performance aligns closely with the general governance standards in the SSA, but it performed more poorly in corruption perception. The democratic system also remains fragile (see paragraph 3.1.4). However, in terms of good practice, several countries have acceded to the African Peer Review Mechanism (APRM). The APRM assessments indicate that several dimensions of governance, including the adoption of international standards in public taxation and revenue management, are being given increasing importance in many countries. The Bank provides assistance in good governance through institutional support and reform programs as well as through the EITI, primarily at the country level.



3.1.14 **Social Context:** The challenge in Eastern Africa is to develop cost-effective and sustainable safety net for the poor and vulnerable. Over 50 % of the population live below the poverty line (less than $1 a day). Access to basic social services, especially water and sanitation, is also woefully inadequate. The refugee problem is an additional challenge in view of the conflict situation in the region. Despite all this, significant progress has been made in reducing communicable diseases (polio, malaria)., While HIV/AIDS continues to impact not only the health sector, but potentially economic development, trend shows it is stabilizing or declining among adults (15-49 years). In the mid-1990s, HIV prevalence rate was up to 14% among that age group in most countries. According to UNAIDS, surveys carried out from 2005- 2006 revealed lower national adult prevalence rates[10] amid evidence of changing behavior (abstinence, use of condoms and decrease in percentage of adults with multiple partners). Efforts underway to combat the pandemic include IGAD's Regional HIV/AIDS Partnership Program for the Cross-Border Mobile Population, EAC and COMESA regional HIV/AIDS programs and those of development partners including the World Bank, UNAIDS, EU, USA, Global Fund and the Gates Foundation.

3.1.15 Despite positive economic growth in the past few years, attaining the Millennium Development Goals remains a challenge in Eastern Africa. On the positive side, most countries will most likely meet the MDG for education, but the quality remains poor. Consequently, the EAC Partner States have agreed to improve education quality from the primary level. However, it remains unclear to what extent the education policies and programs at the national level will impact the economy in terms of skill and labour market needs. Fortunately, regional centres of further education and training have sprung up for meeting the region's skill development needs.

3.1.16 **Gender**: All countries in the region, except Somalia and Sudan, have signed the Convention on the Elimination of all forms of Discrimination against Women. The EAC and COMESA have frameworks aimed at gender equality. The EAC Gender Strategic Plan addresses key issues, including policy and legislative framework for gender equality, gender disparity in power, and gender-based violence. COMESA Gender Policy (2002) aims to promote effective integration and participation of women at all levels, especially at the decision-making level; and to

[10] Uganda (6.7%), Tanzania (6.5%), Kenya (5.1%), Burundi (3.3%), Rwanda (3.1%), Eritrea (2.4%) and Ethiopia (1.4%).

eliminate regulations and customs that are discriminatory against women. Despite governments' firm commitment to gender equity, disparity remains pervasive in Eastern Africa.[11]

3.1.17 **Environmental Context:** Issues such as deforestation, land degradation, and illegal logging affect all countries. Therefore, ensuring adherence to international standards of forest management will help alleviate these problems. Trans-boundary wildlife corridors must be maintained for migratory species and a coherent approach adopted for the maintenance of wildlife numbers through initiatives such as the Convention in International Trade in Endangered Species. Conservation and sustainable management of marine and inland fisheries as well as shared water resources require regional approach. **Climate change is complicating the environmental problem and eroding decades of hard-won development achievements in Eastern Africa.[12]** It has negatively impacted on water resources, food security, coastal development, biodiversity, tourism and human health. Historically, overreliance on hydropower has impacted countries' energy supplies through vulnerability to prolonged periods of drought. The recent **food crisis in the Horn of Africa** is a combination of drought and climate change, aggravated by the ongoing civil war and institutional fragility in Somalia. Annex 15 presents a picture of the crisis situation and a proposed Bank strategic response. EAC has developed a policy, with provision for the establishment of a climate change fund to help countries mitigate its adverse effects.

3.2 Regional Strategic Objectives

3.2.1 **The Tripartite Arrangement**: In the medium-to-long term, the regional integration agenda in Eastern and Southern Africa will be driven by the implementation of the CES Tripartite FTA Agreement. The CES Tripartite Agreement has to be negotiated within 36 months from June 2011.(See Annex 9 for details).

3.2.2 **EAC Strategic Framework:** According to Article 5 (1) of the Treaty, the EAC objective is to develop policies and programs aimed at deepening cooperation in the region on political, economic, security, social and cultural fields. The EAC is in the third planning cycle and is coming up with a Development Strategy 2011-2015 whose emphasis over the next decade, i.e. 2011-2020, will be on improving global competitiveness and moving closer to a newly industrialising region. The strategy underpins: heightened development of legal and administrative framework to facilitate the regional economy's ability to generate more income and wealth; infrastructure expansion; improvement of health, primary education and training; investment in higher education and training; development of financial markets; technology and innovation; increased trade with other RECs, the CES Tripartite FTA as the most important. .

3.2.3 **COMESA Medium-Term Strategic Plan (MTSP):** The draft 2011-2015 MTSP outlines six objectives: (i) removing barriers to facilitate mobility; (ii) building capacity for global competition; (iii) addressing infrastructural constraints; (iv) peace and security; (v) cross-cutting issues; and (vi) institutional development. Over the years, COMESA has achieved breakthroughs in its regional integration effort. Best practices include trade facilitation through elimination of tariff and non-tariff barriers among member states and, establishment of a COMESA Fund to facilitate implementation of infrastructure programs. COMESA is also in the process of creating a Multilateral Fiscal Surveillance Framework with Bank support.

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[11] It should be highlighted that Burundi, Rwanda and Eritrea have made dramatic gains in terms of ensuring gender parity in government and decision-making positions.

[12] Increasingly, sea-level rise affects coastal areas of Kenya and Tanzania and the island countries. Coral reef loss is a significant cause of coastal erosion and a major coastal management issue in both Kenya and Tanzania.

3.3 Main Challenges and Key Opportunities

3.3.1 The main challenges to, and opportunities for, regional integration in Eastern Africa are summarized below while details are presented in Annex 10.

Main Challenges

(i) Poor regional transport infrastructure network limits growth and trade expansion. Regional railway networks are not commercially run and are poorly maintained. In addition, different track gauges prevent seamless regional connectivity between Eastern and Southern Africa. Poor quality of road networks further increases cost. Some roads also have incompatibility problems, with some designed for higher axle load limits than others. Cumbersome trade logistics and regional variations in technical standards also pose transit challenges (see paragraph 3.1.12). The major seaports have dilapidated handling facilities and equipment, capacity constraints, insufficient logistics infrastructure such as container freight stations. This leads to higher transaction costs to operators and causes inordinate delays and cargo pilferage damage.

(ii) Energy deficit limits productivity. Neglect and under investment in the power sector has led to serious electricity deficits and higher energy costs in nearly all the Eastern Africa countries. Most countries are yet to deregulate and unbundle their energy sectors. State monopolies undertake under one roof electricity generation, distribution, grid management and price regulation. Failure to unbundle this services has constrained and limited the scope for investment opportunities in any of the segments, in particular the private sector.

(iii) **Significant gaps in the ICT networks.** This makes effective high-speed internet services needed for e-application in government, business and domestic use either very expensive or unavailable. Where available, the cost of broadband internet access is high[13]. Eastern Africa lags behind other African regions on intra-regional roaming arrangements.

(iv)**Weak institutions and human capacity limit REC effectiveness.** The RECs, IGOs and member countries have insufficient financial and technical capacity to design, implement and maintain sound ROs, especially in complicated corridor based investment projects. There is also inadequate capacity to undertake thorough policy analysis and also lend credence to convincing negotiation abilities for international trade and technical agreements.

(v) **Insecurity and political instability are major obstacles to deeper integration.** Political strife is a regional curse that frightens investors, inhibits development and stifles economic growth. These conflicts consume resources that could otherwise be channelled into productive activities.

(vi) **Lack of complementarities hampers regional integration.** The challenge is for countries to identify complementary areas of activities based on their comparative advantage.

(vii) **Water scarcity and management of shared water resources remain major challenges.** Rising population exacerbates perennial water shortage. Lake Victoria and the Nile basins are good examples of how riparian countries can cooperate in the use of shared water resources. The protracted Nile Basin Agreement spanning over 13 years (still being disputed by Egypt and Sudan), however, also illustrates the difficulty of dealing with the issue. It replaced the 1929 and

[13] Generally in Africa, cost is on average three times higher than that of Asia.

1959 Agreements - which gave Egypt and Sudan extensive control over the Nile water, a situation deemed unfavorable by the upstream countries.

(viii) Uneven policy, regulatory and institutional readiness hinders intra-regional investment prospects. The region comprises countries with different economic policies and readiness levels for private sector-led growth and development. This is bound to affect the level of compatibility and alignment between orientation of individual countries' strategies and policies, and the stated objective of regional integration through common markets.

(vi) Common challenges in financial sector deepening: Progress needs to be made with regard to ensuring Basel II and III readiness among commercial banks operating in the region. Moreover, removing obstacles to private sector participation in financial services (particularly in pension funds, inter-bank markets, and the insurance sector) is necessary to deepen domestic and regional markets integration and reduce dependency on ODA and DFI funding. While some of these reforms and institutional developments may well be supported at the national level, many countries face similar challenges. Region-wide interventions would therefore help achieve greater transactional efficiencies.

3.3.2 Other opportunities for regional integration exist:

(i) Abundant natural resources, minerals and hydropower potential offer great opportunities. The region is home to a variety of exotic wildlife, beaches, lakes, waterfalls, forests, woodlands and orchards that produce timber and abundant marine life.

(ii) **The Tripartite Arrangement will encourage the three RECs and their development partners to scale up infrastructure development and intra-regional trade.** Under the infrastructure pillar the key issues are on regional infrastructure such as railways, roads and one stop-border posts to be developed as part of corridor developments.

(iii) **A vibrant private sector plays a critical role in stimulating regional integration.** Deepening regional integration in the Eastern Africa region implies creating the appropriate conditions for guaranteeing factor mobility, the free movement of people, goods and services. The policy thrust is also shifting more heavily towards the development of the private sector as the ultimate vehicle for the optimal allocation of resources to bring about development and prosperity to the region. For the private sector, the implementation of services, macroeconomic convergence and other complementary policies on investment, legal and regulatory frameworks would be instrumental to spurring competitiveness.

3.4 Current responses and initiatives

3.4.1 The EAC is implementing several regional initiatives including the sustainable development of Lake Victoria Basin, Lake Victoria Transport Project, Joint Concessioning of Railroads, East Africa Power Master plan, East Africa Submarine System, East Africa Infrastructure Master Plan, and joint tourism marketing and standardization of hotels. Other initiatives include the AUC/NEPAD African Action Plan launched in 2009. It provides harmonized framework for continental infrastructure development and the PIDA. Another major initiative is the development corridor approach, which has been adopted by the EAC and COMESA as well as their member states. Annex 11 presents details.[14]

[14] In terms of economic potential, a JICA study (2009) assessed and categorized corridors in the region as low, medium or high, based on three scenarios presented in Annex 11.

3.5 Recent developments in the coordination of aid and other interventions

A number of development partners are active in the regional integration process in Eastern Africa, including the ADB, World Bank, EC, DFID, JICA, CIDA, TMEA, USAID, Norway, Denmark, Germany and Holland. However, there is no systematic donor coordination mechanism. For instance, DFID coordinates the North-South Corridor Initiative; TMEA coordinates the Trade and Trade Facilitation Initiative; while the EC leads the Horn of Africa Initiative. The EC Horn of Africa Initiative conference on 'IGAD and the Tripartite Infrastructure', held in on 28-29 October 2010, underscored a more systematic coordination mechanism to avoid duplication of efforts. While COMESA and IGAD could develop coordination mechanisms, the EAC may also rely on its Partnership Fund Forum that brings together development Partners involved in resource mobilization activities, thus allowing them to meet with the Secretariat and the member states officials to earmark funding for projects and programmes to ensure aid effectiveness. Furthermore, in the context of the recent food crisis in the Horn of Africa, IGAD is increasingly considered as an appropriate regional vehicle for coordination, in particular with regard to conflict resolution and crisis prevention. The Bank will explore productive ways of engaging with these organizations and taking an active part in these Forums.

IV BANK GROUP STRATEGY FOR THE REGION

4.1 Rationale for Bank Group interventions

4.1.1 Regional integration offers an invaluable opportunity to enhance the countries' connectivity and a tool for resolving conflicts. The Tripartite Arrangement provides additional rationale as well as a unique opportunity for both the Bank and the RECs to formulate an appropriate strategic response to the infrastructure and capacity challenges facing the region.

4.1.2 The Bank Group has intervened to a great extent in the area of ROs. Annex 13 presents the portfolio of ROs. ROs have some specific challenges. However, it is encouraging that many of the non-sovereign ROs are performing well. The RISP also provides the Bank with an opportunity to reflect on the performance of its sovereign ROs and to design appropriate responses. Box 1 contains findings of a recently concluded internal review of the Bank's ROs.15

Box 1: Key Lessons from the Assessment of Bank Group Past Sovereign ROs

The review revealed that ROs move more slowly, and pose more problems during implementation than single country operations (SCOs). Key lessons drawn from the review include: (i) the need to develop business practices within the Bank (including incentives to Task Managers) tailored to the requirements of ROs and the challenges they pose and to strengthen quality assurance arrangements at all levels; (ii) ensure that ROs are underpinned by a strategic vision; in this regard the preparation of the RISPs was seen as a step in the right direction towards improving strategic relevance and approaches for pipeline development; (iii) the regional approach should be better integrated into CSPs and other Bank documents and aligned with those produced by RMCs or RECs; (iv) the need to strengthen Economic and Sector Work (ESW) and training on the regional approach, both in the Bank and in client countries; and (v) the need for RMCs to demonstrate stronger ownership of, and commitment to, ROs implementation performance.

4.1.3 **Participatory/Consultative Process:** The RISP is based on a participatory approach. To prepare it, the Bank held consultations with various stakeholders, including the Secretariats of COMESA, EAC, NEPAD and EAPP, member countries, private sector and civil society

[15] African Development Bank: Learning Review of Regional Operations, March 2010. The review was based on findings of previous analytical work on ROs in the Operations Evaluation Department and Project Completion Reports, discussions with Bank staff, and review of selected ROs.

organizations. The interaction sought clarification on the Tripartite Arrangement and focused on progress, constraints and prospects of regional integration, possible Bank assistance, donor coordination, and co-financing opportunities. A workshop bringing the RECs/IGOs and all the members countries together was held in Nairobi on 11 November 2010 to seek further input and confirmation from individual country and regional stakeholders as well as development partners. The Bank has also made use of several other consultation opportunities, including the Bank Partnerships Forum, held on 28-29 April 2011 in Tunis, which focuses on regional integration. The Bank will sustain and intensify these various consultations during the implementation of the RISP, in particular throughout the project cycle. The Bank will also take an active part in the various forums and initiatives on regional integration.

4.2 Strategic Pillars, Deliverables, and Targets

4.2.1 The two pillars of the RISP are: Regional infrastructure and capacity building. RPGs, cross-cutting issues, and knowledge management/networking are also covered. It should also be noted that the Bank has already initiated a number of actions in South-Sudan that will facilitate the integration of the newly-independent country in the RISP (see Annex 16). Table 1 presents the priority areas. **Going forward, the pipeline of ROs will be screened following a two-step filtering approach** (see Annex 3 for details). The first step focuses on: (i) alignment with the RISP and the Bank corporate strategic thrust; (ii) alignment with priorities of the AU, NEPAD and other relevant regional bodies; (iii) regional growth drivers and related areas; and (iv) ownership of participating countries and entities. The second step involves two groups of indicators: (i) indicators related to participating countries (CPIA, Portfolio performance, Commitment to regional integration); and, (ii) indicators related to the project (Bank's resource constraints, Development outcomes and Quality and readiness assessments). RPGs, which are exempted from countries' PBA cost-sharing, are treated separately through a three-step filtering framework.

Table 1: Summary of the Strategic Pillars of the RISP, 2011 – 2015

	Pillar 1: Regional Infrastructure	**Pillar 2: Capacity Building**
Broad Areas of Focus	(i) Regional Transport/Trade Facilitation Infrastructure (ii) Regional Energy Development (clean energy and interconnectors) (iii) Information and Communications Technology (ICT) (iv) Development of Shared Water Resources, in particular those linked to agricultural productivity.	(i) Support to the CES Tripartite Arrangement. (ii) Support to trade facilitation, statistical and regulatory and institutional frameworks for PPPs (iii) Strengthening institutions (RECs/IGOs, continental organizations, special utilities and national implementing units. (iv) Enhancing the financial and technical capacity of regional multilateral institutions and agencies that invest in infrastructure and private enterprises.

RPGs/ Cross-Cutting Issues	(i) Regional Public Goods- Climate Change, Management of Shared Water Resources and Political risk mitigation services. (ii) Cross-cutting Issues: Gender and Environment (iii) Knowledge Management and Networking.

Strategic Pillar 1: Regional Infrastructure

4.2.2 Here, the main focus is on the benefits of infrastructure in expanding the regional integration space, production and trade, and its consistency with the core operational thrust of the

Bank Group MTS, 2008-2012 and the Bank's comparative advantage[16]. Several studies have concluded that the biggest impediment to regional and intra-Africa trade is poor infrastructure, both in terms of missing links in existing regional networks and inadequate maintenance of existing infrastructure. The supply-side constraints include poor transport infrastructure, logistical problems, energy deficit, poor access to ICT, and water scarcity. Sustainable infrastructure will help remove those constraints and enhance trade. The focus on infrastructure is also consistent with continental initiatives (NEPAD- AAP and PIDA). The financing needs of infrastructure development in Africa are huge. Over the RISP period, the Bank will play a catalytic role in facilitating regional public and private investments through several financing instruments at its disposal, primarily ADF, ADB and trust funds. This will be supported by the RO prioritization process, sound project preparation, operation and maintenance requirements for sustainability.

Area of Focus 1.1: Regional Transport Corridors/Trade Facilitation Infrastructure

4.2.3 **Transport sector strategy aims to promote seamless connectivity within the regional system,** in order to further reduce transportation cost and improve the business climate**.** It focuses on the missing links along the transport corridors, with the Bank taking a stronger leadership role in a few corridors alongside existing partners on the ground, notably the North-South (to which the Bank already pledged $600 million) and TAZARA[17] corridors, while playing supportive role in others. To fill the missing links in the North-South Corridor, the Bank is funding feasibility studies, designs and civil works for parts of the network in Tanzania and Kenya[18]. It is also funding feasibility studies and detailed designs of the Arusha-Holili/Taveda-Voi Road, the Malindi-Lungalunga-Tanga-Bagamoyo Road, the Isaka-Kigali/Kesa-Musongati rail project, and the study on civil engineering contracting capacity in Eastern Africa. **The main emphasis will be on railways in the region[19], but roads will still be supported where it is critical to fill missing links or to support the next phase of an ongoing Bank-funded operation.** In addition, financing will be considered for enabling greater efficiency of existing rail infrastructure. In view of its comparative advantage in long-haul bulk transportation, railways are quite attractive to the region. Heavy container and bulk traffic movement along the Central, Northern Corridors and corridors in the Horn would be cheaper.

4.2.4 **Bank's interventions in the railway sub-sector aims at improving performance.** In this context, emphasis will be on concessioning, system upgrading and restructuring, as well as addressing the equipment shortage problem (locomotives and rolling stock). A comprehensive study will be undertaken to identify deficiencies in the current concession agreements and practical legal measures necessary to improve their performance. In terms of system upgrading and restructuring, Kenya and Uganda's efforts in the region to operate an efficient regional railway network recently in July 2011 received recently in July 2011 a boost when global financial institutions raised a financial package of US$ 164 million, out of which the ADB will provide US$ 40 million. While giving the Rift Valley Railways a new lifeline, this initiative will be instrumental in the modernisation of railway infrastructure. Another key regional initiative to promote is the TAZARA Corridor in order to significantly bring down railway infrastructure operational costs. The Bank has already provided funding for the feasibility study and detailed

[16] The African Development Fund is the lead donor for regional operations in Africa (accounting for 20% of total ODA), with a clear focus on regional infrastructure.
[17] TAZATA being an important railway corridor.
[18] The segments are: Construction of Minjingu-Babati-Singida Road (224 kms); Dodoma-Iringa (260km); and study designs for the Babati-Kondoa-Dodoma section in Tanzania; and Mombasa-Nairobi-Addis Ababa (Agaremarium-Moyale in Ethiopia and Turbi-Moyale section in Kenya).
[19] A good example in the Horn of Africa is the focus of Ethiopia's Fifth National Development Plan on railways.

engineering design of the Isaka-Kigali/Keza-Musongati rail project that would link Burundi and Rwanda to the port of Dar es Salaam, Tanzania. In addition, the Bank will provide technical assistance to Tanzania and Zambia to formulate a restructuring plan for TAZARA.

4.2.5 **Addressing the equipment shortage problem will contribute to the economic and financial viability the railway system.** All the regional railway systems are operating at about 20 to 30 percent of their capacity, due to poor maintenance, repairs deficiency and equipment shortage. The establishment of a regional railway locomotive and rolling stock leasing pool and utilizing the existing workshops and equipment are essential. The Bank will support such a project for sustainable capacity utilization and enhanced revenue generation.

4.2.6 **Improvement of regional seaports**: The Bank will support projects linked to the regional infrastructure and for improving efficiency of the two major regional sea ports in Mombasa and Dar es Salaam. Tanga, Djibouti and Berbera are also important regional ports and enhancements of their efficiency will be considered in both hard (physical infrastructure) and soft (regulatory and institutional). For this, the Bank will consider mobilizing both sovereign and non-sovereign lending instruments. This important regional corridor will have positive implications for Ethiopia and South Sudan. Furthermore, the Bank's work on this corridor outside of Somaliland could have a strong indirect positive impact for Somaliland, especially in collaboration with other donors (e.g. EU, World Bank), who are already working directly with Somaliland.[20]

4.2.7 **Improvement of water and air transportation and seaports are critical to the island countries.** In Comoros, out of the four seaports (Mutsamudu, Moroni, Fomboni and Mwali), only Mutsamudu has a deep-water facility. All the four need upgrading. In Seychelles, the main seaport is Victoria and the country has no merchant marine. There are 14 airports in the country, the major ones being Seychelles International Airport and Praslin Island Airport. Of the 14, only six have paved runways. The Bank will examine appropriate ways of supporting priority air and maritime transport projects in the island countries to facilitate their linkage with the continental landmass. In particular, the Bank is preparing the Indian Ocean Flagship report which will be instrumental to mainstreaming concerns of island countries into regional operations.

4.2.8 **Trade facilitation infrastructure will be critical**, as a key objective of regional integration is to remove barriers to greater intra-regional flows of populations, goods and services. The Bank will assist in the design and construction of One Stop Border Posts (OSBPs) along transport corridors to help reduce waiting time at the borders and lower transport cost. The Bank is currently funding the study design of the OSBP at Namanga. It will complement activities of TMEA, DFID, JICA, CIDA, EU and the World Bank.

Area of Focus 1.2: Regional Energy Development

4.2.9 In the area of energy, the Bank will promote clean, environmental and climate-friendly infrastructure. The objective is to minimize carbon emissions and contribute positively to climate change concerns. The Bank will play a catalytic role in financing regional energy projects (including feasibility studies and detailed engineering designs) and leverage additional resources through co-financing and private sector investments. The proposed strategy will support green energy generation, regional interconnectors, and facilitation/capacity building projects.

[20] The Bank has initiated dialogue with the Somalis and other Development Partners, with the view to engaging in all parts of Somalia (South Central, Puntland and Somaliland) and contributing to the peace and nation-rebuilding efforts.

4.2.10 **Support to Green Energy Generation** will include hydropower and NRE resources (wind and solar) and geothermal energy. Two projects have already been identified for possible Bank support: (i) Rusumo Hydropower Plant; and (ii) Ruzizi Hydropower Plant. In the case of NREs, the Bank carried out a study on Wind Energy Development in 2004, with the assistance of CIDA. It identified four countries (Djibouti, Eritrea, Seychelles and Somalia) as having excellent wind energy resources. The Bank's support, in collaboration with other partners, will focus on these countries and Kenya, where the Bank is already involved in the Lake Turkana wind farm. NREs are also particularly important for the island countries to help provide clean energy and protect the environment. The Bank is currently financing an East Africa Power Master Plan and Grid Code Study. It is intended to serve as a long term planning instrument that will identify all potentials energy resources in the region and prioritise their development schedule according to Least Cost Development criteria for a period spanning from 2010 to 2040. In addition to wind and solar energy, geothermal resources could constitute a key component of the regional clean energy mix.

4.2.11 The Eastern Africa region has more than 15,000MW of geothermal power potential, located primarily in the Rift Valley areas. The untapped energy potential for the latter is estimated at more than 7,000 MW of electric power. Geothermal prospects abound in Djibouti, Ethiopia, Kenya, Rwanda, Tanzania and Uganda. Geothermal energy is currently under-exploited due to a number of challenges, including: (i) lack of an enabling policy, legal and regulatory framework that would attract investment into the region; (ii) colossal start-up investment outlays for geothermal exploration and development; and (iii) risks inherent with resource exploration and power development projects. African Rift Geothermal Facility (ARGeo) was established by UNEP, GEF, ADB, several African countries and aid agencies to promote development of geothermal resources in the region. Other appropriate investment vehicles could be through PPPs. The Bank will also work collaboratively with the RMCs to identify and select pilot geothermal projects to be supported. It is considering support for the continued development of the Menengai geothermal project (Kenya) from its current production level of 198MW to 5,530MW by 2031, to enable it reach the full production potential. The Bank will use ADF resources to leverage significant financing from other development partners and crowd in the private sector.[21]

4.2.12 **Support to Regional Interconnectors** will focus on missing links in the transmission system to enhance regional connectivity. Accordingly, a number of interconnectors have been identified: (i) Ethiopia-Kenya Interconnector; (ii) Kenya-Tanzania-Zambia Interconnector; (iii) Tanzania-Rwanda-Burundi Interconnector; and (iv) EAPP Load Dispatch Center Project. Together with the ongoing projects (Ethiopia-Djibouti, Ethiopia-Sudan and Kenya-Uganda-Rwanda), expected to be completed by 2013 and the Sudan-Eritrea Interconnector project scheduled to open by 2015, all countries in the region will be interconnected except Somalia.

4.2.13 It should be noted that regional energy facilitation projects are essential to underpin capital investments. This type of capacity building related support for energy utilities will be considered in the context of the Pillar 2 of the strategy.

Area of Focus 1.3: Information and Communication Technology

4.2.14 **The Bank's MTS (2008-2012) and the ICT Operations Strategy (2008) put priority on reducing the digital divide among regions and countries.** The ICT Operations Strategy will be critical in the ICT support program. Particular attention will be paid to the tripartite requirements

[21] For instance, under the umbrella of the Scale –Up Renewable Energy Program put in place in the context of the Strategic Climate Fund, which is a multi-donor Trust Fund within the Climate Investment Funds.

of an accelerated, seamless inter-regional broadband infrastructure network; harmonization of policy and regulatory framework governing tripartite ICT Infrastructure development will also be emphasized. In this respect, the Bank will fund a study to support design of the tripartite program and an assessment study of policy and regulatory framework in the three RECs.

4.2.15 For the regional ICT investment program, the strategy will focus on: (i) consolidating connectivity between regional and national backbones and leveraging private investment; (ii) integrating ICT in the delivery of public services and in sector projects; (iii) leveraging ICT innovation applications for transformation of public services and economic competitiveness; and (iv) knowledge management and sharing. In strengthening the broadband infrastructure, the Bank will ensure that all regional infrastructure projects/studies (roads, railways, electricity transmission lines) include a component that could be developed at a marginal cost compared to a green field deployment. In the island countries, the Bank will promote fibre optic connectivity between the islands and the continent through submarine cable, such as the EASSY and SEAGANET initiatives. It will reduce their communication costs and improve business competitiveness. Three potential ICT projects that could be examined for possible Bank support include the EAC broadband Infrastructure Network, Maritime Communications for Safety on Lake Victoria, and Seychelles Submarine Cable Link Project.

Area of Focus 1.4: Development of Shared Water Resources

4.2.16 The Bank will continue to support development of shared water resources. It will mobilize and support private investment to develop the region's natural resources for socioeconomic development and protect the environment. Support will also be provided to augment hydropower, improve agricultural productivity, water management and regulation as well as flood control. A clear link will be established with irrigation-related schemes for agriculture and food security. In the context of the recent food crisis in the Horn of Africa, Annex 15 discusses a proposed strategic Bank approach to shift from urgency to building resilience through a regional framework.

Strategic Pillar 2: Capacity Building

4.2.17 In consultation with the RECs and other stakeholders, the Bank is currently finalizing a Strategic Framework for Capacity Development (SFCD) of regional integration institutions. The Framework focuses on strengthening capacity of institutions involved in regional infrastructure development and trade facilitation in line with the MTS and RIS. The capacity building pillar will be implemented in the context of the bank-wide **SFCD and the Bank's Higher Education Strategy.** However, it will be selective and aligned to the requirements of the Tripartite Arrangement and the infrastructure focus of the Bank's program, especially the corridor approach, rail transport and clean energy development. In the area of Higher Education, Science and Technology, standardization will be encouraged through dialogue, ESW and capacity building.

Area of Focus 2.1: Support to the CES Tripartite Arrangement

4.2.18 The Bank will provide both financial and technical support to the RECs. The grant support will be instrumental in the setting up of an institutional mechanism for the coordination of the CES Tripartite Agreement negotiations and implementation. The technical support would be geared towards providing technical assistance for: (i) harmonization and prioritization of infrastructure programs, especially their master plans; (ii) development of relevant master-plans for industrialisation and economic diversification; (iii) support for the implementation of the Market integration pillar of the Tripartite FTA, including strengthening Tripartite Multilateral

Surveillance Framework; and (iv) dissemination of best practices through seminars and workshops to help bring RECs to similar levels of integration.

Area of Focus 2.2: Capacity Support for Infrastructure Development

4.2.19 This subcomponent will support capacity building programs for sustainable development of infrastructure, especially transport corridors and integrated regional energy, as well as statistical capacity building for strengthening baseline data for monitoring and evaluation of ROs. In collaboration with the RECs and other DPs, the Bank will organize training programs, seminars and workshops for regional and country stakeholders including the private sector and civil society groups on sustainable infrastructure development. **For transport infrastructure**, the focus will be on building capacity for the design, sequencing, preparation, implementation, as well as operation, maintenance, monitoring and evaluation of transport corridor projects and railways concessioning.

4.2.20 **For energy infrastructure,** regional energy facilitation projects are critical. The Bank will assist in identifying and implementing best practices for efficient operation in the energy sector and unlock the potential for its development. Specifically, the projects will target regional capacity and institutional support to enable policy reforms, standards harmonization and regulations which facilitate regional integration and attract investment to the sector. The focus will be on skills development related to policy and regulations; project planning, formulation and management; PPP and IPP arrangements; negotiations related to cross-border projects, tariff formulation and Power Purchase Agreement (PPA); and best practices in operation and maintenance of energy facilities. In order to facilitate resource mobilization for infrastructure, the Bank will also strengthen capacities and legal framework for PPPs.[22]

4.2.21 **Trade Facilitation Capacity building**: As indicated above, trade facilitation services are key complementary ingredients for physical infrastructure to contribute to enhancing intra and inter-regional trade. In Eastern Africa, greater emphasis has shifted to initiatives geared towards modernisation of trade facilitation institutions for deeper integration. These involve modernising customs operations, addressing SPS issues, standards, establishment of One-Stop-Border-Posts and strengthening capacities of the COMESA and EAC while at the same time also scaling up the implementation of the services in the region. The RECs and respective member countries need further work on services such as ICT, transportation, financial, energy provision, logistics, business licencing and registration in order to create the conditions for improving and cutting back on transaction to enhance competitiveness. In coordination with other relevant institutions in the area of trade and the country-specific policy-based operations to improve the business climate, the Bank will provide technical and institutional support to the COMESA and EAC, specifically on : (i) technical assistance to ease the simplification and harmonisation of customs documentation and procedures; (ii) technical assistance and training to member states officials who deal with Customs matters, Standards, SPS, border security in modern customs and trade facilitation practices and publication of risk management guidelines as a common regional framework; and (iii) the setting up of a unit and providing capacity assistance to support implementation of services agenda of COMESA and EAC.

[22] It should also be noted that the establishment of a Centre for Renewable Energy, Energy Efficiency and Conservation in the Eastern Africa region could be a useful initiative.

Area of Focus 2.3: Strengthening Institutions

4.2.22 The Bank will support institutional development of the existing Secretariats of the RECs/IGOs (EAC, COMESA, IGAD and IOC), and the institutional arrangement for the coordination of the CES Tripartite FTA. More specifically and to enhance regional connectivity, the Bank will strengthen institutions' capacity to: (i) develop bankable cross-border infrastructure projects; (ii) coordinate, manage and maintain regional infrastructure projects; and (iii) institute effective monitoring and evaluation mechanisms for ROs.

Area of Focus 2.4: Enhancing the financial and technical capacity of institutions and private sector agencies that invest in regional infrastructure.

4.2.23 In its catalytic role, the Bank will continue to mobilize intermediaries that are able to finance smaller undertakings and private enterprises. These include regional development and commercial banks, institutions that offer trade-orientated financial services (e.g., trade insurance providers), and private enterprises that have a strong regional and pan-African mandate. Combining financing mobilization with technical capacity building will strengthen operational management systems, ensure compliance with safeguards requirements and facilitate self-regulation and industry discipline.

Regional Public Goods

4.2.24 **Support for RPG will focus primarily, but not exclusively, on climate change and management of shared water resources.** One climate change project already identified is the Interregional Early Warning Systems for Flood Prevention and Water Basin Management. Closer collaboration among regional meteorological services will enhance watershed management and increase food security. Climate Risk Management will also be mainstreamed into cross-sector project planning and design. The Bank will continue to address the challenge posed by the **management of shared water resources** through the Nile Basin and Lake Victoria Initiatives in collaboration with other DPs. Support to higher education, science and technology could also be an area of RPG. For the Eastern Africa region, support to relevant regional bodies in the area of conflict resolution and crisis prevention could also be examined selectively.

Cross-cutting issues

4.2.25 **Gender and environment issues along with macroeconomic convergence and knowledge management/networking will also be addressed by the strategy.** Gender and environmental concerns will be mainstreamed into the design and implementation of specific regional projects/programs. Given its importance in the integration process, the Bank will support strengthening of macroeconomic convergence mechanisms, especially in the context of the Tripartite Arrangement. In this regard, statistical capacity building support will include generation of relevant data to strengthen monitoring and evaluation of macroeconomic convergence indicators and multilateral surveillance frameworks.

4.2.26 **Knowledge Management and Networking:** The Bank's new approach to ESW emphasizes preparation of flagship reports. One such report already prepared is the Infrastructure Action Plan for Burundi – Accelerating Regional Integration and Domestic Resource Mobilization for Poverty Reduction in East Africa. Other studies underway or identified include: (i) The Eastern Africa Regional Integration Flagship Study; (ii) Infrastructure Assessments and Action Plan for South-Sudan; (iii) The Ethiopia Energy Sector Flagship Report; (iv) The Indian Ocean Commission

Flagship Study aims to provide input for mainstreaming Bank's regional strategic approach in island countries; and (v) Comparative Cost Analysis of Alternative Energy Sources Flagship Study aims to inform policy dialogue on clean and climate-friendly energy sources. To ensure dissemination of study results and sharing of best practices, the Bank will establish knowledge networks and organize seminars/workshops for regional and country stakeholders.

Potential Deliverables and Targets

4.2.27 A list of potential deliverables, both lending and non-lending operations (Annex 14) will be filtered using a two-step approach (paragraph 4.2.1 and Annex 3) to determine the pipeline of ROs for the ADF-XII period and beyond.

4.3 Regional and Country Dialogue issues

4.3.1 **Balancing national and regional commitments**: The dialogue will focus on the need to accord priority to ROs in national development plans and make necessary funding provisions for them to facilitate implementation. This dialogue will be critical, in particular for the effective implementation of the filtering process of ROs in terms of early commitment for cost-sharing by participating countries. The Bank will also ensure synergy between RISPs and CSPs to ensure effective coordination of country and regional projects and programs.

4.3.2 **Harmonization of policy and regulatory environment:** Through reforms supported by the Bank, for instance in facilitation projects, dialogue will be extended to various stakeholders to promote harmonization of standards, policies and regulations. Governments will be encouraged to implement measures that facilitate private sector investment and trade across their jurisdictions, in particular through financial sector reform and private sector investment in infrastructure.

4.3.3 **Improvement in ROs' portfolio performance**: Based on the lessons from the review of performance of past sovereign ROs, the dialogue will focus on the need for: better commitments at the RECs and country levels to quality assurance at all levels of the project cycle of ROs; strengthening of ROs monitoring teams; and putting in place effective monitoring and evaluation mechanism for ROs. Regional Portfolio Performance Reviews will be undertaken.

4.3.4 **Mobilizing commitment around a hierarchy of national, regional and international infrastructure investments:** Financing needs for regional infrastructure development are huge. Fiscal tightening has encouraged governments to seek out private investors for infrastructure development across the region. The Bank will encourage and support this process, especially PPPs. Donor coordination and consultation opportunities with Stakeholders will be expanded.

4.4 Potential Risks and Mitigating Measures

Four main potential risks to the successful implementation of the RISP are: (i) weak institutional and human capacity of RECs and national implementation units; (ii) limited capacity to mobilize participation of the private sector in a regionally integrated market; (iii) poor performance of sovereign ROs; (iii); and (iv) insecurity and cross-border conflicts. To mitigate these risks, the Bank will, in collaboration with the other DPs, intensify dialogue and institutional capacity support to RECs/IGOs and national implementation agencies. To facilitate resource mobilization for sustainable development of infrastructure, the program includes wide consultations with all major Stakeholders and strengthening of legal and regulatory frameworks, in particular for PPPs. Although the Bank is apolitical, conflicts and security issues can threaten the attainment of key regional goals, as shown by the recent food crisis in the Horn of Africa. The

Bank will play a supporting role and coordinate with relevant international and regional institutions whose core mandate is peace and security, especially in the context of the AU's African Peace and Security Architecture.

V MANAGEMENT AND DELIVERY

5.1 Monitoring and Evaluation: The results framework presented in Annex 1 will be a key instrument of the monitoring and evaluation (M&E) mechanism. The Bank program includes assistance in strengthening the M&E capacities of RECs/IGOs Secretariats and national implementation units. Performance in terms of various aspects of regional development indicators such as trade volume, investment and economic growth, and poverty reduction will rely on various reports by these entities. A mid-term review of the RISP will be undertaken in 2013.

5.2 Institutional Arrangements: The RECs/IGOs (EAC, COMESA, IGAD and IOC) will be responsible for coordination, monitoring and evaluation of Bank-supported ROs. The Bank will support coordination units in each REC/IGO for its portfolio. Since respective countries will have implementation responsibilities, the Bank will encourage country authorities to develop a clear coordination mechanism for ROs. At the Bank level, the Regional Service Center (RSC) based in Nairobi and Field Offices will play an active role, especially in countries where the HQs of the RECs coincide with a Bank Field Office to ensure efficient implementation of CSPs and the RISP programs. An operational meeting relating to ROs will be held at regular intervals with the RECs/IGOs and country officials to that end.

5.3 Resource Envelope for the Implementation of the RISP: The financing for lending operations will be largely from the ADF multinational resources and the ADB window in the case of the private sector operations. For ADF-12, the ROs envelope is estimated at UA 1,150 million (UA 1,072 million after deduction of grant surcharges). Complemented with resources from the national allocations, operations in support of regional integration are likely to represent up to 28.5% of overall ADF operations, hence close to UA 1.64 billion for the period 2011 to 2013. The RO needs are definitely more than the available multilateral resources the Bank can offer. It will therefore leverage additional resources through investment guarantee/equity funds, co-financing with other DPs and private sector financing, especially through PPP arrangements. Non-lending activities (analytical work, pre-investment studies, facilitation and capacity building activities) will be funded through grants (ADF, NEPAD-IPPF, MIC, and Bilateral Trust Funds).

VI CONCLUSION AND RECOMMENDATION

6.1 Conclusion: The Bank's strategic goal and agenda for Eastern Africa is to create a well-connected, economically prosperous and peaceful region through support for both public and private sector actors. To this end, the Bank will support the integration agenda through: (i) regional infrastructure development in transport, energy, ICT and shared water resources; and (ii) capacity building, in order to ensure sustainability of the infrastructure focus of the strategy and, selectively, support institutions, undertakings and stakeholder platforms that augment public and private capacity in enhancing regional integration process. Special emphasis will be on support for the CES Tripartite process within the two pillars. The Bank will also promote RPGs, cross-cutting issues and knowledge management/networking.

6.2 **Recommendation**: The Boards are requested to consider and approve the strategy proposed in the RISP for Eastern Africa, covering the period 2011-2015.

Annex 1: Result Matrix of the Eastern Africa RISP

Region's development objectives	Problems hampering the achievement of region's development objectives	Final Outcomes	Final Outputs/Indicators	Mid-term Outcomes	Mid-term Outputs/Indicators	Indicative program of new operations (2011-2015) and ongoing projects
		(expected at the end of RISP period in 2015)		(expected at mid-term of RISP period in 2013)		
Pillar I: Promotion for Regional Infrastructure Development						
Promote economic integration, private sector, growth and poverty reduction in the region.	• Missing links in the major transport corridors and poor transport infrastructure. • Energy deficit and under-developed power infrastructure • Significant gaps in ICT backbone infrastructure and costly broadband internet access. • Freshwater shortage and challenges of shared water resources management. • Cumbersome trade logistics and poor trade facilitation infrastructure.	**(i) Support for regional transport and trade facilitation infrastructure**				
		Seamless connectivity within the regional transport system achieved and trade logistics enhanced.	Improved movement of goods and services, leading to increased intra-regional exports from 8% of total regional exports in 2009 to 15% in 2015.	• Improved road and rail transport systems following the bridging of missing links in the major transport corridors in the EAC and the Horn and construction of OSBPs.	Intra-regional trade increased from 9.3% of total trade in 2009 to 12% by 2013.	• Mombasa-Nairobi-Addis Ababa Road Corridor (Phase 3) • Isaka-Kingali/Keza-Musongali Rail project • Railway Concession Study. • Railway equipment Leasing Pool Project • OSBP Construction at Namanga Border • OSBP Construction at Holili/Taveta Border.
		(ii) Support for energy development				
		• Green energy generation enhanced through the exploitation of hydro and new and renewable energy (NRE) resources. • All mainland countries in the region, except Somalia) interconnected and linked to the Eastern Africa Power Pool.	Attainment of reliable power supply with improved availability from 89% to 100% by 2015; and average reserve ratio exceeding the 15-20% acceptable benchmark (reserve margin already reached 34% in 2009).	• Development of regional hydro potential increased substantially by 2013 beyond the 2009 level of 7.5%. • Power installed generation capacity increased from 7,637 MW in 2009 to 16,554 MW by 2013. • All ongoing Interconnectors commissioned by 2013 except Sudan-Eritrea	Generation capacity availability improve from 89% in 2009 to over 90% by 2013; and average reserve margin maintained at the acceptable 15-20% benchmark (Reserve margin already reached 34% in 2009).	• Projet Hydroelectrique Rusumo Falls Study (Burundi/Rwanda/Tanzania) • Amenagement hydroelectique de Ruzizi III • Power Interconnection (Kenya/Tanzania/Zambia) • Ethiopia/Kenya Power Interconnection Project

Region's development objectives	Problems hampering the achievement of region's development objectives	Final Outcomes	Final Outputs/Indicators	Mid-term Outcomes	Mid-term Outputs/Indicators	Indicative program of new operations (2011-2015) and ongoing projects
		(expected at the end of RISP period in 2015)		(expected at mid-term of RISP period in 2013)		
				Interconnector.		
		(iii) Support for Information and Communication Technology (ICT)				
		All countries in the region are interconnected (inter state fibre connectivity cable) and connected to undersea optic fibre system.	Development of a reliable ICT infrastructure with efficient connectivity to the regional and international Internet backbone network; and reduction in the cost of broadband internet access by half.	Cost of broadband internet access in the region is competitive to the rest of the world.	At least 80% of Eastern Africa backhaul transmission missing-links is implemented.	Study on the Design of CES Tripartite ICT Program EAC Broadband Infrastructure Network Project. Maritime Communications for Safety on Lake Victoria Seychelles Submarine Cable link Project NEPAD ICT Broadband Infrastructure Network
		(iv) Shared water resources as a pathway to peace and conflict resolution	Improved water supply for agriculture and drinking.	Peaceful collaboration in the use of shared water resources.	Major initiatives underway and support for the development of shared water resources	Nile Basin Initiative Victoria Falls Initiative
	Pillar II: Institutional Capacity Building and Knowledge Sharing					
	• Institutional and human resources constraints for sustainable development of infrastructure.	**(i) Support to the EAC-COMESA-SADC Tripartite Arrangement**				
		(i) Tripartite Strategic Framework prepared to ensure the eventual merger of the three RECs. (ii) RECs transport master plans harmonized into	(i) The CES Free Trade Area established and functioning. (ii) Improved transport system marked with reduced travel time	(i) CES Tripartite FTA Agreement signed and the CES FTA Secretariat in place. (ii) Regional Transport Master Plans for the three RECs in place.	(i) CES Tripartite FTA launched and operational. (ii) Improved transport system marked with reduced travel time and cost.	(i) Support for preparation of the Tripartite Strategic Framework (ii) Support for Implementation of Tripartite Free Trade Area (FTA).

Region's development objectives	Problems hampering the achievement of region's development objectives	Final Outcomes	Final Outputs/Indicators	Mid-term Outcomes	Mid-term Outputs/Indicators	Indicative program of new operations (2011-2015) and ongoing projects
		(expected at the end of RISP period in 2015)		(expected at mid-term of RISP period in 2013)		
		one joint master plan.	and cost.			
			(iii) CES Free Trade Area (FTA) in place by 2015. (iv) Harmonized Regional Infrastructure Master Plans for the three RECs			
	• Lack of capacities to implement regional programs and projects. • Lack of harmonized policies and regulations on infrastructure development by the RECs. • Lack of harmonized customs regulations and procedures.	***(ii) Strengthening Institutions (RECs, Continental Organisations and National Implementing Unit)***				
		Improved implementation of projects and programs	(i) Adequate human and financial resources for implementation of regional projects and programs. (ii) Regional Portfolio Performance Improvement Plan implemented	Noted progress in the implementation of regional projects by both RECs and National Implementation Units	RECs and National Project Implementation Units strengthened. Regional Portfolio Performance Review conducted	(i) Capacity support project for Infrastructure Development (ii) Capacity Building Support Project for RECS and NEPAD Planning and Coordination Agency (NPCA).
		(iii) Support to transport and trade facilitation, customs modernization and reform and Aid for Trade				
		Reduced transit time on goods and services across borders within the region	Trade related procedures harmonized across countries in the region.	Noted progress in easing movement of goods and services across borders in the region.	Progress in the implementation of harmonized trade policies and programs.	(i) Capacity support for trade policy harmonization; (ii)TA for enhancing knowledge in modern customs practices and revision of the Customs Management Act; and (iii)Capacity support for regional trade in services agenda.

Annex 2: Macroeconomic Data

Table 1. Key Macroeconomic Indicators, 2000-2009

Indicators	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP Per Capita (US $)	250	250	252	270	310	350	410	500	600	590
Inflation (%)	6.0	3.7	2.1	9.4	7.9	7.2	11.9	9.8	16.6	16.1
Fiscal Balance (% of GDP)	-3.1	-2.2	-1.7	-2.4	-1.5	-2.3	-3.7	-3.5	-2.6	-3.3
Gross Domestic Investment (% of GDP)	18.0	18.6	18.5	19.1	21.1	22.0	23.0	24.3	22.3	21.7
Gross National Savings (% of GDP)	11.8	13.1	13.6	15.3	17.4	16.6	14.4	16.7	15.0	13.1
Real Export Growth (%)	24.9	11.2	16.7	7.3	11.6	10.9	3.8	18.6	9.2	-1.2
Trade Balance (% GDP)	-7.7	-8.9	-7.7	-7.6	-8.5	-10.7	-11.9	-9.3	-9.1	-10.0
Current Account (% GDP)	-5.8	-5.8	-4.2	-2.6	-3.4	-5.9	-9.0	-8.1	-8.5	-7.5
Terms of Trade (%)	-6.6	-8.2	-5.3	-0.4	2.5	4.9	0.6	5.5	2.3	-7.2
Total External Debt (% GDP)	80.5	78.8	80.5	79.9	71.0	59.9	50.7	39.4	34.3	37.6
Debt Service (% of Exp. of Goods & Services)	22.9	28.1	13.1	12.6	10.9	7.6	7.4	21.8	3.2	4.9
Regional GDP Growth Rate (%)	7.5	6.2	4.1	3.7	6.3	7.9	8.7	8.8	7.2	5.8
GDP Growth Rate - EAC (%)	7.8	5.9	4.6	4.7	6.1	7.2	6.6	7.2	5.9	4.7
GDP Growth Rate - The Horn (%)	6.6	6.5	3.7	2.9	6.3	8.0	10.3	9.8	8.0	6.6
GDP Growth Rate - SIDS (%)	18.8	-1.3	1.5	-4.1	-1.7	5.7	7.7	7.6	-0.6	-5.0

Source: ADB Development data platform, August 2010

Table 2. Real GDP Growth Rates (%)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Average 2000-09
EAST	**7.5**	**6.2**	**4.1**	**3.7**	**6.3**	**7.9**	**8.7**	**8.8**	**7.2**	**5.8**	**6.6**
Burundi	-0.9	2.1	4.5	-1.2	4.8	0.9	5.2	3.2	4.3	3.3	2.6
Comoros	1.7	2.3	2.3	2.1	1.9	2.8	2.6	0.8	0.6	1.4	1.9
Djibouti	0.4	2.0	2.6	3.2	3.0	3.2	4.8	5.1	5.8	4.8	3.5
Eritrea	-3.6	8.8	3.0	-2.7	1.5	2.6	-1.0	1.4	-9.8	3.6	0.4
Ethiopia	5.9	7.7	1.2	-3.5	9.8	12.6	11.5	11.5	11.6	9.9	7.8
Kenya	0.5	4.5	0.5	2.9	5.1	5.9	6.3	7.1	1.7	2.5	3.7
Rwanda	2.5	6.7	9.4	0.3	5.3	7.1	5.5	8.8	11.2	4.5	6.1
Seychelles	24.5	-2.3	1.2	-5.9	-2.9	6.6	9.3	9.7	-0.9	-6.8	3.3
Somalia	…	…	…	…	…	…	…	…	…	…	...
Sudan	8.4	6.2	5.4	7.1	5.1	6.3	11.3	10.2	7.0	4.9	7.2
Tanzania	17.9	6.0	7.2	6.9	7.6	7.4	6.9	6.8	7.5	5.5	8.0
Uganda	11.3	8.8	7.1	6.2	5.8	10.0	7.0	8.1	9.2	7.0	8.0

Source:ADB Statistics Department; African Economic Outlook, August 2010

Table 3:Gross Domestic Product per Capita (US$)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
EAST	**248.0**	**250**	**252**	**274**	**311**	**361**	**418**	**503**	**601**	**596**
Burundi	110	100	93	86	95	108	124	119	137	146
Comoros	367	390	428	536	615	625	660	716	765	835
Djibouti	762	773	781	808	842	880	938	1016	1157	1228
Eritrea	193	198	184	210	258	246	262	275	300	334
Ethiopia	122	117	108	111	144	164	193	247	324	381
Kenya	401	402	396	438	461	523	612	718	783	772
Rwanda	218	212	202	205	223	265	312	356	458	443
Seychelles	9099	9144	10207	10302	10362	11096	12289	12308	11045	7071
Somalia	…	…	…	…	…	…	…	…	…	…
Sudan	354	376	410	479	568	718	921	1151	1403	1294
Tanzania	298	296	301	316	338	363	357	408	488	469
Uganda	250	251	256	262	304	350	371	442	520	522

Source: ADB Development data platform, August 2010

Table 4: Consumer Price Inflation (%)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
EAST	**6.3**	**3.7**	**2.1**	**9.4**	**7.9**	**7.2**	**11.9**	**9.8**	**16.6**	**16.1**
Burundi	24.3	9.3	-1.3	10.7	8.3	13.2	2.7	8.3	24.5	8.3
Comoros	5.9	5.6	3.5	3.8	4.5	2.0	4.4	4.4	4.8	4.5
Djibouti	1.6	1.8	0.6	2.0	3.1	3.1	3.6	5.0	12.0	1.7
Eritrea	19.9	14.6	16.9	22.7	25.1	12.5	15.1	9.3	19.9	34.7
Ethiopia	6.2	-5.2	-7.2	15.1	8.6	6.8	12.3	15.8	25.3	36.4
Kenya	10.0	5.8	2.0	9.8	11.6	10.3	14.5	9.8	18.5	9.3
Rwanda	3.9	3.4	2.0	7.4	12.0	9.1	8.9	9.1	15.5	10.3
Seychelles	6.3	6.0	0.2	3.6	4.1	0.6	-1.9	5.3	37.0	31.7
Somalia	…	…	…	…	…	…	…	…	…	…
Sudan	6.9	7.4	8.3	8.3	7.3	5.6	15.7	8.8	14.0	10.5
Tanzania	6.0	5.1	4.3	5.3	4.7	5.0	7.3	7.0	10.3	12.1
Uganda	5.8	1.9	-0.3	8.7	3.7	8.6	7.2	6.1	12.0	11.1

Source: ADB Development data platform, August 2010

Table 5: Fiscal Balance (% of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
EAST	**-3.1**	**-2.2**	**-1.7**	**-2.4**	**-1.5**	**-2.3**	**-3.7**	**-3.5**	**-2.6**	**-3.3**
Burundi	-2.3	-3.8	-8.6	-6.4	-5.6	-2.3	-3.2	-3.0	-3.1	-4.0
Comoros		-3.6	-3.7	-3.5	-1.6	0.1	-2.1	-2.0	-2.6	-1.5
Djibouti	-1.8	-1.4	-3.7	-2.3	-1.9	0.2	-2.5	-2.6	1.3	-1.8
Eritrea	-39.6	-33.0	-25.2	-13.5	-16.6	-21.2	-12.0	-15.3	-25.4	-15.5
Ethiopia	-9.3	-3.9	-6.0	-6.1	-2.6	-4.4	-3.9	-3.6	-3.0	-1.0
Kenya	0.8	-1.7	-2.2	-3.6	-0.9	0.1	-3.4	-1.1	-5.9	-5.8
Rwanda	0.8	-4.3	-1.2	-2.2	-0.2	0.3	-0.6	-1.0	0.5	-1.9
Seychelles	-11.5	-8.0	-14.0	5.9	2.2	7.0	3.1	-8.7	-3.3	2.6
Somalia	…	…	…	…	…	…	…	…	…	…
Sudan	-0.7	-0.9	3.1	0.7	1.5	-3.1	-4.6	-5.4	-1.4	-3.7
Tanzania	-1.4	-1.0	-0.4	-1.3	-4.3	-3.2	-3.4	-3.2	0.0	-2.7
Uganda	-6.8	-1.3	-3.8	-4.3	-2.6	-0.8	-2.2	-1.8	-2.4	-1.7

Source: ADB Development data platform, August 2010

Table 6: Current Account Balance (% of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
EAST	**-5.8**	**-5.8**	**-4.2**	**-2.6**	**-3.4**	**-5.9**	**-9.0**	**-8.1**	**-8.5**	**-7.5**
Burundi	-6.8	-5.3	-0.7	-4.1	-4.8	-0.7	-14.2	-11.7	-19.1	-12.9
Comoros	1.7	6.2	-1.1	-6.8	-6.2	-7.4	-6.1	-7.6	-11.8	-8.6
Djibouti	-9.0	-2.9	-1.6	3.4	-1.3	-3.2	-14.7	-25.8	-39.0	-18.2
Eritrea	-0.6	-4.6	6.8	9.7	-0.7	0.3	-3.6	-6.1	-5.5	-4.8
Ethiopia	-4.2	-3.0	-4.6	-1.4	-3.8	-6.3	-9.4	-4.3	-5.5	-5.3
Kenya	-1.9	-3.0	-0.9	1.0	-0.8	-1.3	-2.1	-3.8	-6.5	-4.9
Rwanda	-2.6	-8.1	-9.0	-6.7	-3.1	-2.8	-7.2	-2.3	-6.4	-6.7
Seychelles	-3.1	-21.8	-11.9	0.2	-5.9	-19.0	-13.1	-29.0	-44.4	-28.5
Somalia	…	…	…	…	…	…	…	…	…	…
Sudan	-13.0	-12.7	-10.3	-7.9	-6.5	-11.1	-15.2	-12.5	-9.1	-9.2
Tanzania	-4.6	-1.9	0.9	-1.0	-2.9	-6.1	-8.0	-10.6	-12.4	-10.2
Uganda	-5.4	-5.0	-4.5	-1.9	-0.7	0.0	-3.5	-2.8	-6.1	-5.9

Source: ADB Development data platform, August 2010

Table 7: Gross National Savings (% of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
EAST	**11.8**	**13.1**	**13.6**	**15.3**	**17.4**	**16.6**	**14.4**	**16.7**	**15.0**	**13.1**
Burundi	-2.5	1.6	2.9	6.0	4.9	9.6	1.8	1.8	5.2	11.0
Comoros	9.9	12.5	9.3	7.1	4.8	2.1	3.6	4.5	3.0	5.8
Djibouti	-0.2	5.0	8.4	22.2	19.8	20.0	20.4	16.6	7.5	20.6
Eritrea	21.4	30.7	36.4	35.9	18.9	20.8	10.2	12.0	13.2	6.7
Ethiopia	8.9	19.3	16.1	17.9	17.7	17.1	17.2	21.0	17.3	13.9
Kenya	15.7	16.1	18.5	17.2	17.2	16.1	15.5	16.0	10.9	10.7
Rwanda	14.2	15.5	10.2	9.1	22.2	23.9	15.7	18.5	18.6	16.0
Seychelles	23.9	24.0	18.4	18.1	12.9	14.6	14.2	9.1	-14.1	7.7
Somalia	…	…	…	…	…	…	…	…	…	…
Sudan	9.9	4.9	9.2	12.1	16.0	13.0	9.9	14.0	13.7	10.2
Tanzania	10.8	12.5	10.6	14.6	18.5	20.5	19.5	20.2	19.7	17.9
Uganda	13.0	15.8	15.5	16.3	20.2	21.0	17.8	19.0	20.3	18.9

Source: ADB Development data platform, August 2010

Annex 3: RISP Pipeline Filtering Process

During the ADF-12 consultations, deputies suggested that project selection and prioritization process be divided into a Two Step Approach. The prevailing approved approach is as follows:

Step One: **RISP**

After broad consultations, five-year Regional Integration Strategy Papers containing an indicative pipeline of operations recommended for Bank Group support are drawn up. The pipeline will consider:

- Operations' alignment with the Bank's corporate priorities and the Regional Integration Strategy;
- Operations' alignment with the priorities of the African Union, NEPAD, RECs and Regional Member Countries;
- Operations' impact on regional integration; and
- Ownership of participating countries and entities.

Step Two: The prioritization framework (Scorecard)

A. Indicators related to the participating countries

- *Cluster ratings of Country Policy and Institutional Assessment (CPIA)* of participating countries (Economic Management, Structural Policies, Policies for Social Inclusion/Equity, and Governance Ratings);
- *Portfolio performance* of ROs that the countries participated in previously (based on Annual portfolio performance ratings);
- *Countries' commitment to regional integration* (i.e., trade and trade facilitation policy, economic convergence, sector investment protocols, implementation of regional programs, projects, protocols, capacity building programs, institutional structures to support regional integration);

B. Indicators related to the project

- *Expected development outcomes* (contribution to economic growth, regional integration – regional infrastructure, trade facilitation, competitiveness, common natural resource management and policy harmonization, and expected environmental and climate change issues); and
- *Quality and readiness* (advanced stage of preparation, existence of MOU agreement between beneficiary countries, capability of the executing agency, evidence of support from relevant RECs, and collaboration/co- financing with development partners).

Source: Regional Operations Selection and Prioritization Framework, February 2011.

Annex 4: Regional Setting for Eastern Africa Integration Process

EAC*: Five countries in the region (Burundi, Kenya, Rwanda, Tanzania and Uganda) constitute the EAC. The Permanent Tripartite Commission for East African Co-operation was first formed in 1967, but collapsed in 1977 due to political differences among the participating countries. The Community was re-established in January 2001 by a Treaty, which entered into force on 7 July 2000. Burundi and Rwanda joined the Community on 18 June 2007. The EAC is a key driver of the regional integration process and has achieved positive results, including a common market status in July 2010. The target date for establishing a monetary union is 2012. The vision of EAC is to create a prosperous, competitive, secure and politically united Eastern Africa. The objective, according to Article 5 (1) of the Treaty, is to develop policies and programs aimed at widening and deepening cooperation among the Partner States in political, economic, social and cultural fields, research and technology, defence, security and legal and judicial affairs for mutual benefit.

COMESA*: Eight of the 12 countries in the region (Djibouti, Comoros, Eritrea, Ethiopia, Kenya, Seychelles, Sudan and Uganda) are members of COMESA, together with 11 other African countries. COMESA has also attained an advanced stage of integration – a Customs Union and has recorded significant achievements including trade facilitation through elimination of trade and non-trade barriers among member states and establishment of COMESA Fund to facilitate implementation of infrastructure projects. The vision of COMESA, as spelt out in its Treaty, is "building a fully integrated internationally competitive regional economic community in which there is economic prosperity; political and social stability; and free movement of goods, services, capital and labor across national geographical borders". Its strategic objectives are: (i) removing barriers to factor mobility; (ii) building capacity for global competition; (iii) addressing supply-side constraints to infrastructure; (iv) peace and security; (v) cross cutting issues; and (vi) institutional development.

SADC: Two countries in the Eastern Africa region, Tanzania and Seychelles, belong to the 15-member Southern African Development Community (SADC), established by the Windhoek declaration and Treaty on 17 August 1992. Before that, it has been in existence since 1980 as the Southern African Development Coordination Conference (SADCC). Its vision is one of a common future within a regional community that will ensure well-being, improvement of living standards and quality of life, freedom and social justice, and peace and security for the people of Southern Africa. SADC's agenda is currently guided by its Regional Integration Strategic Development Plan (RISDP), 2005-2019, launched in October 2003. The RISDP's goal of poverty elimination has been further articulated in the SADC Regional Poverty Reduction Framework prepared in April 2008. Its priority areas include regional infrastructure, science and technology, sustainable development and environment, food security, human, social and private sector development, statistical capacity building, and trade liberalization. SADC has made progress in a number of areas towards further regional integration. Best practices include establishment of the Southern Africa Power Pool (SAPP), and SADC Accreditation Services, the only regional accreditation body in Africa; and the e-SADC initiative launched in October 2009 in collaboration with the Economic Commission for Africa Southern Africa Office.

IGAD: The five countries in the Horn of Africa (Djibouti, Eritrea, Ethiopia, Somalia and Sudan) are members of IGAD, together with two EAC Partner States-- Kenya and Uganda. IGAD has a strong influence on the regional process in the Horn and is one of the designated pillars of the AEC. By an Agreement adopted by the Heads of State and Government on 21 March 1996, the

Intergovernmental Authority on Drought and Development (IGADD) was transformed into IGAD and has since become the accepted vehicle for regional security and political dialogue. It has three priority areas: (i) conflict prevention, management and resolution. and humanitarian affairs; (ii) infrastructure development (transport and communication); and (iii) food security and environment protection. In the context of the EC Horn of Africa Initiative, the current concern of linking IGAD infrastructure with the Tripartite, the theme of a recent Conference in October 2010 and the follow-up Fund Raising Conference planned for 2011.

The IOC is a regional organization grouping two Eastern Africa countries (Comoros and Seychelles) with Madagascar, Mauritius and one ultra-peripheral region of the EU, Reunion, which is an overseas department of France. Maldives is also an observer of the Commission. The IOC was established in 1984 under the General Victoria Agreement. These countries have unique characteristics including insularity, smallness of their economies, isolation from the continental landmass and vulnerabilities to climatic and environmental shocks. The original ideas behind the IOC were to encourage trade and tourism. Recently, cooperation has focused on marine conservation and fisheries management. The 2005 Mauritius Conference deliberated on the strategic orientation of the IOC, with focus on poverty reduction and achievement of the MDGs. The IOC contributes to the process of economic integration in Eastern and Southern Africa by defending the position of its members. Within the CES Tripartite Arrangement, IOC issues include the development of the maritime corridor, strengthening trade links, ICT connectivity through the SEGANET and other fibre optic initiatives, and food security. The key challenge in the context of the Bank's RISP is how to ensure effective connectivity of the island countries to the continental landmass.

** South-Sudan is not yet a formal member of these regional entities.*

Annex 5: Peace and Security in Eastern Africa

A. Major Security Concerns and the Role of IGAD

IGAD presentation during the RISP dialogue on 11 November 2010 and reactions of participants indicate the following major security concerns in the Horn of Africa:

- Persistent conflict in Somalia, stalemate between Ethiopia and Eritrea and conflicts in Dafur are among the major problems that create political instability in the region.
- There have been more than 19 peace negotiations without success in Somalia, often torpedoed by warlords, insurgents, terrorists, and foreign fighters supported by Al-Qaeda.
- Piracy off the coast of Somalia and the Gulf of Aden constituted more than 50 percent of worldwide piracy incidents in 2009. The piracy in Somalia coast is a 'hostage-for-ransom situation" financed by some identified parties.
- Piracy is disrupting fishing in the Indian Ocean, especially in Mauritius, Somalia and Seychelles. Seychelles' Minister for Investment, Mr. Peter Sinon, has indicated that piracy has cut his country's fishing output by 50 percent and tourism by 25 percent. The menace has forced many fishermen out of business. Under the circumstance, anti-piracy operations should be multi-dimensional; capacity of the affected states must be strengthened so that they can effectively patrol and secure their territorial waters; and regional naval capability should also be strengthened and supported.
- Outstanding post-referendum issues in Sudan and South-Sudan negotiations, including border delimitation and the status of Abyie pose a security challenge for both countries and the region.
- Other factors-- such as drought, famine, conflicts, scarce resources and grazing land-- trigger disputes. Cross-border ethnic groups engaging in cattle rustling together with the availability of small arms fuel persistent tensions. Furthermore, unresolved boundary disputes create tension and instability in some of the border areas, for instance, between Eritrea and Djibouti. As a result of Qatar's mediation between the two countries, Eritrea has pulled out of the disputed land and negotiations are underway to seek a permanent solution.
- IGAD is a major organ for regional security and political dialogue in the Horn of Africa. It has led and participated in regional and international forums to set judicial measure to control piracy in both Seychelles and Mauritius. It has also conducted regional workshop to discuss piracy and maritime security in the Eastern and Southern Africa and the Indian Ocean region. IGAD has established a liaison office in Juba to assist in creating conditions for peaceful referenda and post referenda process. IGAD harmonizes its activities with those of the African Union and by so doing has contributed significantly to the implementation of the continental framework on peace and security.

- There are also country-level initiatives to combat piracy and resolve conflicts in the region. Djibouti has made its land and port facilities available to foreign partners including US, Japan and EU in combating piracy in the Gulf of Aden. Seychelles has also amended its penal code to allow for prosecution of pirates, including those captured by the EU naval forces outside Seychelles' waters. A number of African countries also maintain peacekeeping troops in Sudan and Somalia, thus contributing to the international peacekeeping efforts in the region.

B. African Development Bank support to Peace and Security

Although the Bank is apolitical and peace and security are not its core mandate, it nevertheless contributes to the issues through a number of initiatives, given that insecurity and political instability are major risks to the Bank's core mandate of development. The initiatives through which the Bank supports peace and security include:

- **The International Conference of Great Lakes Region (ICGLR):** Otherwise known as the Conference, ICGLR is composed of 11 member states: Angola, Burundi, Central African Republic, Republic of Congo, Democratic Republic of Congo, Kenya, Rwanda, Sudan, Tanzania, Uganda and Zambia. At its first Summit in Dar es Salaam, Tanzania, on 20 November 2004, the Conference adopted the Pact on Peace, Security, Democracy and Development in the Great Lakes Region. It has also created a Special Fund for Reconstruction and Development (SFRD) as the principal financing mechanism for the realization of the Pact. The ICGLR Secretariat, with Bank support, organized a Round Table Conference in Bujumbura, Burundi, from 5-6 November 2009. The President of the Bank co-chaired the round Table along with the Presidents of Zambia, Kenya and Uganda. Its objective was to bring together development partners and Friends of the Great Lakes Region involved in the implementation of the Pact aimed at mobilizing financial resources for its 10 protocols under the thematic clusters and the SFRD. The Bank has been assigned a leadership role in the provision of intellectual and technical support to the Conference under Article 8 of the ICGLR Protocol. It is also managing the financial aspects of the SFRD following the signing of the Trust Instrument of the SFRD between the Bank and the ICGLR on 17 September 2008 in Kigali, Rwanda. The Bank is an ex-officio member of the Governing Council of the Fund. It is also implementing the Fund's program on demobilization and reintegration of former armed groups in the region.

- **The Fragile States Facility (FSF)**: As part of its effort to contribute to post-conflict reconstruction and development, the Bank has instituted a FSF and established a Unit to manage it. The FSF is built on three key pillars: (i) supplementary financing for post-crisis/transitional countries; (ii) arrears clearance; and (iii) targeted support. Pillar I provides enhanced operational support to a limited number of countries with circumstances characterized as post-crisis/transition by OECD/DAC. For a country to qualify for support under this pillar, it must meet the condition for consolidating peace and security through the signing of an internationally recognized Comprehensive Peace Agreement (CPA) or a post-crisis or reconciliation agreement; and form a functional (transitional) government broadly acceptable to all the country stakeholders and the international community. The supplementary operational support is closely coordinated with Pillar II focusing on arrears clearance operations to ensure the highest impact in countries concerned. In order to maximize synergies, the arrears clearance activities, formally managed under the Bank's Post Conflict Countries Facilities (PCCF) scheme, was folded into the Arrears Clearance Window (ACW) of the FSF. Pillar III provides for a limited pool of dedicated supplementary resources for incremental support in areas that cannot be adequately addressed through traditional projects and instruments. Such resources could finance secondments for capacity building, small grants to non-sovereigns for service delivery, knowledge-building and dialogue. By providing support to post-conflict reconstruction and development under its FSF, the Bank is contributing to the consolidation of peace and security in Africa. The Fragile States Unit (FSU) has recently approved a capacity building program for ICGLR to help enhance the capacity of its Secretariat and assist in preparing a regional strategy on the management of natural resources in the region.

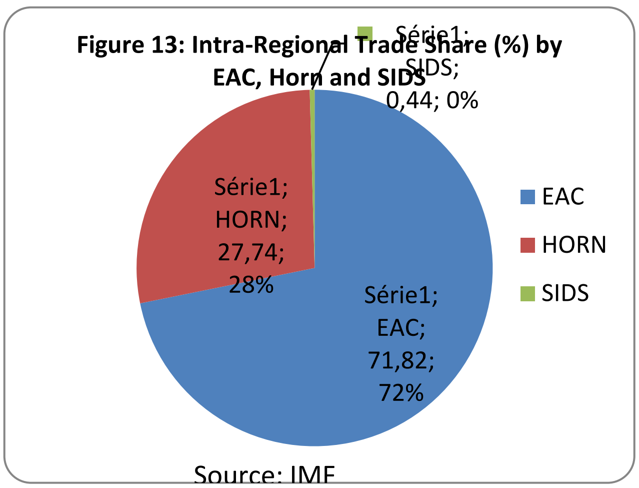
- **The Extractive Industries Transparency Initiative (EITI)**: As part of its good governance initiative, the Bank is working with resource-rich countries that have acceded to the EITI to enhance transparency in the extractive industries given the negative role extractive resources have played in fueling crisis in a number of African countries. Within the Eastern African region, only Tanzania has benefitted from the Bank's EITI initiative.

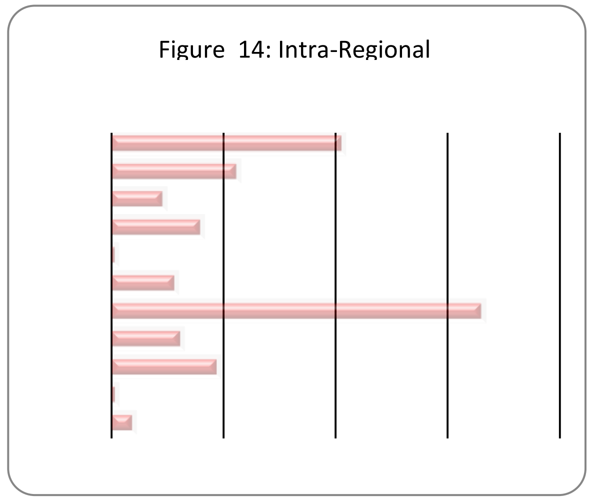
- **Governance Programs:** Broadly, the Bank promotes good governance in member states through its governance programs – policy based operations, institution support projects and support to procurement reforms.

In addition to these measures, the Bank is also taking advantage of initiatives by other donors whose key mandate is peace and security by collaborating with them through advocacy and dialogue.

Annex 6: Intra-Regional Trade

The average share of intra-regional trade in total trade in Eastern Africa during the period 2000-2008 was 9%. Among the three groups in the region, the EAC Partner States dominate intra-regional trade flow with a share of 71.82%, followed by the Horn of Africa (27.74%). The island countries have a lower share of 0.44% (Fig. 13), illustrating their limited trade link with the mainland. Regarding the share of the individual countries, Kenya is the regional trade hub, accounting for 33% of intra-regional trade, followed by Uganda (21%) and Tanzania (11%) Kenya's trade performance is buttressed by its relatively more developed private sector.





Source: IMF

Comparative RECs Regional Trade Flow, 2003-2009

	Intra-REC		**Outside RECs - Africa**		**Others – World**	
	Export	Import	Export	Import	Export	Import
COMESA	4.6	4.5	9.0	11.8	86.4	83.7
EAC	12.5	6.2	22.2	13.3	65.3	79.5
ECOWAS	7.2	7.6	10.5	11.1	82.3	81.3
SADC	8.0	8.0	10.4	10.1	81.6	81.9

Source: ADB Statistics Department; IMF Databases - Direction of Trade Statistics; UN Comtrade Database.

Comparative data presented in the Table shows that among the CES Tripartite RECs, the EAC Partner States traded more among themselves and with other African countries over the decade 2000-2009, followed by SADC and COMESA. The EAC also performed better than ECOWAS in this regard, while SADC's performance was comparable with that of ECOWAS. COMESA lagged behind the other three RECs in both intra-regional and intra-African trade despite its FTA. Its trade orientation is geared more towards the rest of the world.

With the on-going implementation of the Customs Union and the launch of the Common Market Protocol, EAC's primary focus and priority in the area of trade is consolidation of the internal market and operationalization of the provisions on trade in services in the CMP. The accession to the Common Market has shifted the focus of its Secretariat, as far as trade in goods is concerned, from rule making to implementation, monitoring and enforcement. Another priority is to complete the EAC-EU-EPA negotiations with the EU. Both the EAC Partner States and the European Commission had set a deadline for December 2011, but this could creep into the first quarter of 2012.

Trade in Services: The Common Market Protocol has extensive coverage of the undertakings for liberalization and integration of trade in services in the region. It calls for removal of restrictions on the rights of establishment and residence for the nationals of other Partner States and the removal of measures restricting movement of services and services suppliers. In addition, it compels partner states to undertake full-scale liberalization across all sectors and modes of supply. This has to be carried out progressively in accordance with the Schedule on the Progressive Liberalization of Services contained in Annex V of the Protocol. The schedule specifies timelines for the full liberalization of sectors. This situation puts more pressure on the Secretariat to coordinate the timely achievement of the timelines.

Trade in services has previously not featured in EAC's integration process, as the community's primary focus was on trade in goods. As a result, limited work has been done to pursue a regional trade in services agenda. However, priorities are changing given the urgency to operationalize the Common Market Protocol provisions on trade in services, in addition to the negotiations on services under the EPA. In this regard, the Secretariat needs to lead these efforts but is hamstrung by limited skills and expertise to develop an appropriate program.

Trade and Transport Facilitation: Customs automation in EAC is improving but remains short of its potential. Four, out of five, countries are based on a model of the ASYCUDA system – which provides all necessary automation resources for risk management and generation of statistics – while Kenya operates on the SIMBA system. Even though individual East African Countries have made improvements to their customs systems, the lack of integrated customs systems prevent the simultaneous sharing of information at the regional level. There have been recent advances in implementing the Revenue Authorities Digital Data Exchange (RADDEX) system in individual member countries, which could be the foundation for building a region-wide system. The region needs support to develop an EAC-wide Single Window for trade, bringing together relevant public and private sector operators under a single facility. Kenya sought technical expertise from Senegal to develop its own electronic data interchange (EDI) system to enable a single window for approvals and reduce the paper documentation required. The challenge facing the region is to expand these efforts at the regional level in order to avoid fragmented approaches at the national level. The lack of mutually recognized test certificates and quality certification also causes delays because goods undergo repeated testing and inspection procedures at borders. In fact, traders report the lack of mutual recognition agreements as a barrier to trade in the EAC (Survey for Doing Business Report).

Export Zones: Countries in East Africa embrace and implement the policy of dedicating special incentives to companies that produce goods for export, as provided for in the Protocol on the Establishment of the EAC Customs Union. Even though the Protocol details out the approved fiscal incentives regime for the region, the export processing zone is the most prominent yet still in the nascent stages of exploitation. There is uneven implementation of the fiscal incentives in the region. For instance, in Burundi, the law has treated the entire country as a "free zone' for the manufacture or preparation of goods for export, although the administration is not very effective. In Tanzania, export processing zones have been authorized since 2002 but few investors have taken advantage of the program. Kenya's EPZs have been in place since 1990 and in Uganda since 2008. Not all the national approaches have been as effective as they should and most of them are in the early stages of exploiting the benefits presented by export zones. In order to harmonize approaches and rules governing the establishment of EPZs, support is needed to look for success stories identifying the factors behind practices that work best.

Table 1: Intra-EAC Trade, 2005-2008 ($ million)

	Imports				**Percentage Changes**		
Country	**2005**	**2006**	**2007**	**2008**	**2006**	**2007**	**2008**
Uganda	550.8	429.7	526.5	566.8	-22	22.5	7.7
Tanzania	175.9	220.6	110.1	425.3	25.4	-50.1	286.3
Kenya	59.5	76.7	188	181	28.9	145.1	-3.7
TOTAL	**786.2**	**727**	**824.6**	**1,173.10**	**-7.5**	**13.4**	**42.3**
	Exports				**Percentage Changes**		
Country	**2005**	**2006**	**2007**	**2008**	**2006**	**2007**	**2008**
Uganda	87.9	101.8	148.8	195.2	15.8	46.2	31.2
Tanzania	142	147.4	169.4	310.5	3.8	14.9	83.3
Kenya	831.2	641	830.4	1,036.60	-22.9	29.5	24.8
TOTAL	**1,061.10**	**890.2**	**1,148.60**	**1,542.20**	**-16.1**	**29**	**34.3**
	Total EAC Trade value				**Percentage Changes**		
Country	**2005**	**2006**	**2007**	**2008**	**2006**	**2007**	**2008**
Uganda	638.7	531.4	675.3	762	-16.8	27.1	12.8
Tanzania	317.9	368	279.5	735.8	15.8	-24	163.2
Kenya	890.7	717.7	1,018.40	1,217.60	-19.4	41.9	19.6
Total	**1,847.30**	**1,617.10**	**1,973.20**	**2,715.40**	**-12.5**	**22**	**37.6**

Source: EAC data from *Partner States Revenue Authorities, Central Banks and National Statistics Offices*

Table 2: Intra-COMESA Trade 2005 to 2008 (% share of Global Trade)

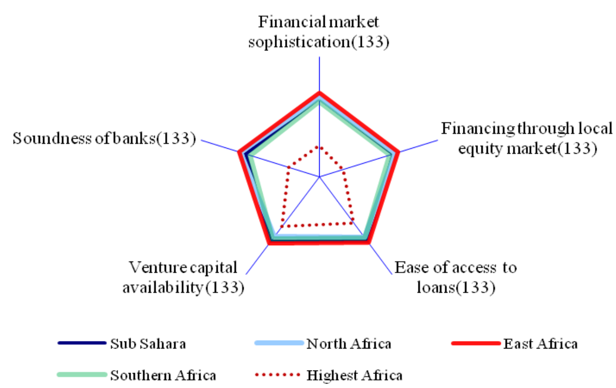
Year	**2005**	**2005**	**2006**	**2006**	**2007**	**2007**	**2008**	**2008**
Country / Flow	**Total Exports**	**Imports**	**Total Exports**	**Imports**	**Total Exports**	**Imports**	**Total Exports**	**Imports**
Burundi	14.1	19.1	21. 2	15.3	21. 6	29.0	17. 3	24.0
Comoros	0.3	3.2	1. 0	8.1	9. 5	3.2	4. 3	5.5
Djibouti	71.1	4.8	8. 5	0.8	17. 9	5.7	2. 7	4.6
Eritrea	39.5	3.7	13. 2	8.4	8. 8	2.0	15. 5	1.5
Ethiopia	10.9	4.8	9. 7	7.7	9. 8	3.7	9. 5	3.7
Kenya	37.3	3.0	29. 9	3.4	26. 4	4.1	28. 9	3.2
Rwanda	27.9	34.0	30. 0	51.7	35. 0	38.5	54. 0	34.8
Seychelles	0.2	3.3	0. 2	3.2	0. 4	3.6	0. 9	5.3
Sudan	1.7	6.9	1. 6	7.3	5. 0	5.2	1. 4	6.0
Uganda	30.6	27.5	28. 2	17.6	37. 2	15.7	36. 9	13.1

Source: COMESA Statistics Division, COMESA HQ

Annex 7: Regional Financial Integration

The financial markets in Eastern Africa are still generally weak, but are comparable with the situation in SSA (Fig 15). The figure reveals-- in terms of financial market sophistication, soundness of banks, venture capital availability, ease of access to credit, and financing through local equity market-- the situation in Eastern Africa is far below that of the highest African performer. Development of financial markets in the individual countries in Eastern Africa is also uneven and this affects the degree of regional financial market integration. The situation is better in the EAC where there has been progress in integrating the financial market. Also, liberal access to foreign banks and cross-border ownership of banks are allowed in most of the countries[23]. For example, Kenya banks operate across the region, with subsidiaries in Rwanda, Sudan and Uganda. The past decade has also seen the emergence of pan-African banks in the region. The role of these institutions in facilitating intra-continental trade and investment cannot be understated. Several regional commercial banks in the region have adopted a market development model combining the setting up of subsidiaries at country level with an attempt to develop regional linkages between their clients and their undertakings. This regionalization of the financial sector is arising in the context of higher capital requirements and consolidation at the global and national level, which allows relatively stronger banks and financial institutions to take advantage of increasing levels of liberalization and opening of domestic markets. Progress has also been made in countries such as Kenya, Rwanda and Burundi, which benefited from a joint IMF/World Bank Financial Sector Assessment Program (FSAP).

Graph 15: Financial Sector 2008



However, challenges remain. Even though efforts are being made to strengthen national level regulatory frameworks and supervision, without harmonized regulations governing the structure and terms of financial products, the development of uniform products for cross-border transactions and associated economies of scale will be difficult to achieve. Also, in the absence of cross-border credit information, which enhances lenders' ability to collect debts effectively and with certainty, domestic commercial banks may find it difficult to compete in the larger regional market. From a supervision perspective, it is unclear whether the Central Banks effectively monitor the exposure of commercial banks' holding companies that have lending operations or subsidiaries across a number of countries. Stock exchanges have also been established in several countries, but cross-border listings are limited.[24]

The EAC and COMESA as well as the Tripartite Arrangement have provisions to strengthen the regional market in financial services. Envisaged actions include the harmonization of banking regulations, legal framework, licensing, accounting, disclosure standards, internal and external audits, and IT systems. The EAC has developed a financial integration policy with the

[23] Eritrea and Ethiopia are exceptions.

[24] Apart from Kenya, stock markets are characterized by few market participants, low capitalization, and low trading volumes.

objective of creating a single harmonized market in financial services. A recent assessment of progress made in this regard by the EAC Monetary Affairs Committee (MAC)[25] showed that Partner States have made progress in modernizing and integrating payment and settlement systems. In this regard, countries are implementing Real Time Gross Settlement System (RTGS) and promoting interconnectivity of payment card switches, which will play a key role in facilitating regional trade. In terms of banking supervision, there has been progress in promoting safe, sound, efficient and inclusive financial system. Specific measures being taken include developing and operationalizing legal and regulatory frameworks for anti-money laundering, credit information sharing, microfinance, risk-based supervision, supervision coordination, and cooperation in Business Continuity Management. Going forward, MAC aims to promote the strengthening of crisis management and resolution frameworks to provide effective response to global financial crisis.

[25] Monetary Affairs Committee (MAC) – Committee of EAC Central Bank Governors - Communique of the 13th MAC Meeting held in Arusha, Tanzania, May 10, 2010.

Annex 8: Competitiveness and Business Environment

Table 1: The Global Competitiveness Index, 2009-2010 (Rank/133)

	Burundi	Ethiopia	Kenya	Tanzania	Uganda
Institutions	129	75	107	74	106
Infrastructure	125	96	92	123	119
Macroeconomic stability	132	116	121	77	73
Health and primary education	121	120	110	112	116
Higher education and training	131	125	85	128	123
Goods market efficiency	129	106	73	104	114
Labor market efficiency	101	69	40	82	30
Financial market sophistication	133	127	37	74	86
Technological readiness	129	131	96	120	118
Market size	132	76	74	79	91
Business sophistication	119	118	59	97	108
Innovation	116	112	48	93	98
GCI 2009–2010 (out of 133)	133	118	98	100	108

Table 2: World Bank 2010 Doing Business Rankings

Economy	**Ease of Doing Business Rank**	**Starting a Business**	**Dealing with Construction Permits**	**Employing Workers**	**Registering Property**	**Getting Credit**	**Protecting Investors**	**Paying Taxes**	**Trading Across Borders**	**Enforcing Contracts**	**Closing a Business**
Burundi	176	130	172	88	118	167	154	116	175	172	183
Comoros	162	168	66	164	96	167	132	41	133	153	183
Djibouti	163	177	102	151	140	177	178	65	34	161	135
Eritrea	175	181	183	86	171	177	109	110	164	48	183
Ethiopia	107	93	60	98	110	127	119	42	159	57	77
Kenya	95	124	34	78	125	4	93	164	147	126	79
Rwanda	**67**	**11**	**90**	**30**	**38**	**61**	**27**	**59**	**170**	**40**	**183**
Seychelles	111	81	57	130	59	150	57	34	93	70	183
Sudan	154	118	139	153	37	135	154	93	142	146	183
Tanzania	131	120	178	131	145	87	93	120	108	31	113
Uganda	112	129	84	7	149	113	132	66	145	116	53

Source: World Economic Forum Report 2010

Annex 9: The COMESA-EAC-SADC (CES) Tripartite Arrangement

In the medium-to-long term, the regional integration agenda in Eastern and Southern Africa will be driven by the CES Tripartite Agreement, which has a vision of an expanded market and merger of the three RECs into one at an unspecified future date. The Tripartite Arrangement, which covers 26 countries accounting for about 56% of the population and some 58% of the combined GDP of Africa in 2008, is a bold step towards resolving the problem of multiple country memberships in the three RECs. Its strategic objectives include the expansion of intra-regional trade and the promotion of inter-RECs collaboration in the form of joint planning, resource mobilization and project/program implementation. The key features of the Tripartite Arrangement are: (i) merger of the three RECs into a single REC - the Tripartite Summit directed the Tripartite Task Force of the three Secretariats to develop a roadmap for the implementation of this merger for its consideration; (ii) establishment of the CES Tripartite Free Trade Agreement to promote deeper trade integration; (iii) infrastructure development – a joint program for the implementation of a single seamless upper airspace; a joint program for the implementation of an accelerated, seamless inter-regional ICT Broadband Infrastructure network; (iv) a joint program for implementation of a harmonized policy and regulatory framework that will govern ICT infrastructural development in the three RECs; (v) harmonization of the Regional transport Master Plans of the three RECs; (vi) harmonization of the Regional Energy Priority Investment Plans and the energy Master Plans of the three RECs; (vii) harmonization of legal and institutional framework; and (viii) preparation of common regional positions and strategies in multilateral and international trade negotiations.

Based on a study completed in 2009, a draft CES FTA Agreement was prepared. The draft Agreement proposes the establishment of the Tripartite FTA on a tariff-free, quota-free, and exemption-free basis. However, there is a provision for countries to seek permission if they wish to maintain a few sensitive products in trading with some major economic partners for a specific period of time. The roadmap proposed in the draft FTA Agreement includes a preparatory period for consultations at national, regional and the tripartite level from November 2009 to June 2011; a final Tripartite FTA Agreement by June 2011 and signature by July 2011; launching of the Tripartite FTA in January 2012; and launching of an autonomous CES Tripartite FTA Secretariat in January 2013. This roadmap was presented to the Tripartite Summit held in February 2011 for endorsement or amended as the case may be. The timeframe provided in the road map appears ambitious and could possibly be revised. The CES Tripartite Agreement has to be negotiated within 36 months from June 2011.

The draft Tripartite FTA contains 14 annexes covering various complementary areas as follows:
Annex 1on non-tariff barriers; Annex 2 on customs cooperation; Annex 3 on simplification and harmonization of trade documentation and procedures; Annex 4 on rules of origin; Annex 5 on transit trade and transit facilities; Annex 6 on trade remedies; Annex 7 on competition policy and consumer protection; Annex 8 on standardization, metrology, accreditation and conformity assessment; Annex 9 on the tripartite policy on intellectual property rights; Annex 10 on development of cultural heritage in the region, particularly in the area of arts; Annex 11 on the movement of business persons; Annex 12 on guidelines for negotiation of trade in services; Annex 13 on trade development and competition, and Annex 14 on tripartite dispute settlement mechanism.

Notable achievements under the Tripartite Arrangement include the launching of the Tripartite North-South Corridor (NSC) Investment Program, a model aid for trade pilot program, in April

2009 and a successful fund raising for the program at a High Level Conference held in Lusaka, Zambia on 6-7 April 2009. Donors pledged $1.2 billion for the program, of which the AfDB pledged $600 million. Backstopped by DFID through TRADE MARK SA (TMSA), actions are being taken to fast track the implementation of the NSC and other prioritized corridor programs. Corridor Experts are being recruited by the RECs; an MOU has been signed between the Tripartite Task Force and DFID on the management of the NSC program; while a second MOU has also been signed between the Tripartite Task Force and the Development Bank for Southern Africa (DBSA) on the management of the NSC Fund. The Investment Committee established under the second MOU has considered financing proposals for the prioritized projects and approved a budget of $10 million for 2010. Feasibility studies on various segments of the NSC network are already being undertaken by different donors, including under the NEPAD Infrastructure Project Preparation Facility (IPPF) managed by the Bank.

Annex 10: Main Challenges and Opportunities

Main Challenges

Inadequate and poor regional transport infrastructure network limit economic growth and trade expansion: Infrastructure bottlenecks such as poor road network and inefficient railway system must be proactively addressed if Eastern Africa is to integrate further and attain the competitiveness required to underpin substantial economic growth through trade expansion. The regional transport infrastructure is weak and laced with missing links and incompatibilities in the regional systems. As a result, the different networks are not optimally utilized, thus limiting opportunities to achieve the economies of scale necessary to attract and sustain private investment to the networks. The railways system is burdened with aging tracks and lack of maintenance, different gauges of tracks prevent seamless regional connectivity between Eastern and Southern Africa, and a shortage of serviceable rolling stock limit operational performance. Rail companies, which own the tracks, do not have the fiscal space to invest in upgrading existing or developing new rail networks. Poor road quality networks constitute an added cost disadvantage. Some roads also have incompatibility problems, with some designed for higher axle load limits than others. Cumbersome trade logistics and regional variations in technical standards constitute transit challenges. The major international seaports in the region (Dar es Salaam and Mombasa) face capacity constraints, resulting in congestion and berthing delays.

In spite of its abundant energy resources, Eastern Africa faces an energy deficit, which limits productive capacity. Eastern Africa has diverse energy resources including hydro power, oil, gas, coal and NREs. Mainland Eastern Africa, with a population of about 270 million, has huge energy demand from households, commercial, industrial and mining sectors. However, power generation capacity is relatively low as is access to electricity. Due to shortage of financial resources, the region has not sufficiently invested in new energy infrastructure (generation plants, transmission lines and distribution networks), necessary for adequate, reliable and affordable power supply. The grid bottlenecks indicate lack of upkeep, maintenance and renovation on the existing networks. Although many of the countries in the region have adopted energy policies and established regulatory frameworks to liberalize the power sector and have enacted environmental laws to ensure conservation and protection of the environment, the existing laws and regulations have some weaknesses or grey areas, which tend to deter investment and promotion of regional power trade.

ICT Infrastructural Constraints: While investment in ICT infrastructure in the region, and indeed the whole of Africa, has improved significantly, it has primarily focused on mobile infrastructure and access, leaving significant gaps in ICT backbone networks[26]. Yet, ICT, in particular broadband networks, are increasingly recognized as fundamental for economic and social development. A recent study indicates that economic growth of up to 1.3 percentages points can be achieved through investment in broadband networks. In addition, effective high-speed internet services needed for e-application in government, business and domestic use continues to be either very expensive or unavailable. Where available, the cost of broadband internet access is exorbitant[27]. Although the GSM coverage is relatively high, Eastern Africa lags behind other Africa regions on intra-regional roaming arrangements. Importantly, ICT infrastructure presents a significant opportunity to leapfrog paper-based business models across a range of economic sectors, in particular by significantly reducing the transactional costs of economic and financial exchanges within and across borders.

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[26] Connect Africa Summit. Broad-Band Infrastructure in Africa (background paper), 29-30 October 2007.
[27] Generally in Africa, cost is on average three times higher than that of Asia.

Weak Institutions and Human Capacity limit effectiveness of RECs: Inadequate capacity and resources among countries, RECs and IGOs, such as IGAD and the IOC, have made it difficult to plan, coordinate, and monitor the processes required for further integration. For example, both the EAC and COMESA Secretariats operate as the executive arms of their respective RECs while the authority for real decision and policy making rests with the Summit of Heads of State and the Council of Ministers. Linked to this is the reluctance of countries to cede some sovereignty to regional bodies, resulting in a situation where the REC secretariats have very little power to actually get things done. The RECs and IGOs also lack technical and human capacity to design sound ROs, especially in complicated corridor investment projects, and relevant monitoring and evaluation mechanism for ROs. At the country level, there is a lack of capacity for implementing ROs and corridor investment projects. Also lacking is an adequate capacity to negotiate international trade and other technical agreements (e.g., WTO Doha; EPAs with EU) at both national and regional level.

Divergent attitude towards regional integration hampers progress. In many cases, regional concerns and priorities are not reflected in national strategic frameworks. In addition, there is a tendency for Governments to resist ceding sufficient authority to the RECs and enacting proper legislation and regulations necessary to guide the integration process.

Insecurity and political instability pose serious obstacles to effective and deeper integration of the region. Political strife is a regional public "bad' that frightens investors, inhibits development and stifles economic growth. In addition, bombings in northern Uganda and acts of piracy off the coast of Somalia further create the perception that the region is not a safe place for business. These conflicts consume resources that could otherwise be channelled into productive activities. Collaborative efforts leading to detente and ultimate resolution of conflicts will strengthen regional integration process.

Lack of complementarities and similar comparative advantage hamper progress. The countries in the region have similar resources and their economies are largely based on similar activities. Thus, they do not complement each other sufficiently well and as a result compete in same markets. This situation impacts on the ability of the countries to trade internally within the region and across other regions. The challenge is for the countries to identify complementary areas of activities based on their comparative advantage and diversify them accordingly.

Water scarcity and management of shared water resources remain major challenges in Eastern Africa. Water distribution in the region is varied and spatial with precipitation ranging from 700mm/yr in Kenya to 1200mm/yr in Uganda. According to the 2006 United Nations World Water Development Report, countries in the region ranked poorly in terms of annual per capita water availability. For example, Uganda was ranked 115, Ethiopia 137 and Kenya 154 out of 180 countries covered. While Eastern Africa freshwater resources account for only 4.7% of Africa's total, the region is home to 19% of the continent's population. Thus, rising population exacerbates the perennial water shortage problem, which reduces agricultural productivity and access to clean water. Lake Victoria and the Nile basins are good examples of how riparian countries can cooperate in the use of shared water resources. The protracted Nile Basin Agreement also illustrates the difficulty of dealing with shared water resources. The countries of the Nile Basin negotiated for 13 years to craft a new agreement (still boycotted by Egypt and Sudan) regulating the use of Nile waters. It replaced the colonial agreements - the 1929 and 1959 Agreements - which gave Egypt and Sudan extensive control over the Nile water, a situation deemed unfavorable by the upstream countries.

Opportunities

Eastern Africa is endowed with abundant natural resources, including rich arable land, water basins, and minerals such as oil, gold, precious stones and hydropower potential. The region is home to a variety of exotic wildlife, beaches, lakes, waterfalls and is rich in forests, woodlands and orchards. These natural resources offer opportunities for productive activities and eco-tourism. Lake Victoria is the second largest freshwater body in the world with major ecological, economic and social significance. The region is also rich in energy resources accounting for about 70% of geothermal, 16% of hydropower, 7% of oil, 4% of coal and 2% of gas resources of the continent, thus offering opportunities for resolving the energy crisis if a regional approach is adopted. The geothermal resources are located in Djibouti, Kenya and Ethiopia. Ethiopia accounts for 70% of the regional hydropower resources, followed by Sudan (14%), Tanzania (7%) and Uganda (5%). Oil reserves, which account for about 7% of continental reserves, are located in Sudan and Uganda while gas reserves are located in Sudan, Tanzania, Rwanda, Somalia and Ethiopia.

The CES Tripartite Arrangement offers a major opportunity for concerted efforts by the three RECs and their Development Partners to scale up infrastructure development and intra-regional trade. The Tripartite Summit, held in October 2008, among other issues, directed the three RECs to put in place a joint program for the implementation of a single seamless upper airspace and accelerated infrastructure network. The RECs were also directed to harmonize policy and regulatory framework for ICT infrastructure development, their Regional Transport Master Plans and Energy Master Plans, as well as their Priority Investment Plans. They were also charged with devising joint financing and implementation mechanisms for the joint programs. The Tripartite Summit also approved the expeditious establishment of the CES Tripartite FTA, which would take into account the principle of variable geometry allowing each country to move at its own speed. The plan to develop sector strategies to complement the FTA also offers an additional opportunity to boost production and trade capacity. The decision taken by the Tripartite Summit represents a major political support for the regional integration effort in Eastern and Southern Africa.

A vibrant private sector plays a critical role in stimulating the regional integration process and in propelling a private sector-led growth. While the private sector is still at a nascent stage in many countries, it can play a key role in enhancing the regional integration process. Government and the national/regional Chambers of Commerce and Business Councils are already interacting in the region, but the contact has to extend beyond information sharing to involvement in policy making and program implementation process. P**rivate sector involvement in the regional integration process will also assist regional infrastructure development.** The private sector serves as an additional source of financing and ideas for infrastructure and real trade development. Private sector advice is also critical for strengthening trade and investment policies and the identification of the right set of priorities. The vibrant private sector in Kenya is a best practice case, which can provide lessons for the other countries. The Bank will intensify contact with the private sector bodies active in Eastern Africa aimed at attracting ideas and financing through dialogue and public-private-partnership arrangements (PPPs).

Annex 11: Transport Corridors

Table 1: Transport Corridors Serving Eastern Africa Region

Country	Transport Corridors	Country	Transport Corridors
Burundi	1. Central Corridor (starting from Dar es salaam: Isaka-Kigali-Bujumbura) 2. Northern Corridor (starting from Mombasa)	Uganda	1. Northern Corridor (starting from Mombasa) ending at borders with Rwanda and DRC 2. Kampala-Gulu-Juba 3. Possible to benefit from the undeveloped Tanga-Arusha-Musoma transport corridor
Kenya	1. Northern Corridor (starting from Mombasa) 2. Nanyuki-Lokichogio-Juba 3. North-South Corridor (Cape Town to Cairo) 4. Moyale-Negale-Addis	Rwanda	1. Northern Corridor (starting from Mombasa) 2. Central: Isaka-Kigali-Bujumbura 3. Possible to benefit from the undeveloped Tanga-Arusha-Musoma transport corridor
Tanzania	1. North-South Corridor (Cape Town to Cairo) 2. Dar es salaam or Tazara Corridor 3. Central Corridor 4. Potential: Mtwara Corridor 5. Potential: Tanga-Arusha-Musoma transport corridor	Djibouti	Djibouti-Addis Ababa corridor
		Eritrea	Transport corridors linking Asmara with Ethiopia and Somaliland
		Sudan	1. Southern-Sudan: Juba to Northern Uganda-Gulu 2. Southern Sudan: Juba to Northern Kenya: Lokichogio-Lodwar-Marallel-Nanyuki
Ethiopia	1. Addis Ababa-Djibouti 2. Addis Ababa-Wendo-Negale-Moyale	Seychelles and Comoros	Sea and Air links with continental Eastern African cities

Table 2: Ranking of Economic Potential of EAC/COMESA Corridors

Corridor	Scenario-A: Ranking for Potential for Growth utilizing mineral resources development	Scenario-B: Potential for Growth through intra-regional trade	Scenario-C: Growth through diversification and advancement of industrial structure
Addis-Djibouti	Low	Medium-high	Medium-high
Northern	High (with oil discoveries in Uganda)	High	Medium-high
Kenya-Ethiopia	Low	High	Low
Kenya-Sudan	High (oil)	High	Low
Uganda-Sudan	High (oil)	High	Low
North-South	Medium-High	High	Low-Medium

Corridor	Scenario-A: Ranking for Potential for Growth utilizing mineral resources development	Scenario-B: Potential for Growth through intra-regional trade	Scenario-C: Growth through diversification and advancement of industrial structure
TAZARA	High	Medium	Medium
Mtwara	Medium	Low-Medium	Low
Central	Low-Medium	Medium	Low

Source: Own assessment as adopted from JICA, 2009

Annex 12: Regional Operations Donor Matrix

Table 1: Regional Operations – Donors' Areas of Focus

World Bank	Several projects running into an investment value of $1 billion are currently under implementation in Eastern Africa under the World Bank Regional Integration Strategy for Sub-Saharan Africa (RIAS). They include: East Africa Trade and Transport Facilitation Project ($300 million); Regional Communications Infrastructure Project ($300 million); Geo-Thermal Energy Project, financed with Global Environmental Facility ($70 million); EAC Regional Financial Integration Project ($40 million); Lake Victoria Environmental Management Project ($120 million); East Africa Agricultural Productivity Program ($120 million); and East Africa Public Health Laboratory Networking Project ($60 million). The World Bank is also a key partner in the Nile Basin Initiative (NBI) and its support has served as a catalyst for broad-based development of the region, running into more than $1 billion in the first round of investments.
DFID	In addition, DFID has two major regional operations in Eastern Africa, namely, the Regional East Africa Program (focusing on Capacity Development Action Plan and Support for the CES Tripartite Process) and the East Africa Transit Improvement Program (focusing on trade facilitation). It leads the coordination of the CES Investment Program and it is also involved in the Nile Basin Initiative. Co-financed the Diagnostic Study on the Horn of Africa corridors with JICA and USAID
European Commission (EC)	The EC regional operations in Eastern Africa are in three main areas: (i) Regional Economic Integration (80% of budget); (ii) Regional political cooperation (15%); and (iii) Other programs (5% of budget). The EC also leads the Horn of Africa Initiative, in which other partners, notably the World Bank and the AfDB, are also involved. The Initiative covers projects in the transport, energy and water sectors along the major corridors in the Horn of Africa. A major conference on the IGAD Infrastructure and the Tripartite (part of EC Hoorn of Africa Initiative) was held <where?> on 28-29 October 2010 and a follow up Fund Raising Conference is also planned for 2011.
JICA	JICA's support to Eastern Africa is in the area of regional trade facilitation. They are: Corridor Studies (Audit of 8 borders – Namanga, taveta-Holili, Lunga Lunga-Horo Horo, Mutukula, Rusumo, Kigoma, Tunduma, Nemba-Gasenyi) and missing links on central corridor to Burundi/Rwanda; Support for the implementation of trade facilitation instrucments in EAC and COMESA (Axle load study); Automation and its systems (RTMS) and Cargo control system for OSBP implementation; OSBPs and integrated border management; Customs (master trainers program); Road infrastructure project design and development; and capacity building of private sector trade associations in corridor facilitation activities. JICA also co-financed the Diagnostic Study on the Horn of Africa corridors with DFID and USAID
UNDP	UNDP's goal in Eastern Africa, and indeed in the whole of Africa, is to develop the region's capacity to promote pro-poor growth and accountability to accelerate its progress towards achieving the MDGs. In collaboration with its Regional Bureau for Africa, UNDP is conducting a study of the benefits of regional integration on human development and also assisting to set up a South-South Cooperation Unit.
AfDB	The AfDB's support to Eastern Africa focuses on transport corridors, Energy, ICT, cooperation on shared water resources (for food security, water and sanitation and environmental management), trade facilitation, and climate change adaptation. The Bank is also participating in the EC Horn of Africa Initiative. AfDB's ongoing projects in the region includes East African Trade and Facilitation Project, Arusha Namanga Athi River Road Development Project, Arusha-Holili and Malindi-Lunga Mulitnational Roads Project, Mombasa-Nairobi-Addis Ababa Road corridor 1&2, Ethiopia-Djibouti Power Interconnection Project, and Regional Power System Master Plan and Grid Code. The Bank is also in the process of preparing the Lake Victoria Water and Sanitation Project.
Norway	Norway's ongoing projects in Eastern Africa include the EAC Climate Change Initiative, the Regional Strategy on Scaling Up Access to Modern Energy Services, and the EAC Regional Integrated Multi-Sectoral Strategic Plan for HIV/AIDS.
USAID	Re-engaged COMESA through USAID Grant Agreement for management of river basins and protection of biodiversity. USAID is implementing a 5-year program called Feed the Future

	tied to CADEP and also co-financed the Diagnostic Study on the Horn of Africa corridors with DFID and JICA.
Holland	Holland is in the process of making a contribution to the TMEA program for the region.
Denmark	Denmark is in the process of formulating a new program (about $30 million) to support the Partnership Fund in Arusha, TMEA, and possible TA.
German	The German Government channels its support to the region through two major German organizations, namely the GTZ and KfW. Projects focus on peace and security, as well as water and sanitation.
TMEA	Trade Facilitation (OSBPs, Border Post Infrastructure, procedures audit, procedure mapping trade capacity building and EAC Customs Training Program), Corridor Diagnostic Studies, Corridors Observatories, and EAC Capacity Building Project.

Source: Compiled from various sources including European Community, 2008. Regional Strategy Paper and Regional Indicative Programme 2008-2013.

Table 2: COMESA - International Cooperating Partners, 2010

DONOR	Project/Activities	Amount Committed
European Union	Capacity building for regional integration at RECs and national level	€ 118.0 mil
	Capacity building for conflict prevention and peace building	€ 1.47 mil
	Support to programs on food security and risk management	€ 30.96 mil
	Support for development of ICT infrastructure	€ 21.0 mil
	Promotion of Trade and Business Forum	€ 0.096 mil
	Regional political integration and human support program	€ 1.6 mil
DFID	Capacity building for regional integration for establishment of free trade area	£12.6 mil
	Strengthen agricultural markets and inputs	$ 2.25 mil
USAID	Support for corridor development projects on regional trade	$10.71 mil
	Support for regional customs Transit Guarantee/bond scheme	$1.0 mil
	Support for agricultural production and commodity trade	$9.38 mil
	Promotion for Trade, institutional strengthening and Business Forum	$7.6 mil
	Support to COMESA North Corridor Transit Facilities	$0.65 mil
	Enhanced Livelihoods in Pastoralist Areas (Kenya, Ethiopia, Djibouti and Somalia)	$14.8 mil
AfDB	Support for agricultural marketing and regional integration	UA 3.736 mil
	Enhance procurement reforms and capacity building	UA 5.658 mil
World Bank	Capacity building for public procurement reform in COMESA	$0.472 mil
	Contribution to North-South Corridor Trade Facilitation Facility	$40.0 mil
	Support to COMESA to monitor Implementation of is MTSP 2011 -2015	$0.869 mil
WTO	Competitiveness and Trade Expansion (COMPETE)	$ 6-10 mil per year for 4 years
CIDA	Support for regional Trade Development	$4.3 mil
Norway	Support for initiatives on adaptation and mitigation to climate change	$2.46 mil
Rockefeller Foundation and WWF	Support for initiatives on adaptation and mitigation to climate change	$1.0 mil
Others	Support for agriculture, ICT, postal reform, and HIV/AIDS by COMESA countries	$1.22mil

Source: *COMESA Secretariat.*

Annex 13: Bank Group Regional Operations Portfolio in Eastern Africa

Sector	Project	Approval Date	Signature date	Effectiveness Date	Current Disb. Deadline	Amount Approved (In loan currency)	Amount signed (In Loan currency)	Disbursed Amount (In UA)	Disbursement rate	OREB/OREA linked countries
Governance	Enhancing Procurement Reforms – Comesa	21.07.2006	14.08.2006		31.12.2011	5,660,000.00 UAC	5,660,000.00 UAC	3,983,339.78 UAC	70%	COMESA (Djibouti, Comoros, Ethiopia,Sudan)
Energy	Ethiopia - Djibouti Power Interconnectio	13.12.2004	16.05.2005	08.08.2006	31.12.2010	20,880,000.00 UAC	20,880,000.00 UAC	17,306,850.51 UAC	83%	Djibouti, Ethiopia
	Ethiopia-Djibouti Interconnection	13.12.2004	22.07.2005	08.08.2006	31.12.2010	17,600,000.00 UAC	17,600,000.00 UAC	16,953,945.74 UAC	96%	Djibouti
	Etude Inga Et Interconnexions Associées	30.04.2008	07.08.2008	#	31.12.2011	9,510,000.00 UAC	9,510,000.00 UAC	0.00 UAC	0%	DRC
	Interconnexion Reseaux Electriques Len	26.03.2010	28.05.2010	#	31.12.2014	74,450,000.00 UAC	74,450,000.00 UAC	0.00 UAC	0%	NILESAP- Kenya, Uganda,
		26.03.2010	26.03.2010	#	26.03.2017	5,406,000,000 JPY	5,406,000,000 JPY	0 JPY	0%	Rwanda, Burundi, DRC
	Ethiopia Djibouti Supplementary Loan	08.10.2008	13.11.2008	06.07.2009	31.12.2010	20,920,000.00 UAC	20,920,000.00 UAC	11,094,415.44 UAC	53%	Ethiopia, Djibouti
	Nelsap Interconnection Project-Nbi	27.11.2008	12.09.2009	02.07.2010	31.12.2014	94,190,000.00 UAC	1,210,000.00 UAC	194,810.96 UAC	16%	Rwanda, Kenya, Uganda, Burundi
	Etude Lignes Transport Energie Rusumo	27.10.2006	30.04.2007	05.10.2007	31.12.2009	2,571,210.00 UAC	2,571,210.00 UAC	1,466,310.42 UAC	57%	Tanzania, Burundi, Rwanda
Social	Odl Systems Capacity Building In Sadc Co	20.12.2006	06.04.2007	08.10.2007	31.12.2012	15,000,000.00 UAC	15,000,000.00 UAC	1,989,866.67 UAC	13%	SADC
	Sadc Support To Hiv/Aids, Malaria & Tb	31.05.2006	19.06.2006	15.12.2006	31.12.2012	20,000,000.00 UAC	20,000,000.00 UAC	6,328,687.56 UAC	32%	SADC
	Initiative Prevention Vih/Ist De La Coi	24.11.2004	03.05.2005	20.02.2006	31.12.2010	6,000,000.00 UAC	6,000,000.00 UAC	4,226,115.87 UAC	70%	IOC : Comores, Maurice, Madagascar, Seychelles et France (Ile de la Réunion)

Sector	Project	Approval Date	Signature date	Effectiveness Date	Current Disb. Deadline	Amount Approved (In loan currency)	Amount signed (In Loan currency)	Disbursed Amount (In UA)	Disbursement rate	OREB/OREA linked countries
	Apoc (Phase Iii)	15.07. 2008	04.12. 2008	15.12. 2008	31.12. 2016	15,000,000.00 UAC	15,000,000.00 UAC	8,834,289.48 UAC	59%	Ethiopia,Sudan, Burundi, Kenya, Rwanda, Tanzanie, Ouganda
Agriculture	Pattec - Creation Of Sustainable Tsetse	08.12. 2004	16.03. 2005	21.09. 2005	31.12. 2011	1,500,000.00 UAC	1,500,000.00 UAC	984,012.02 UAC	66%	Kenya, Uganda, Ethiopia
	Nbi Ensap Irrigation And Drainage Study	31.03. 2004	28.01. 2005	06.01. 2006	30.06. 2010	1,750,000.00 UAC	1,750,000.00 UAC	1,533,056.10 UAC	88%	Ethiopia
	Sadc- Strengthening Of Insitutions For R	05.07. 2006	13.12. 2006	26.09. 2007	31.12. 2012	13,710,000.00 UAC	13,710,000.00 UAC	5,491,714.56 UAC	40%	SADC
	Prog. D'amenag. Lac Tanganyika	17.11. 2004	01.02. 2005	29.09. 2009	31.01. 2012	24,960,000.00 UAC	24,960,000.00 UAC	2,591,918.38 UAC	10%	RDC,Burundi,Tanzania, Zambia
	Agr Mkt Prom & Reg Integration To Comesa	24.03. 2004	01.07. 2004	21.02. 2005	31.12. 2010	3,736,000.00 UAC	3,736,000.00 UAC	2,824,189.14 UAC	76%	COMESA
	Projet Dev. Rural Du Bugesera	25.09. 2009	04.11. 2009	06.04. 2010	31.12. 2015	30,000,000.00 UAC	30,000,000.00 UAC	532,775.86 UAC	2%	Rwanda, Burundi
	Creation Of Sustainable Tsetse	08.12. 2004	19.05. 2005	22.01. 2007	31.12. 2011	46,000,000.00 UAC	46,000,000.00 UAC	19,480,666.89 UAC	42%	Ethiopia, Kenya,Uganda,Burkina, Mali
	Water Resources Planning And Management	06.10. 2004	05.04. 2005	17.11. 2006	31.12. 2010	2,100,000.00 UAC	2,100,000.00 UAC	1,295,730.12 UAC	62%	Nile Bassin countries
	The company for Habitat and Housing in Africa (Shelter Afrique)	1980				3,391,371.00 UAC	3,391,371.00 UAC	3,391,371.00 UAC	100%	Regional
	PTA Bank Equity I	1991				13,836,793.00 UAC	13,836,793.00 UAC	4,612,264.55 UAC	33%	Regional
	East African Development Bank(EADB) Equity I	10.02. 1999	20.04.1999			4,578,350.00 UAC	4,578,350.00 UAC	4,578,350.00 UAC	100%	Regional
	Djibouti Bulk Terminal Project	03.12. 2003	11.06.2006			6,782,741.00 UAC	6,782,741.00 UAC	6,782,741.00 UAC	100%	Djibouti
	Eadb Support Project 7	17.12. 2003	19.04. 2004	29.12. 2004	31.12. 2010	40,000,000.00 USD	40,000,000.00 USD	35,424,246.14 USD	89%	Regional

Sector	Project	Approval Date	Signature date	Effectiveness Date	Current Disb. Deadline	Amount Approved (In loan currency)	Amount signed (In Loan currency)	Disbursed Amount (In UA)	Disbursement rate	OREB/OREA linked countries
Private sector	Eadb Support Project 7	17.12.2003	19.04.2004	29.12.2004	31.12.2009	900,000.00 UAC	900,000.00 UAC	683,771.36 UAC	76%	Regional
	Pta Bank First Line Of Credit & Ta Suppo	17.12.2003	10.02.2004	30.09.2004	31.12.2009	30,000,000.00 USD	30,000,000.00 USD	30,000,000.00 USD	100%	Regional
	Pta Bank First Line Of Credit & Ta Suppo	17.12.2003	10.02.2004	30.09.2004	30.12.2009	680,000.00 UAC	680,000.00 UAC	599,527.66 UAC	88%	Regional
	Bujagali Hydropower project	02.05.2007	21.12.2007			74,610,161.90 UAC	74,610,161.90 UAC	50,871,383.09 UAC	68%	Uganda
	Eadb Fapa Grant	28.12.2007	#	#	#	1,000,000.00 USD	1,000,000.00 USD	0.00 USD	0%	Regional
	Shelter-Afrique Fapa Grant	27.12.2007	31.07.2009	28.07.2010	31.12.2011	950,000.00 USD	950,000.00 USD	538,500.00 USD	57%	Regional
	Buseruka Hydropower project	9.07.2008	09.04.2009			6,104,467.79 UAC	6,104,467.79 UAC	3,052,233.90 UAC	50%	Uganda
	Pta Bank 2nd Line Of Credit & Ta Support	08.08.2008	15.05.2008	25.10.2008	30.06.2012	50,000,000.00 USD	50,000,000.00 USD	50,000,000.00 USD	100%	Regional
	General Capital Increase of PTA Bank	12.03.2008	15.05.2008			32,285,851.88 UAC	32,285,851.88 UAC	4,612,264.55 UAC	14%	Regional
	PTA Bank Investment Project LOC	08.08.2008	08.08.2008	25.06.2009	31.12.2010	1,000,000.00 USD	1,000,000.00 USD	400,000.00 USD	40%	Regional
	Shelter-Afrique Financial Support Proj.	18.02.2009	31.07.2009	22.03.2010	31.07.2010	30,000,000.00 USD	30,000,000.00 USD	10,000,000.00 USD	33%	Regional
	Increase of the Bank Equity Participation in the Capital of the Company for Habitat and Housing in Africa (Shelter Afrique)	18.02.2009	31.07.2009			5,087,056.49 UAC	5,087,056.49 UAC	5,087,056.49 UAC	100%	Regional
	Emerging Africa Infrastructure Fund	11.03.2009	25.06.2010	#	#	36,250,000.00 USD	31,250,000.00 USD	0.00 USD	0%	Regional

Sector	Project	Approval Date	Signature date	Effectiveness Date	Current Disb. Deadline	Amount Approved (In loan currency)	Amount signed (In Loan currency)	Disbursed Amount (In UA)	Disbursement rate	OREB/OREA linked countries
	Emerging Africa Infrastruture Fund Stdby	11.03. 2009	25.06. 2010	#	#	12,500,000.00 USD	12,500,000.00 USD	0.00 USD	0%	Regional
	Equity Investment in Aureos Africa Fund LLC.	10.06. 2009	15.12.2009			20,348,225.97 UAC	20,348,225.97 UAC	8,115,835.67 UAC	40%	Regional
	Kenya/Ethiopia: Mombasa-Nairobi-Addis Rd	13.12. 2004	04.02. 2005	24.01. 2006	31.12. 2010	36,150,000.00 UAC	36,150,000.00 UAC	24,583,042.31 UAC	68%	Kenya, Ethiopia
	Mombasa-Nairobi-Addis Corridor Ii	01.07. 2009	15.01. 2010	#	31.12. 2015	210,000,000.00 UAC	210,000,000.00 UAC	0.00 UAC	0%	Ethiopia, Kenya
	Botswana/Zambia - Sadc North-South Corri	01.12. 2006	17.05. 2007	04.09. 2008	31.12. 2010	2,050,000.00 UAC	2,050,000.00 UAC	921,901.23 UAC	45%	SADC
		01.12. 2006	04.12. 2007	02.12. 2008	31.12.2010					
	Projet De Route Kicukiro - Kirundo	20.09. 2006	30.10. 2006	15.03. 2007	30.11. 2011	60,400,000.00 UAC	60,400,000.00 UAC	23,355,947.24 UAC	39%	Rwanda, Burundi
Transport	Arusha- Namanga-Athi River Road Developm	13.12. 2006	08.02. 2007	28.10. 2008	31.12. 2012	53,816,000.00 UAC	4,038,000.00 UAC	395,987.45 UAC	10%	
		13.12. 2006	09.03. 2007	28.10. 2008	31.12. 2013	6,857,000,000 JPY	6,857,000,000 JPY	1,652,562,701 JPY	24%	
	Multi-Nacala Road Corridor (Mozambique)	10.03. 2010	23.10. 2009	#	30.06. 2015	102,720,000.00 UAC	102,720,000.00 UAC	0.00 UAC	0%	Mozambique
		10.03. 2010	10.03. 2010	#	10.03. 2016	5,978,000,000 JPY	5,978,000,000 JPY	0 JPY	0%	Zambia
	Nacala Corridor Project Phase II	27.09. 2010	#	#	#	69,369,000.00 UAC	0.00 UAC	0.00 UAC	#DIV/0!	Malawi
	Multi-Nacala Road Corridor	24.06. 2009	21.10. 2009	21.07. 2010	31.12. 2013	14,320,000.00 UAC	14,320,000.00 UAC	0.00 UAC	0%	
	Arusha - Namanga-Athi River Road Dev Pj	13.12. 2006	08.02. 2007	04.01. 2008	31.12. 2012	49,241,000.00 UAC	49,241,000.00 UAC	26,691,779.20 UAC	54%	Tanzania

Sector	Project	Approval Date	Signature date	Effectiveness Date	Current Disb. Deadline	Amount Approved (In loan currency)	Amount signed (In Loan currency)	Disbursed Amount (In UA)	Disbursement rate	OREB/OREA linked countries
	Sadc Technical Assistance – Transport	01.12. 2006	17.05. 2007	11.12. 2007	31.12. 2010	350,000.00 UAC	350,000.00 UAC	162,291.91 UAC	46%	SADC
	Route Nyamitanga-Ruhwa-Ntendezi-Mwityazo	16.12. 2008	16.03. 2009	14.05. 2010	31.12. 2013	100,000,000.00 UAC	100,000,000.00 UAC	8,052,046.40 UAC	8%	Burundi, Burundi
	Phase 2 Chemin Fer Dsm-Isaka-Kiga/Keza-M	17.11. 2009	31.03. 2010	#	31.12. 2012	5,000,000.00 UAC	5,000,000.00 UAC	0.00 UAC	0%	Tanzania, Rwanda, Burundi
	East Africa Trade & Transport (Eac)	29.11. 2006	08.02. 2007	05.05. 2009	31.12. 2012	15,400,000.00 UAC	9,200,000.00 UAC	2,574,279.41 UAC	28%	EAC
Water & Sanitation	Sadc-Shared Watercourses Support Project	25.01. 2006	18.05. 2006	01.02. 2008	31.12. 2010	9,380,000.00 UAC	9,380,000.00 UAC	1,279,003.93 UAC	14%	SADC
	MAPPING TRANSBOUNDAY WATERS	09.01. 2007	18.05. 2007	15.08. 2007	31.07. 2011	1,831,600.00 EUR	1,831,600.00 EUR	1,095,750.00 EUR	60%	Djibouti, l'Érythrée, le Kenya, l'Ouganda, la Somalie, l'Éthiopie et le Soudan.
	STRENGTHENING WATER ENGINEERING CAPACITY	29.09. 2008	05.02. 2009	26.02. 2009	31.07. 2014	1,990,000.00 EUR	1,990,000.00 EUR	820,958.00 EUR	41%	Burundi, Centrafrique, Côte d'Ivoire, Congo, Guinée, Guinée-Bissau, Liberia, RDC, Rwanda, Sierra Leone et Chad andTogo
	LAKE VICTORIA WATSAN	03.03. 2008	01.08. 2008	24.11. 2008	31.10. 2010	994,000.00 EUR	994,000.00 EUR	994,000.00 EUR	100%	Burundi, Kenya, Rwanda, Tanzania and Uganda,
	SUPPORT TO SADC WSS PROGRAMME	04.06. 2009	17.03. 2010	#	31.12. 2011	1,997,000.00 EUR	1,997,000.00 EUR	0.00 EUR	0%	SADC
	GRET LACS RWERU, CYOHOHA ET MAR. AKANYAR	22.12. 2009	16.05. 2010	#	30.12. 2011	770,000.00 EUR	770,000.00 EUR	0.00 EUR	0%	Burundi and Rwanda
	SONGWE RIVER BASIN DEVELOPMENT PROJECT	25.05. 2010 25.05. 2010	# #	# #	# #	557,550.00 EUR 2,991,450.00 EUR	0.00 EUR 0.00 EUR	0.00 EUR 0.00 EUR		Malawi et Tanzanie

Annex 14: Potential Regional Operations, 2011-2015

Table 1: Priority Projects and potential Deliverables and Targets

Projects	**Estimated cost UA million**	**Funding Sources**
Energy Projects		
1. Rusumo Hydroelectric Falls Project (Burundi/Rwanda/Tanzania)	52.0	ADF
2.Amenagement hydroelectrique de Ruzizi III	TBD	ADF
3.Power Interconnection Kenya/Tanzania/Zambia)	TBD	ADF
4.Ethiopia/Kenya Power Interconnection Project	290.0	ADF
Transport Projects		
5. Arusha-Voi Taveta (Tanzania/Kenya) Road Project	TBD	ADF
6. Isaka-Kigali/Keza-Musongali (Tanzania/Rwanda/Burundi) Rail Project	TBD	ADF
7. Mueda-Negomano Road Study (Mozambique/Tanzania)	5.0	ADF
80. Mombasa-Nairobi-Addis Ababa Corridor Project (Phase III)	225.0	ADF
9. Port of Tanga Improvement Project	67.0	ADF
ICT Regional Operations		
10 .EAC Broadband Infrastructure Network (Tanzania/Uganda/Kenya/Burundi/Rwanda)	25.0	ADF
11. Maritime Communications for Safety on Lake Victoria (Uganda/Kenya/Tanzania)	5.6	ADF
12. Seychelles Submarine Cable Link Project (Seychelles and one of the landing points in Eastern Africa - Kenya or Tanzania)	24.0	ADB
Agriculture/Water Projects		
13. Faisabilité du transfert d'une partie des eaux du lac Afambo (Ethiopie) a Djibouti	TBD	ADF
Capacity Building/Facilitation/Regional Public Good		
14. EAC Payment System Development Project	25.0	ADF
15. African Virtual University – Phase II	10.0	ADF
16. Lake Edward Albert Integrated Fisheries and Water Resources Management Project	25.0	ADF
17. T/A for the Preparation of the Tripartite Strategic Framework	TBD	ADF
18. Capacity Support for Infrastructure Development	TBD	ADF
19. Capacity Support for trade Facilitation	TBD	ADF
20. Climate Change Adaptation Project (RPG)	TBD	ADF

Table 2: Other Potential Projects and Deliverables

Projects	**Estimated cost UA million**	**Funding Sources**
Energy Projects		
1.Tanzania-Zambia Interconnector	TBD	ADF
2. NRE Projects	TBD	ADF
Transport Projects		
3. Rail Concessions Study	TBD	ADF
4. TAZARA Rail Improvement Project	TBD	ADF
5. Railway Equipment Leasing Project	TBD	ADF
6. Upgrading/Development of Port of Berbera	TBD	ADF
ICT		
7. ICT for Health	15.0	TBD
Capacity Building/Facilitation/Regional Public Good		
8. Management of Shared Water Courses (Nile Basin and Lake Victoria Basin Initiatives) (RPG)	TBD	ADF

Table 3: EAC Infrastructure Projects Linking with COMESA and SADC

	EAC Identified Projects	Km	USD mil
I	**North-South Transport Corridor**		
1.1	Dodoma-Babati tarmac road (studies and actual construction)-Central Tanzania missing link	263	65.750
1.2	Turbi-Moyale tarmac road (Kenya-Ethiopia link) (compensation, construction)	136	34.000
1.3	10 year annual regular maintenance of the North-South Corridor: from border in S. Tanzania to border in N. Ethiopia) (30% of the whole network from Zimbabwe to Egypt, estimated at $9.6 billion for 20 yrs)	1500	1,500
	Sub-total		***1,599.75***
II	**Mtwara Transport Corridor (southern Tanzania linking with SADC and DR Congo)**		
2.1	Mangaka-Tunduru road (studies and civil works) in Southern Tanzania	146	36.5
2.2	Mbinga-Mbaba Bay Road (studies and civil works) in Southern Tanzania	66	16.5
2.3	Nkhata Bay-Mzuzu (Malawi- synergy on the investment on the Tanzanian side)	47	11.75
2.4	Improvements on the port of Mtwara (studies)	1	0.4
2.5	Mangaka-Mtambaswara (S. Tanzania) to Negomano-Mueda (Northern Mozambique)-study	1	0.5
	Sub-total		***64.751***
III	**Central Transport Corridor**		
3.1	Further improvements on the Port of Dar es salaam	1	150
	Improvements on the port of Tanga	1	100
	Arusha to Holili Road (civil works)	125	31.25
	Taveta-Voi Road (civil works)	115	28.75
	OSBP Construction at Holili/Taveta Border (study and construction)	1	2.0
	Mpanda-Uvinza-Kibondo-Nyakanazi (studies, compensation and construction)	562	140.5
	Sub-total		***450.2***
IV	**Northern Corridor**		
4.1	Malindi-Lungalunga-Bagamoyo road (linking northern with Central Corridor, North-South and Mtwara Corridors) (post studies interventions- actual construction) ('000)	400	100
4.2	Malindi-Gasern-Lamu road (studies)	1	0.425
4.3	Kyaka-Murungo-Kikagati road (studies) (Linking Tanzania with Uganda)	1	0.425
4.4	Kitale-Swan-Kapchorwa (studies) (linking Kenya with Uganda)	1	0.425
4.3	Mwandiga-Manyovu (Tanzania)/Mugina-Mabanda-Rumonge (Burundi) (studies)	1	0.45
4.5	Lusahunga (Tanzania)-Rusumo-Kayonza-Kigali (Rwanda) road-154km (studies)	1	0.525
	Sub-total		***100.02***
	Grand Total I-IV, USD million		**1,967.25**

Source: Transport Sector Background Study (projects derived from EAC, 2010 Transport, Communication and Meteorology Sector Council Minutes and discussions by the consultant with EAC Directorate of Infrastructure, EAC Secretariat (June and July 2010). Indicated costs are estimates by the Transport Consultant.

Table 4: Potential Railway Studies and Projects.

(a) Studies

Railways Studies	**Narrative**	**Cost per project or km (USD mil)**	**Total Cost, USD mil**
1. Study to establish a regional locomotive and wagon leasing pool	Feasibility study to establish a regional locomotive and wagon leasing pool to collectively solve the shortage of such facilities	1.0	1.0
2. Establishing a regional locomotive and wagon leasing pool[28]	Initial capital for establishing and running a regional locomotive and wagon leasing pool to collectively solve the shortage of such facilities. Cost over 5 years	30/year	150
3. In-depth Study for upgrading narrow gauged rails to the wider gauge.	In order to share the pool of wagons to be established there is need to have standardised and harmonized infrastructure and systems	1.00	1.00
Total			**152**

(b) Projects

Linked Countries	USD mil	Geographic Linkage and Economic Importance
Uganda-DRC	1,755.0	Kasese to Kisangani, linking mineral rich parts of Uganda and DR Congo
Uganda-Sudan	5,557.5	Linking Northern Uganda and opening southern Sudan as a market for EAC goods and import of natural resources
Kenya-Sudan	2,560.0	Linking Kenya and opening southern Sudan as a market for EAC goods and import of natural resources from S. Sudan
Kenya-Ethiopia	4,548.75	Linking Kenya with Ethiopia as a market for EAC goods and exports from Ethiopia
Kenya-Somalia	1,200.0	Linking Kenya and Somalia as a market for EAC goods and exports from Somalia
Tanzania-Rwanda-Burundi	3,207.5	Improving access by the landlocked countries to the gateways of Dar es salaam and Tanga ports
Tanzania-DR Congo-Zambia	2,231.6	Improving access by the landlocked countries to the southern Tanzania regions and also access to the Mtwara and TAZARA corridors and the ports of DSM and Tanga
Tanzania-Uganda	2,551.5	Improving access by the landlocked countries to the gateways of DSM and Tanga ports
Tanzania Mtwara Corridor	6,115.4	Linking the Mtwara corridor with TAZARA and the rest of the EAC economy. Transporting coal and iron from Liganga to the industrial cities
Rehabilitation and Maintenance of EAC Railway network	610.0	Improve existing network: Eliminate speed restrictions on core track; rehabilitate bridges to be carried over the next 20 years. Costs for the next 10 years to improve existing network: Eliminate speed restrictions on core track; rehabilitate bridges to be carried over the next 20 years. Costs for the next 10 years
	30,337.25	

Source: East Africa Transport Sector Study

Annex 15: Horn of Africa - From Food Crisis to Building Resilience: A Proposed Bank Strategic Approach

The food crisis in the Horn of Africa (HOA), although not entirely unexpected, has set unprecedented records in terms of the number of affected persons, currently at over 12.5 million. The crisis is a result of **drought in the HOA** resulting from two consecutive failed rainy seasons. The year 2011 is said to be the driest ever witnessed in the last 60 years and incidences of drought are now increasingly more frequent. The effects of this are poor crop yields and higher food prices. **Climate change** is also exacerbating the situation. The crisis is further aggravated by the **ongoing civil war and institutional fragility of Somalia**, which has in turn affected the efforts of the international community to respond to the humanitarian needs in the country.

Countries directly affected are: Somalia, Ethiopia, Kenya and Djibouti. **Somalia**: is at the epicenter of the current crisis, with at least 3.7 million people in acute food and livelihood crisis which is about 50% of the country's population. Some 3.2 million people are in extreme need of immediate lifesaving assistance. In **Ethiopia**, 4.5 million people are affected in addition to more than 76,000 refugees arriving from Somalia. In Kenya, about 3.8 million people are affected (including about 0.5 million refuges). In **Djibouti**, an estimated 120,000 people are in need of urgent humanitarian assistance.

Other countries, although not severely affected, are at risk such as South Sudan, Uganda and Rwanda. In **South Sudan**, a rapid deterioration in the food security situation is expected in the next month due to a massive influx of returnees (about 302,700 people). In **Uganda**, a UN assessment shows that a small percentage of the Karamoja's population is potentially at risk. It is estimated that only 10% of the population may require food relief. Currently, WFP is providing targeted food relief to about 140,000 people. In **Rwanda**, the Authorities are preparing medium and long-term plans for ensuring food security.

The international community has pledged in excess of one billion dollars towards humanitarian efforts through relevant agencies. The Bank has contributed to the emergency relief situation in the directly affected countries to the tune of USD 1million per country through its Special Relief Fund.

However, during the AU Conference on Drought and Famine in the HOA held in Addis Ababa on 25th August 2011, the Bank underlined the urgency of putting in place **medium to long term measures** to address food security on a sustainable basis. This would involve strong partnerships with the countries concerned, the regional institutions, particularly IGAD, and other development partners. Indeed, medium to long term regional responses would provide a robust and sustainable solution to the crisis in the HOA.

Accordingly, **options** for the Bank include: (i) using its convening power to rally the regional member countries and other development partners to establish a long-term, multi-sectorial, multi-country infrastructure development program focusing on agriculture, water and climate change and adaptation; and, (ii) support to regional institutions in peace building and regional integration.

The Bank recently commissioned a number of studies including the Sustainable Livestock Development in the Greater Horn (2010) and Mapping Assessment and Management of Trans-boundary Water Resources in the IGAD Sub Region (2010) that identify a number of resilience building interventions. Following the outcomes of these studies, the Bank proposed the **Drought Resilience and Sustainable Rural Livelihoods Program (DRSRLP)** which will address the underlying threats to livelihoods and provide opportunities for the development and growth of the region. The program encompasses investments in agricultural infrastructure, water resource management and supporting infrastructure (i.e. energy, ICT).

In terms of **resources**, the Bank could make use of the instruments at its disposal, including the regional operations envelope, project restructuring, the FSF, Bank-managed Trust Funds as well as leveraging external sources in partnership with other donors (e.g. Climate Change Funds).

Annex 16: South-Sudan and Sudan in the RISP Framework

South Sudan became an independent nation on 9 July 2011. South Sudan has formally applied for membership in the Bank Group. The Bank is fast-tracking interim arrangements and membership as well as in creating the conditions for preparing an appropriate programming document for a full-fledged engagement.

The new country faces a number of **constraints**, characterized in particular by a narrow economic base, heavy dependency on oil, weak human and institutional capacities and major infrastructure gaps. South-Sudan is also landlocked, neighboring six countries: Sudan, CAR, DRC, Ethiopia, Kenya and Uganda. Regional integration and cooperation with Sudan and the others neighbors are therefore critical for the new country. In particular, both Sudan and South-Sudan have stressed the importance of the emergence of **two viable States** during their negotiations. The President of South-Sudan has also affirmed on independence day the strong **commitment of his country to effective integration within the region**, which is critical for its security and economic prosperity.

The Government of South-Sudan (GoSS) must address urgently high levels of poverty and inequality, by expanding economic opportunities for the population, particularly through economic diversification, and access to education, health as well as other social amenities such as electricity and water and sanitation. Connecting the new country to the region is also a major priority to accelerate progress in improving employment and living conditions. To address these challenges, the country would need a substantial amount of development assistance in addition to locally-generated resources.

To remedy this situation, the GoSS has formulated and just released a **National Development Plan, 2011-2013** and a companion Aid Strategy, which provides a framework for donor interventions. The GoSS has formally requested the support of the Bank in assisting in putting in place an aid coordination mechanism as well as effective implementation arrangements of the National Development Plan (NDP) in the areas of infrastructure and agriculture for economic diversification.

In line with its strategic thrust, the Bank has committed to support the new State of South Sudan in institutional capacity building and technical assistance for effective donor coordination as well as a short to medium and long term infrastructure actions plan in which the regional dimension will feature prominently.

The Bank has already begun work on needs assessments in agriculture and infrastructure, with the view to assisting with implementation arrangements of the NDP as well as preparing an Infrastructure Actions Plan for economic diversification. Draft sector reports were produced in July 2011 for agriculture, transport, energy and water and sanitation. A validation workshop is planned in September 2011. The preparation of a needs assessment in the ICT sector has just begun and is planned for completion in October 2011. Work on establishing an effective aid coordination mechanism has also just begun.

On related note for Sudan, the Government has just released the draft of the Interim Poverty Reduction Strategy (I-PRSP). Work is also underway on a 5-year national development plan (NDP) which is expected to go beyond the PRSP by integrating broader issues related to cooperation with the South as well as regional economic cooperation and integration. The Bank will review the draft NDP, advise on some key analytical work and assist as appropriate in the areas of regional integration and infrastructure.

It should also be noted that the Bank has provided technical assistance to the African Union High Level Implementation Panel on (AUHIP), which is facilitating post-referendum negotiations between the Sudanese and South Sudanese Authorities. In this context, the Bank has particularly produced analytical work on the economic framework for cooperation as well as trade and related payments system between the two countries. The Bank is also preparing to launch a study on cross-border trade.

Looking ahead, the outputs from all these activities and the NDP will form the key ingredients in the preparation of a Country Strategy Paper (CSP) for South-Sudan for a full-fledged engagement of the Bank as soon as the ongoing work on all cooperation conditions will be completed, including membership. The regional dimension will clearly be articulated in the CSP which will put heavy emphasis on capacity building and infrastructure for economic diversification. The Mid-Term Review of the RISP, planned for 2013, will provide an opportunity to adequately reflect specific relevant issues for South-Sudan in the RISP document.