Chapter 4
Integrate Africa

Regional integration has been at the heart of Africa's political agenda for many years. With 1 billion people, Africa has a combined GDP of more than $3.4 trillion. Such a market could create huge opportunities for producers on the continent. To make it a reality, African governments and regional economic communities need to cooperate to make it easier to move goods, services, people, money, energy and knowledge across borders.

However, regional integration is by no means easy to implement and Africa's regional integration challenges are well known. In the first part of this chapter we review some of these challenges and the extent to which African countries trade with each other. The continent's physical landscape makes connection between communities, countries, and even entire regions difficult.

We believe that linking African countries is critical to Africa's economic transformation. For this reason, as the continent's leading financier of infrastructure, we have a strong focus on regional connectivity. In the latter part of this chapter, we track our contribution to regional integration. We are not only investing in infrastructure such as roads, transmission lines, pipelines and communications networks, but also crafting and implementing coherent policies that open up borders.

Realising Africa's potential: what integration could achieve

When people talk about Africa integration they often talk about trade. Bringing down trade barriers is vital — but so is the free movement of people and financial integration. The Bank is focusing its integration efforts not just on movement of goods and services but also on mobility of people and investment.

Moving freely across Africa

Enabling people to move freely across borders in Africa will give a powerful boost to economic growth. When people can travel with ease for business, employment, tourism or education, there are enormous potential benefits. Cross-border movement can support talent mobility and competitiveness. Skills gaps can be plugged and ideas exchanged, spreading entrepreneurship and innovation. When visa and work permit restrictions are reduced, businesses and economies become more competitive.

On average Africans need visas to travel to 55% of other African countries. They can get visas on arrival in only 25% of other countries and do not require a visa to travel to just 20% of other countries on the continent. In many cases, non-African travellers have easier access.

Some of Africa's regional economic communities, including the East African Community (particularly Kenya, Rwanda and Uganda) and the Economic Community of West African States have facilitated their nationals' movements among member countries. Progress in other regional economic communities is less advanced, however, and the average ratification rate for protocols on free movement of persons remains at 60%.

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The benefits of financial integration

When capital flows more freely across borders, investment increases, finance is allocated where it can generate the most productivity, and investors get higher returns. In turn, as transaction costs of doing business fall and financial institutions work more effectively, companies of all sizes benefit: micro-, small and medium-sized enterprises.

The Abuja Treaty, which sets out the continent's integration pathway, establishes monetary union as a key priority. Yet many regional economic communities have not made their national currencies convertible; coordinating macroeconomic convergence at country level needs a greater push. As the global financial crisis has shown, being more capital-connected comes with risk. More data, information and transparency build confidence among national authorities and financial institutions, as does improving regulatory frameworks, safeguards and supervision.

Development in Africa (See Annex 1)

INDICATOR	ALL AFRICAN COUNTRIES		OF WHICH ADF COUNTRIES	
	Baseline 2010	Latest 2015	Baseline 2010	Latest 2015
Integrate Africa				
● Intra-African trade (billion USD)	135.5	174.5	26.6	43.2
● Cost of trading across borders (USD)	2145	2384	2338	2675
● Access to telephone services (per 1000 people)	538	766	368	614
● Road density (km per km² of land area)	7.9	8.2	6.7	7.1

The bullets indicate that: ● Progress is strong and better than peers ● There has been regression against the baseline

How AfDB contributes to Africa's development (See Annex 2)

INDICATOR	2013–2015			2016–2018
	Expected	Delivered		Expected
Integrate Africa				
● Transport — Cross-border roads constructed or rehabilitated (km)	1339	1281	96%	6858
● Energy — Cross-border transmission lines constructed or rehabilitated (km)	..	..	..	2556

The bullets indicate that: ● Bank operations achieved 95% or more of their targets ● Data are not available to measure progress

Financial integration is a complex process that covers policies (monetary policies, provision of financial services), infrastructure (legal and regulatory frameworks, payment systems), and financial institutions (bank, non-bank and capital markets). Actions that can make a difference include promoting banking across borders; standardising regional payments; putting in place multilateral fiscal guidelines; and joining up policy on inflation, public finance and exchange rate stability. By taking such steps, governments can create more predictable conditions in which cross-border trade and investment will thrive.

Though data are limited on intra-African foreign direct investment, it appears that such flows represent only a fraction of Africa's own GDP. However, some African banks are opening branches across the continent, suggesting a potential for greater financial integration if barriers to cross-border lending are lowered further.

> *When capital flows more freely across borders, finance is allocated where it can generate the most productivity, and investors get higher returns*

Trade integration: a long way to go

● **Inter-African trade** increased from $145 billion in 2014 to $174 billion in 2015. Yet only 11.3% of trade in Africa is intra-regional and exports remain skewed towards raw minerals. Intra-African imports as a share of the continent's GDP rose from around 2.7% in 1995 to around 4.5% in 2013, but this is low compared with regions such as the Americas (6.7%), Asia (17.9%) and Europe (21%). The ● **cost of trading across borders**, measured as the cost of shipping a container, has also increased by 11% since 2010, to $2384.

Numerous initiatives are under way to remedy this situation and unlock the power of regional trade to drive the economic transformation that Africa needs. In June 2015, two key shifts in Africa's trade integration occurred. First, the Tripartite Free Trade Area Agreement between the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and the Southern African Development Community (SADC) was signed. While much work remains to put it into effect, it marks a huge step towards rationalising Africa's regional trade arrangements.

Second, the Continental Free Trade Area negotiations were formally launched. They are expected to last until the end of 2017 and will cover trade in goods and services, investment, intellectual property rights and competition policy.

Africa is also making progress in establishing legal frameworks to deepen trade integration among regional economic communities. In January 2015, the Economic Community of West African States (ECOWAS) launched its customs union, which eight of the bloc's 15 member states began to implement through a common external tariff by April 2015. The Arab Maghreb Union (AMU) is coming closer to launching its own free trade area. Its member states have already signed three out of the four necessary protocols.

Several regional economic communities have reduced tariffs on intra-regional imports to a low level: EAC has a zero average applied tariff on imports within the bloc, while the Economic Community of Central African States (ECCAS) and COMESA both apply tariffs averaging around 1.9%. SADC's intra-regional tariffs are higher at 3.8%, as are those of ECOWAS (5.7%). COMESA, EAC, ECOWAS and SADC have all adopted measures to facilitate transport and reduce non-tariff barriers.

Regional infrastructure moves ahead

Africa is employing innovative methods to raise infrastructure finance and to drive forward strategic infrastructure projects, including cross-border transport, communications and pipeline projects. The continent is also working on energy projects. Several African countries have made large strides in improving road density and quality as well as internet bandwidth. ECOWAS, SADC and some East African countries have created single-area mobile phone networks across several countries, reducing roaming costs. ● **Africa's road density** (length of road per square kilometre) has increased since 2010 from 7.9 km to 8.2 km, but this only represents 30% of Asia's road density. Telephone communication is growing much faster: more than 76% of Africans now have ● **access to telephone services**, the majority as mobile connections, opening the door to further services, including financial services and banking.

Regional hubs, as well as small or landlocked countries, have a lot to gain from promoting infrastructure to boost economic growth. Both traditional and new funding partners are continuing to invest in Africa's infrastructure at regional level. To power the continent's energy needs and build first-class networks, regions and countries need to encourage stronger ownership and involve the private sector. This means focusing on growth opportunities that support communities and Africa's next generation.

> *Regional hubs, as well as small or landlocked countries, have a lot to gain from promoting infrastructure to boost economic growth*

The Bank's ongoing role in integrating Africa

To promote the goal of the African Union's Agenda 2063 to abolish visa requirements for all African citizens in all African countries, the Bank has developed the Africa Visa Openness Index, in collaboration with McKinsey & Company and the World Economic Forum Global Agenda Council on Africa. It serves as a tool to help policymakers in Africa monitor the levels of openness/ restrictiveness of Africa's visa policy regime. It is meant to track annually the relative ease with which Africans travel within Africa. The report shows how Africa remains largely closed off to African travellers.

Visa openness is a vital step forward towards a more integrated Africa. There are huge potential gains to be had for countries and regions across Africa in having more visa-open policies for other Africans. That holds true whether it is to help plug skills gaps in the labour market, promote entrepreneurship, diversify the economy, add value to services, attract investment or boost competitiveness.

Despite the benefits of open borders and the commitment by African Union member countries under the Abuja Treaty regarding free movement and rights of residence, progress has been slow on this.

The Bank's approach to fostering free movement of people focuses on four aspects:

- Economic and sector work on migration and remittances, including empirical analysis of the impact of immigration on the labour market, regional trade, and tax and welfare systems; and the net fiscal consequences of remittances for both sending and receiving countries.
- Leveraging remittances for development: African remittance flows to and within the continent reached $40 billion in 2015. We are supporting projects to harness remittances and the African diaspora for productive investment as a source of development finance to encourage inclusive growth at both macro and micro levels. This includes initiatives to reduce the cost of remittance services and develop policies and projects that will facilitate greater economic participation of the diaspora, for example, in infrastructure financing.
- Supporting mutual recognition of skills and qualifications for professionals.
- Supporting regional economic community and member country mechanisms to facilitate movement of business people.

> *Our investment in transport corridors is helping connect landlocked countries to regional and global markets, while benefiting communities along the routes*

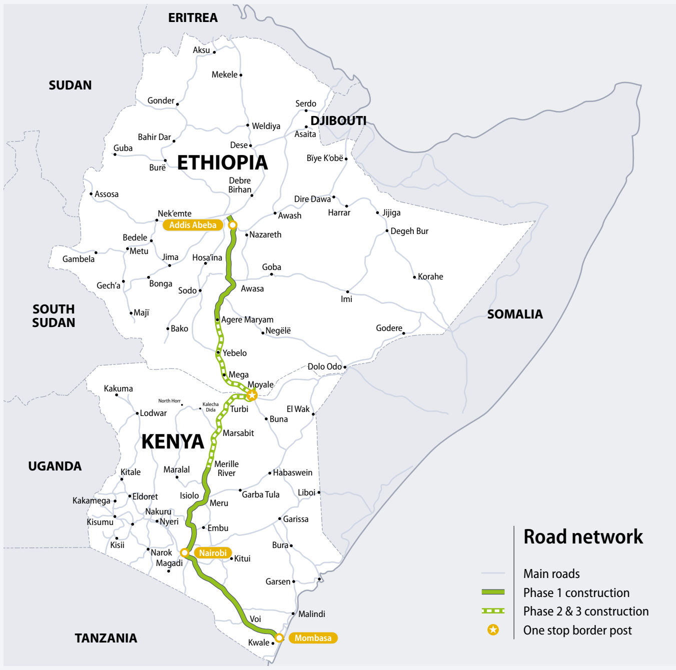
The bank supports "soft" and "hard" infrastructure that connects Africa

The Bank's Regional Integration Policy and Strategy (2014–2023) acknowledges the opportunities provided by regional integration in boosting infrastructure, trade, industrialisation and movement of people because of important but unevenly distributed human and natural resources, and small and fragmented markets.

The Bank will continue to invest in regional infrastructure, including energy transport and information and communications technology.

One of the pillars of our strategy is promoting regional power connections, to make up for the inherent inefficiencies of small national power systems. We are supporting the development of regional power pools, in which neighbouring countries links their energy grids into a single network. A second pillar of our approach is the extension of regional transport links. Our investment in transport corridors is helping connect landlocked countries to regional and global markets, while benefiting communities along the routes.

Figure 6 **Driving integration in East Africa**



Source: AfDB

The 2000 km road corridor linking the Kenyan port of Mombasa to the Ethiopian capital, Addis Ababa, through Kenya's capital, Nairobi, is a key axis of regional integration in East Africa. As part of the planned Trans-African Highway from Cairo to Cape Town, it will put an end to a situation in which the two largest economies of East Africa share more than 1000 km of common border but not a single all-weather road connecting them.

Phase II of the project, begun in 2009, involves the construction to bitumen standard of 438 km of road and has been largely completed. Phase III is set to complete the rehabilitation of the missing road sections.

The Bank has played a key role in facilitating the project by stimulating administrative cooperation, customs harmonisation and political dialogue in the region. The two countries have signed a Road Transport Service Agreement that sets out conditions for the use of the transport infrastructure and provides a basis for dialogue on aligning transport rules and regulations.

That round of cooperation culminated in the signing of the Joint Ethiopia–Kenya Corridor development commission in Addis Ababa in April 2014, which approved the design of the one-stop border post to be constructed at the border town of Moyale.

Box 7 **An optical fibre backbone in central Africa**

In July 2015, the Bank approved the first project of its new information and communication technology division: the installation of 916 km of optical fibre in Cameroon is a first step to create a "Central African Backbone" for new technologies. The project will extend the coverage of the national optical fibre network by filling in the missing links and extending the network to Cameroon's borders with Congo, Nigeria and Central African Republic. By increasing the supply of high-quality broadband electronic communication services at competitive prices, the project will help Cameroon develop a genuine digital economy to create jobs.

The project also envisages the implementation of ICT applications and services, such as e-banking, and systems for delivering information on markets and climate. The project implementation will span four years and includes institutional support as well as capacity building for the project beneficiaries. The total project cost is estimated at $51 million. The Bank will provide $41 million.

The Bank continues also to lead in several continent-wide initiatives in "soft" infrastructure, such as trade and services facilitation policies and instruments, including:

- the Continental Free Trade Area;
- the Comprehensive Africa Agriculture Development Programme;
- the Programme for Infrastructure Development in Africa;
- the Boosting Intra-African Trade agenda.

Overall, as a result of our projects, 1281 km of ● **cross-border roads** were constructed or rehabilitated between 2013 and 2015, close to our target. In Eastern Africa, we supported the Mombasa–Nairobi–Addis Ababa road corridor to help increase regional integration (see Figure 6).

We also recently approved an optical fibre backbone project in Central Africa that will help Cameroon develop a genuine digital economy in order to create more jobs. It will also extend the coverage of the national optical fibre network by filling the missing links and extending it to Cameroon's borders with Congo, Nigeria and Central African Republic (see Box 7).

Looking forward: Realising the potential of integration to improve Africans' lives

As part of the "Integrate Africa" priority, the Bank will foster regional integration through the *Programme for Infrastructure Development in Africa*. This includes developing regional energy markets, transnational railways and highways to link countries' economic activities. It will support trans-boundary programmes including basin development, such as Lake Chad and Niger.

The Bank will work with other stakeholders to help regional economic communities and national authorities to integrate "soft" infrastructure, including by facilitating cross-border investments, eliminating non-tariff trade barriers, harmonising investment and engineering codes, and quality assurance and certification standards. This includes helping countries lift market barriers and formalise women's participation in cross-border trade. Through changes in the visa regime we will promote the movement of people.

> *The Bank will support operations to promote robust, market-based monetary systems*

The Bank also aims to work with countries to deepen regional financial markets. We will support operations to promote robust, market-based monetary systems. We will also finance projects supporting financial stability and integration of financial markets.

Finally, we will continue to develop new approaches to increasing the leverage of our relatively limited concessional resources. This can be done externally through co-financing with other donors, in public-private partnerships or through innovative financial solutions such as infrastructure bonds.

Overall, these actions will expand Africa's regional markets and reduce the costs of trading for African countries, but will require political will, financial commitment and a strong sense of solidarity.