Regional economic integration in Africa took a major step forward with the adoption of the Agreement establishing the African Continental Free Trade Area (AfCFTA), which entered into force in May 2019. Greater integration provides African producers with access to larger markets and encourages trade and investment. This in turn creates jobs, boosts productivity and encourages diversification. In addition, Africa’s cities, with their dynamic consumer and labour markets, are becoming increasingly attractive investment locations.

However, despite some landmark achievements, intra-Africa trade remains low. Significant barriers to trade remain, such as the high cost of trading across borders. There have been notable efforts to improve infrastructure connectivity and create conducive policy environments for business. Regional economic communities continue to promote integration, but progress is needed in many areas. The Bank is a champion of economic integration, trade and investment. Our Regional Integration Strategic Framework supports the African Union’s Agenda 2063 and the establishment of the Continental Free Trade Area. Through our investments, we will continue to deliver enhanced social and economic opportunities across the continent.

Ushering in a new era for intra-Africa trade and economic cooperation

African regional economic integration was given a boost in March 2018 with the adoption of the Agreement establishing the African Continental Free Trade Area. Having met its ratification threshold, AfCFTA will become operational in July 2019. It paves the way to making Africa — with its more than 1 billion consumers and over $2.5 trillion combined GDP — the largest free trade area in the world.

Intra-Africa trade remains limited

Source: International Trade Center

Intra-Africa trade creates the potential for high-value manufacturing, knowledge transfer, productivity growth and job creation

Intra-Africa trade is a driver of social and economic development. It creates the potential for high-value manufacturing, knowledge transfer, productivity growth and job creation. Expanding access to regional and international markets generates additional income for Africans and helps to relieve poverty.

By committing countries to removing tariffs on 90% of goods, liberalising tariffs on services and addressing other non-tariff barriers, AfCFTA is expected to significantly increase the value of intra-Africa trade and investment. According to the Bank, intra-Africa trade could grow by up to 15% if the bilateral tariffs that are applied today in Africa are eliminated and the rules of origin kept simple and transparent.
The African Continental Free Trade Area is just one part of a growing architecture of regional economic cooperation. It is complemented by other continental initiatives, including Boosting Intra-African Trade, Protocol on Free Movement of Persons, Right to Residence and Right to Establishment, and the Single African Air Transport Market.

Despite these landmark achievements, intra-African trade remains low at 14.4% of total trade (see Figure 2), with a decline in low-income countries from 22.6% in 2015 to 20.4% in 2018. By comparison, inter-regional trade in Asia accounts for 59% of total trade. Poor infrastructure, non-tariff barriers and a deficit of political goodwill to address the challenges that affect intra-African trade continue to impede progress.

This trade figure also omits the substantial amount of informal trade between countries, much of it undertaken by women and young people. In the Southern African Development Community (SADC) region, for instance, it is estimated that informal trade accounts for one-third of total intra-SADC trade.

The barriers to intra-Africa trade remain significant. The cost of trading across borders remains high, at $2384, although it fell slightly in 2017. There have been notable efforts to improve infrastructure connectivity across the continent. By lowering tariffs, addressing non-tariff barriers to trade and promoting deeper financial integration, AfCFTA will help reduce the time and cost involved in trading across borders and promote the free movement of people, goods and services.

Regional economic integration will be further driven by a number of macroeconomic and demographic trends. For example, a decline in global commodity prices and advances in technology will encourage countries that rely on low-value commodities to diversify. In addition, structural reforms can create conducive policy environments for companies to grow, as pan-African banks illustrate. And rapid urbanisation creates new consumer and labour markets that are attractive to investors, so that Africa’s cities are becoming increasingly attractive investment destinations.

There has been a significant increase in cross-border investment in Africa. In Africa-to-Africa (A2) Investment: A First Look, the Bank reported that cross-border investments reached $12 billion in 2018, up from $2 billion in 2010. Figure 3 shows the flows of intra-Africa investment between cities. The State of African Cities Report 2018 identifies Johannesburg, Casablanca, Cairo, Lagos and Nairobi as amongst the most significant sources and recipients of intra-Africa investment.

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**Table 1 Integrate Africa indicators (Level 1 & Level 2)**

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>ALL AFRICAN COUNTRIES</th>
<th>ADF COUNTRIES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INTEGRATE AFRICA INDICATORS — PROGRESS IN AFRICA (LEVEL 1)</strong></td>
<td>Baseline 2015</td>
<td>Latest 2018</td>
</tr>
<tr>
<td>Intra-African trade as a proportion of total goods trade (%)</td>
<td>14.6</td>
<td>14.4</td>
</tr>
<tr>
<td>Cost of trading across borders ($)</td>
<td>2 384</td>
<td>2 384</td>
</tr>
<tr>
<td>Regional economic communities’ average score (scale, 0 Low-1 High)</td>
<td>0.47</td>
<td>..</td>
</tr>
<tr>
<td>Deeply and broadly integrated countries (number)</td>
<td>19</td>
<td>..</td>
</tr>
<tr>
<td>Countries with liberal visa policies (number)</td>
<td>13</td>
<td>11</td>
</tr>
</tbody>
</table>

**INTEGRATE AFRICA INDICATORS — AIDB CONTRIBUTIONS (LEVEL 2)**

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>ALL AFRICAN COUNTRIES</th>
<th>ADF COUNTRIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline 2015</td>
<td>Actual 2018</td>
<td>Target 2025</td>
</tr>
<tr>
<td>Transport–Cross-border roads constructed or rehabilitated (km)</td>
<td>380</td>
<td>390</td>
</tr>
<tr>
<td>Energy–Cross-border transmission lines constructed or rehabilitated (km)</td>
<td>..</td>
<td>7</td>
</tr>
</tbody>
</table>

- Achieved 95% or more of the 2018 target
- Achieved less than 95% of the 2018 target but above baseline value
- Achieved less than the baseline
- Data are not available to measure progress

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**Figure 3 Africa-based companies increasingly invest on the continent**

**FDI between African cities, 2003–2016**

- FDI source cities, total outward FDI
- FDI destination cities, total inward FDI
- All investments between African cities

Source: ADB, The State of African Cities
The role of regional economic communities
A growing number of African countries are moving to build ties through trade and greater economic cooperation. The continent’s regional economic communities (RECs) continue to promote regional economic integration among their members and to play an important role in promoting regional infrastructure development. We have not updated the relevant indicator, as we are awaiting the new issue of the African Regional Integration Index this year.

The overlapping membership and mandates of the RECs have resulted in various approaches to integration across the continent. The East African Community has made great strides in increasing cross-border trade and supporting the free movement of people. In Central and West Africa, monetary unions encourage financial and macroeconomic integration. These represent some of the ambitious efforts to pave the way for more deeply and broadly integrated countries.

Greater economic integration and closer cooperation also enable African countries to cooperate on common challenges. The Bank’s 2019 Africa Economic Outlook report notes that integration benefits the delivery of regional public goods — including establishing financial governance frameworks and power pools, opening air transport markets (see Box 1) and opening borders.

Afria has been making steady progress on opening up freedom of movement and liberalising visa policies

Intra-African travel is projected to increase dramatically over the next few decades, as average incomes and job security rise in a growing middle class. According to the Brookings Institution, more than 10 million Africans already travel across national borders every year. By 2030, consumer spending on tourism, hospitality and recreation in Africa is projected to reach $261.8 billion — almost double its level in 2015. The continent has been making steady progress on opening up freedom of movement and liberalising visa policies (see Box 1). Eleven of Africa’s 54 countries have liberal visa policies — up from 10 in 2017. However, overall performance has declined due to changing country political relations and security threats. This is particularly the case for Mali, Burundi and Cape Verde, which had liberal visa policies in 2015. One-stop border posts (OSBPs) also facilitate the free movement of people and goods across the continent. There are now 76 OSBPs across Africa, with a number more in the pipeline. Before 2009, there were none.

The Bank’s catalytic role in bringing regional integration to scale
Over the past decade, Africa has made significant progress towards regional economic integration, but it remains a complex process. The Bank is at the centre of efforts to ensure that the AfCFTA is a success. In April 2019, we approved an institutional support grant of $4.8 million to the African Union to help accelerate the implementation of the Agreement. We have also invested over $1 billion to support the financing of African trade.

All of the Bank’s High 5 priorities play a vital role in contributing to integration, as Figure 4 shows. The next four chapters will also bring out the close links of each High 5 to delivering regional integration.

We invest in infrastructure development to connect countries, increase trade and improve countries’ competitiveness

The Bank’s commitment to powering Africa creates regional power pools and harmonises regulatory aspects, making it easier for communities and business to access the reliable, affordable and green energy they need to thrive. The Bank’s work to support agribusiness and manage trans-boundary natural resources contributes to more integrated supply chains and regional cooperation, ultimately helping to tackle hunger and malnutrition.

Box 1 Open skies policy
Air travel in Africa tends to be highly concentrated and dominated by monopoly state-owned carriers. This has a detrimental effect on costs, route diversification, market integration, safety and security, and infrastructure development. Thus air travel volumes in Africa are much lower than in other regions.

The Single African Air Transport Market treaty is designed to deregulate the aviation sector. It will ensure that cross-border flights in countries that have implemented the treaty are treated as domestic flights. This will reduce fares, increase convenience for travellers, and stimulate economic growth through air transport and tourism. The treaty has been signed by 22 countries that account for 75% of intra-African air transport.

Box 2 Africa Visa Openness Index
The African Visa Openness Index is a collaboration between the Bank and the African Union that shows the extent to which African countries are open to travel from citizens of other African nations and which countries offer visa-free or visa-on-arrival access. Since 2016, the index has served as a powerful tool in encouraging countries to reform their visa regimes. Momentum for liberalising visa policies is gathering across regional blocs and the continent as a whole, in line with the Free Movement Protocol. A quarter of all countries now allow African citizens to visit without visas.

A key component of integration is facilitating the movement of people. With more liberal visa policies, countries can tap into the economic benefits of opening up their borders. And more Africans can take up tourism, investment and business opportunities.
In West Africa, we contributed to the rehabilitation of one of the West African Economic and Monetary Union’s priority highways, linking Togo and Burkina Faso. We also financed the historic Trans-Gambia Bridge, which opened in January 2019, connecting The Gambia and Senegal (see Box 3).

In Central Africa, we supported the construction of the Ketta Road, improving trade volumes between Congo Brazzaville and Cameroon. In East Africa, we have been working with partners to co-finance the upgrading of a section of the Greater Trans-African Highway linking Cairo to Cape Town. This project has helped create new market centres in Kenya and attract new investment into Ethiopia.

In addition to road infrastructure, the Bank has supported projects to improve the efficiency and competitiveness of air travel across the continent. In Morocco, our investments rehabilitated air terminals in Fez and Marrakesh, improving conditions for passengers and raising capacity.

Looking forward, the Bank has funded feasibility studies for developing the Lagos-Abidjan road corridor and modernising the Trans-Maghreb railway. Both projects will provide a boost to regional economic integration.

Ongoing Bank projects are supporting the development of transport infrastructure in the Nacala corridor to promote economic growth in Mozambique and Malawi and of a railway link between Angola and Zambia. Our investments are funding the Kazungula road and railway bridge over the Zambezi River and OSBPs in Botswana and Zambia, improving connectivity between these two landlocked countries and with the port in Durban. We are also galvanising regional cooperation and supporting commercial and tourism activities between Kenya and Tanzania through road improvements and OSBPs (see Box 4). By promoting the cross-border movement of people and goods between countries, our investments are enabling private sector development, tourism and agricultural production.

In energy, Bank projects have funded the construction of 7 km of cross-border transmission lines. A major focus of the Bank’s power connectivity projects has been connecting the countries of the Nile Basin and supporting some of the largest renewable energy projects in East Africa. These projects are described in more detail in the Light Up and Power Africa chapter. We also expect progress against this indicator with the completion of ongoing regional programmes like the Ethiopia-Kenya electricity highway — a project that includes the construction of 1068 km of transmission lines and is expected to be operational in 2019.

Our support to RECs on harmonisation of natural resource policies, laws, regulations and institutional frameworks will help to promote an enabling environment for investment, infrastructure development and creation of new cross-border markets. In the East African Community and Economic Community of West African States, we supported the harmonisation of petroleum policies, regulations and institutional frameworks.

Building physical infrastructure and working to improve the business environment supports countries in industrialising and trading with their neighbours. And enhancing the labour market and strengthening skills enhances opportunities for people across Africa.

We continue to invest in infrastructure development to connect countries, increase trade and improve countries’ competitiveness. Bank projects have constructed or rehabilitated 390 km of cross-border roads — above the 380 km delivered in 2015. We have also invested in OSBPs, which, together with improvements to roads, dramatically decrease the time and cost involved in trading across borders.
Another form of integration is the development of regional public goods across countries. Through the Programme for Infrastructure Development (PIDA), Bank funding promotes the coordination of infrastructure policies and regulations across the continent. Last year the Bank’s annual PIDA Week focused on good governance principles for smart infrastructure project delivery and financial closure.

The Bank has also worked to improve and standardise payment systems across four West African countries and harmonise them with those of Ghana and Nigeria. The project has provided Liberia, The Gambia, Guinea and Sierra Leone with important systems upgrades that have supported the automation of high-value funds transfers and government security trades. Improved payment systems have led to an increase in government revenue collection and private sector development.

**Boosting infrastructure connectivity and trade with key initiatives**

The Bank’s Regional Integration Strategic Framework (RISF 2018–25), which supports the African Union’s Agenda 2063 and the AfCFTA, guides the Bank’s Integrate Africa activities. We promote economic and social development by investing in initiatives that improve cross-border linkages, strengthen access to regional and global markets and strengthen regional transport corridors.

> **We invest in initiatives that improve cross-border linkages, strengthen access to regional and global markets and strengthen regional transport corridors**

Our Strategic Framework is built on three pillars to increase regional integration:

- **Infrastructure connectivity** is the first pillar, and a precondition to achieving the others. We will focus on regional connectivity and cross-border trade and investment through integrated power pools, transport and ICT infrastructure.

- The second pillar is trade and investment. We are committed to strengthening regional markets and linking landlocked countries to trade opportunities. Through this pillar, we aim to raise Africa’s competitiveness and deepen intra-African trade and private sector investment. We also support capacity development and policy and regulatory reform.

- The third pillar is financial sector integration, with a particular focus on the private sector. Through this pillar, we are also committed to stepping up co-financing to address financing and investment gaps across the continent.

Over the next seven years, the Bank will require an estimated $12.4 billion to support its regional integration activities. Guided by the Regional Integration Strategic Framework, the Bank is working to develop Regional Integration Strategy Papers (RISPs) that will steer our Integrate Africa activities in each of the five regions. The East Africa RISP (2018–22), approved in September 2018, focuses on regional infrastructure development and strengthening policy and institutions for market integration, investment and value chain development. The Central and North RISPs are in draft, and the RISPs for other regions are still being developed.

**Newly approved projects**

The Bank is supporting projects to connect regional markets in East Africa with each other and with the port of Dar es Salaam. In 2018, we approved $322.4 million in loans and grants to Burundi and Tanzania for projects that strengthen regional integration and trade in the East African Community through improved cross-border transport. These projects will open up rural areas, reduce travel times and cost, and enhance road safety.

In West Africa, the Bank is investing in regional infrastructure connectivity to reduce vulnerability to conflict and boost post-conflict economic recovery. With the European Union and the
The Bank is working to reduce isolation and connect landlocked countries to trade opportunities

Ensuring strong political commitment for regional projects
Sustained political commitment from the participating member states is required for regional projects to achieve long-term results. An evaluation by the Bank’s independent evaluation office (BDEV) of six power interconnection projects found that they were successfully implemented largely because of the political commitment of the governments involved and the close cooperation between the utilities.

Promoting compliance with agreements in regional operations
All stakeholders must adhere to project agreements for successful implementation and sustainable outcomes. Both the Kenyan and Ethiopian governments are implementing axle-load-control measures on the Mombasa-Nairobi-Addis Ababa corridor. The Bank should continue to promote harmonisation of axle load limits between the two countries to ensure the seamless flow of transit trucks and to promote the sustainability of the investment.

The Bank has invested $37.5 million in the Gabon Special Economic Zone Port for the construction and operation of a general cargo terminal with a capacity of 4 million tonnes. The investment also supports a hydrocarbon depot and container storage facility at the port of Owendo.

In Morocco, we are supporting the expansion of the Rabat Salé International Airport to address the growing passenger traffic and the logistics needs of economic players in the country. This investment will also help create up to 1700 direct jobs.

Under the Bank’s commitment to power connectivity, we are continuing to support the Nile Equatorial Lakes Subsidiary Action Program by investing in the Burundi-Rwanda electricity interconnection (further details are in the Power Africa section).

We have provided a supplementary loan for the Ethiopia-Kenya electricity superhighway, which will facilitate power trade and provide reliable electricity at affordable rates to power the two countries’ industrialisation. About 3100 GWh/year of low-cost electricity will be added to the grid, benefiting 1.4 million households and 920 000 small businesses.

We will continue to work with regional economic communities, national governments, international donors and the private sector to Integrate Africa. Through our Regional Integration Strategic Framework, we will deliver regional infrastructure, promote regional trade and investment, and increase financial integration. To enhance economic and social development opportunities across Africa, we will support the continent’s ambitious Agenda 2063 and the AfCFTA.