Regional Economic Communities within Nepad: What Prospects for Sustainable Economic and Social Development in Africa?

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Abstract

This study investigates Africa's economic development within the framework of NEPAD and on the basis of the regional economic integration being pursued by the RECs[1]. The existing challenges and weaknesses of the RECs will first be examined. Strategies for revitalising them will subsequently be outlined in light of recent developments in economic theories on growth. Lastly, the bank's potential role in the implementation of these strategies for a more efficient social and human development-oriented regional economic integration will be outlined.

An assessment of the economic integration process in Africa on the basis of four major regional economic groupings, namely ECOWAS, SADC, COMESA, and CEEAC, reveals an effective but slow process of integration and structuring of the economies in the various zones. To analyse the explanatory factors of this slow progress, it will be necessary to re-examine recent theories of endogenous growth and international trade, which provide a framework for reflection on the revival of economic and social development in Africa.

According to the above theories, economic growth can be achieved through the co-ordinated development of several factors. They include investments in physical and human capital (economic infrastructure, security, professional training, and high-level technical, and higher studies, etc.), research,

1. Eight (8) Regional Economic Communities (REC) have been selected by the African Union as economic communities that contribute as a matter of priority to regional integration in Africa. They are: ECOWAS, ECCAS, SADC, COMESA, EAC, CENSAD, AMU and IGAD

innovation, and technological progress. For these factors to be developed, public authorities should undertake integrated actions. They should not be left to market forces and private initiatives. The success of state interventions will help to improve the institutional environment of intervention by private operators as a precondition for strong and sustained economic growth. Regarding trade liberalisation, recent international trade theories also acknowledge that for the strategic purpose of opening up to global trade, governments should promote the emergence or expansion of strategic activities during a transitional period to afford them the time to subsequently open up to competition (e.g. strategic sectors).

Therefore, to ensure successful economic integration, the priorities of the actions to be undertaken and the roles to be assigned to the RECs should be defined. Under the delegation of powers by the member states and in co-ordination with national efforts, the REC should work in complementarity with the national states. Besides economic infrastructure and in keeping with clear principles of subsidiarity, the RECs should promote the other factors of growth as described above and enhance the institutional business environment at regional level, even if it means seeking public-private partnerships where necessary. On the basis of realistic action plans and operational programmes, the RECs themselves should display efficiency in the use of resources and produce concrete results that will foster economic integration and improved living conditions of African populations.

Although this brief review shows that several actions have been undertaken by the African Development Bank towards regional integration with more in the pipeline, they have still not been followed with clear guidelines. Consequently, they have not lent much support to the development of high-level human capital, technological innovation, Research and Development, and regional financial integration within an adequate institutional framework[2]. The AfDB co-operation strategy for regional integration must be more ambitious and bolder, even within a selective framework. The bank's institutional framework responsible for regional integration support and the RECs should be clarified as a matter of priority and subsequently reinforced with human capital and material resources. Besides infrastructure, which is already acknowledged as a priority, research-development requirements and the need for high-level human capital to provide solutions to the countries' key problems (Malaria, HIV-AIDS, renewable energy, environmental protection, food security, etc.) are potential areas of public intervention by the bank at regional level.

Technological innovations, modernisation, ensuring the security of the African financial and monetary systems, and the harmonisation and convergence of economic policies at regional level also constitute areas of interest to

2. Since the creation of NEPAD, Regional Integration and Trade Department (ONRI), a sustained effort has been made to design a Bank Group strategy for regional integration and a strategic and operational framework of regional operations with a streamlining of programming and financing instruments.

be supported at regional level. These new areas, with some considered as "regional public goods", must further be the subject of direct or indirect support by the RECs that are politically, institutionally, and financially strengthened. The bank should also play a key role by innovating lending instruments and related financing mechanisms. Finally, it must provide leverage for the mobilisation of other public and private financing, and contribute to their rational use at the regional and continental level, with a view to achieving the regional integration goals through the RECs.

1. Introduction

The debate about regional trade zones has intensified in recent years with the Eastern enlargement of the European Union and the shift in American trade policy towards regional agreements. The acceleration of regionalist policies across the world has been responsible. The trend is also attributed to the successive failures of the multilateral trade liberalisation negotiations in Seattle in 1999, Doha in 2001, and Cancun in 2003. Defenders of regional approach to trade argue that it generates higher positive effects on regional commerce than the potential diversion effects advanced by advocates of a multilateral trading system. The movement was nonetheless originated in the 1960s, when regional trade zones were gradually established on all the continents with the following objectives: (i) To promote gradual expansion of free-trade; (ii) To combat free-riding; (iii) To increase regional multilateral negotiating capacities for the promotion of free trade; and (iv) To fight against generalised protectionism. These are particularly justified for Africa. As a result of colonisation, the continent has witnessed the establishment of many micro states, which are not politically or economically viable. More specifically, in order to reduce their import costs, it is in the interest of the landlocked countries to take advantage of customs unions or other forms of regional integration to strengthen their competitiveness. The ever increasing economic globalisation requires the establishment of larger markets in Africa to enable it to attract foreign direct investments, remain competitive, benefit from economies of scale, and represent a considerable weight in international negotiations on global challenges, such as the liberalisation of trade and services, global warming, and the control of endemic diseases and HIV and AIDS.

It is within this context that in their vision of Africa's development principally based on an endogenous dynamic, the African founding leaders of the New Partnership for Africa's Development (NEPAD) consider three conditions as prerequisites for the attainment of sustainable development in the continent. They are: (i) Peace and security on the continent; (ii) Good political and economic governance; and (iii) Regionalisation of development. The third condition is mainly aimed at the economic integration of the different African spaces. NEPAD acknowledges the need for African countries to pool their resources and promote regional economic co-operation and integration with a view to enhancing their competitiveness on the international scene. The political idea underpinning this vision is that the economic integration process must be undertaken in stages on the basis of existing political organisations, which, in principle, have a real delegation of national powers. In that perspective, regional interests must take precedence over national interests on consensual bases. This will lead to an understanding of the potential role of Regional Economic Communities (RECs) in the continent's regional economic integration process and trade development. Clearly, as far as NEPAD is concerned, the development of the continent can be achieved by entrusting the RECs with a more active role of defining and implementing priority regional development programmes and ensuring their enhanced co-ordination with national plans. In addition, these RECs must promote harmonisation of economic, fiscal, and industrial policies of the member countries, as well as the consolidation of co-operation among the different sector professional interest groups operating in the common economic space and with the outside world.

Since 2001 when NEPAD was launched and raised much hope, an initial stock taken recently left many African populations disappointed, which may have been unfair because the NEPAD initiative was fairly recent. This feeling is due to the persistent marginalisation of the continent and its low integration into the global economy. Africa's 7.3 percent[3] share of global exports of goods and services in 1948 had fallen to 2.6 percent by 2004, while Asia practically doubled its share from 13.6 percent to 26.4 percent during that same period. Africa's global share in world trade has declined from four percent in the seventies to two percent to date. Over the 1970-2003 period, Africa's share in the global exports of manufactured products did not progress, remaining at around 0.5 percent. The new partnership counts on the development of the private sector, the expansion of African markets, and their integration into global markets.

In light of the tremendous hope brought about by NEPAD and of the consensus on the role economic integration can play in its implementation, it is necessary to adopt a new dynamic for boosting the development in Africa based on the RECs. This study is based on the three conditions set by the founding leaders of NEPAD for the development of the continent, particularly the one relating to regional integration based on RECs. It will analyse economic development on the continent within the framework of NEPAD, on the basis of the regional economic integration being pursued by the RECs. The existing challenges and weaknesses of the RECs will first be examined. Strategies will then be outlined to revitalise them in line with recent developments in economic theories. Lastly, the potential role of the bank in the implementation of the strategies for more effective regional economic integration based on social development will be defined.

3. "Aid For Trade": The role of the African Development Bank ECON/EDRE October 2006

2. Challenges of regional economic integration in Africa

Several initiatives have been taken for the promotion of regional integration in Africa. Apart from the pioneering institutions such as the Economic Commission for Africa (ECA) in 1958 and the Organisation of African Unity (OAU) in 1963, the principal events that raised hopes for regional economic integration in the continent were the adoption of the Lagos Plan of Action in 1980 and the signature of the Abuja Treaty in 1991. The ideas set out in the plans were characterised by a will to transform production and tap local resources. However, they did not survive because they were conceived in the image of many African economic development plans on an ideological basis. Because of its substantial reserves in mineral wealth, part of which is yet to be evaluated, Africa is a major partner on the commodity market. Yet, despite the various levels of exploitation of this wealth estimated at over 12 percent[4] of global oil production, 16 percent of gas, 42 percent of diamonds, 30 percent of gold, 39 percent of manganese, and 68 percent of cobalt, the continent merely plays a marginal role in the enhancement of its riches. This has translated into lost opportunities for employment and wealth creation.

The principal constraints on Africa's capacity to process and export products are the following: (i) Weaknesses of the macro-economic environment and of the business regime; (ii) Deficiencies in the infrastructure necessary for international trade (transport, distribution, communication, etc); and (iii) Inadequate key inputs and services required for business, such as unsuitable manpower, inefficient financial and insurance systems, inappropriate equipment and technologies, and weakness of the quality assurance services for exports. Further, the high dependence on external finance and Western technology by African countries, and their low domestic resource mobilisation capacity, chronic deficit in technical skills, and lack of sustained political will to become competitive, have prevented the desired transformation of the continent's productive capacities.

In the spirit of the Abuja Treaty, the existing RECs should function in co-ordination and harmony with the member states with the ultimate objective of achieving Africa's development goals. NEPAD has recommended a concentration on eight RECs[5] with a view to consolidating their institutional and human resource to enable them play a leading role in economic integration in Africa. They are: ECOWAS, ECCAS, SADC, COMESA, EAC, CENSAD, AMU, and IGAD. An analysis of the achievements of the RECs reveals extremely different results in relation to the objectives pursued, such as the harmonisation of business laws, movement of persons and goods for

4. BP Statistical Review of World Energy 2006
5. These (8) RECs have been retained by the African Union as the economic communities prioritising regional integration in Africa

purposes of intra-regional trade growth, harmonisation of economic and monetary policies, liberalisation of factors of production and trade, co-operation for scientific and technological research, as well as improved competitiveness and productivity without forgetting the promotion of peace and democracy.

The objectives pursued by the RECs remain extremely ambitious with high opportunity costs

An analysis of the results of the economic integration process in Africa on the basis of four major regional economic groupings — ECOWAS, SADC, COMESA, and ECCAS — indicates an effective but slow process of integration and structuring of the economic spaces. However, at the level of economic operators and the movement of goods and persons at regional and continental level, there is a real will for mobility and the quest for new trade opportunities, which are thwarted by political considerations and special interests of some state leaders.

In the treaty establishing it in 1975, ECOWAS, composed of 16 member countries, expressed the common will of the states to undertake a number of actions for economic and social development, the most important of which are: (i) The harmonisation and co-ordination of national policies and the promotion of integration programmes, projects, and activities; (ii) The promotion of the establishment of joint production enterprises; (iii) The establishment of a common market through the liberalisation of trade by the abolition of customs duties and non-tariff barriers within the community; (iv) The establishment of an economic union and the creation of a monetary union; (v) The establishment of an enabling legal environment for business and the harmonisation of national investment codes leading to the adoption of a single Community Investment Code; and (vi) The promotion of balanced development of the region, paying special attention to landlocked and small island countries. Some of the structures created to that end are: (i) The Summit of Heads of State and Government; (ii) The Council of Ministers; (iii) The Parliament of the Community; (iv) The Economic and Social Council; (v) The Executive Secretariat; and (vi) The Fund for Co-operation, Compensation and Development, and the Specialised Technical Commissions. It is also worth mentioning the creation of the ECOWAS Bank for Investment and Development with two subsidiaries, i.e, the Regional Investment Bank for private sector finance, and the Regional Fund for Development for public sector financing.

SADC: The Southern African Development Community, composed of 14 member countries, was established in 1992 to promote regional economic integration, poverty reduction, policy harmonisation and rationalisation, as well as sustainable development strategies in all areas. The Trade Protocol within SADC is aimed at reducing about 85 percent of customs barriers in the zone, as well as the abolition of exchange control in preparation for a single currency in the region. A strategic plan announced in 2004 indicated the establishment of a free-trade area by 2008, a customs union by 2010, and a central bank and single currency by 2016. The SADC Regional Development Fund, with a self-financing mechanism, was also established in 2005. The strategic plan is particularly aimed at defining the priority areas of economic integration for the next fifteen years, preparing an operational agenda of the activities to be implemented, and strengthening synergies and sector links among the member countries.

ECCAS: Established in 1983 in the framework of the Lagos Plan, this community comprises 11 countries, and is aimed at constructing an African common market. It was weakened by the socio-political problems and armed conflicts that occurred during the 1992-1997 period, which affected seven of the eleven member countries. In 1999, a decision was taken to revive the community. This led to the creation of the Central African Peace and Security Council (COPAX), the adoption of policies and action plans in the strategic areas for regional integration, the institution of new mechanisms for autonomous financing, i.e, Community Contribution to Integration (CCI) to be used in financing integration projects, and the functioning of the general Secretariat. According to the treaty establishing the community, the following organs govern its administration: (i) The Conference of Heads of State and Government; (ii) The Council of Ministers; (iii) The General Secretariat, which is the executive organ of the Institution; (iv) The Court of Justice that has never been established; and (v) The Consultative Commission and Specialist Technical Committees. Some of the principal objectives being pursued are the establishment of a free-trade area by late 2007, a customs union, and a common agricultural policy by 2008.

COMESA: Established in 1993 with 20 member states, this organisation now comprises 11 East and Southern African countries. Its objectives are to promote regional economic integration through the development of trade and investment. The short-term objective is to create a free-trade area and a customs union. In the long term, the objective is to create a monetary union by 2025. The objectives should be attained in four stages. Stage 1 (1992-1996) aimed at macro-economic convergence. Stage 2 (1997-2000) pursued limited convertibility of currencies and an informal exchange union. Stage 3 (2000-2024) sought a formal union for the exchange and co-ordination of economic policies through a common monetary institution, and Stage 4 (2025) is set as the period for completing a monetary union with the use of a single currency issued by a common central bank. The principal structures created for the attainment of the objectives described are the Trade and Development Bank (ZEP Bank), the COMESA Re-insurance Company (ZEP-Re), the Court of Justice, the Clearing House), and the Institute of Leather and Leather Products.

Table 1. ***Development Level of the Regional Economic Communities***

Regional Blocks	Area (1000 km2)	Population (million)	GDP (PPP) in US$ million	GDP/per capita (US$) (PPP)	No. of States
ECOWAS	5 112.9	252	342.5	1 361	15
SADC	9 883	234	737.3	3 152	14
COMESA	12 874	406.1	736	1 811	20
CEEAC	6 667,4	121.2	176	1 451	11
ASEAN	***4 400***	***553.9***	***2 172***	***4 044***	***10***
UNASUR	***17 339***	***370.2***	***2 868.4***	***7 749***	***10***
EU	***4 32.6***	***496.2***	***12 025.4***	***24 235***	***27***

Source: ECOWAS on the basis of the CIA World Fact book 2005, IMF WEO Database

Performances remain mixed according to the region, but broadly inadequate

Overall, the results of regional economic integration experiences in Africa remain poor, but variable per area. According to the information in Table 1, the GDP/per capita in purchasing power parity (PPP) of the African RECs are the lowest as compared with the RECs of other regions. In terms of achievements, efforts have been made with regard to economic policy harmonisation and trade liberalisation. There has also been progress towards the harmonisation of business law (OHADA), exchange regimes (CFA and Rand zones), and movement of persons and goods. Also, a slight increase in intra-regional trade has been experienced. Following WAEMU's example, ECOWAS in January 2006 took a decision to introduce a Common External Tariff (CET) to come into effect on 1 January 2008[6]. For the first time, a Regional Poverty Reduction Strategy Paper was prepared by ECOWAS. Several studies were conducted, including the White Paper on alternative sources of energy production, and one on regional projects for the agricultural development of the Niger and Senegal river basins. In the area of transport and telecommunications, many regional programmes are also underway. Intra-community trade was more significant[7] in the WAEMU and ECOWAS zones than in the other organisations due to the effectiveness of the customs union within WAEMU, but was low overall. Intra-regional exports in total WAEMU trade rose from 7.9 percent in 1970 to 16.2 percent in 2003. Imports increased from 6.4 percent to 13.3 percent over the same period. In the case of SADC, intra-regional exports fell from 9.4 percent to six percent of total trade, while intra-regional imports increased from 4.9 percent to 6.3 percent over the same period. Despite these weak performances, SADC, in particular, recorded some progress in the co-ordination of its development policies and strategies. The adoption of the Indicative Regional Development Strategic Plan is proof of the will to harmonise sector policies and strategies in

6. Despite progress at technical level, the ECOWAS-CET is not yet in force.
7. Regional Trade Arrangements in Africa, by Yongzheng Yang- Sanjeev Gupta – IMF 2005

the Southern African region. As for COMESA, its exports fell from 9.7 percent to 8.6 percent, and imports from 6.7 percent to 5.8 percent between 1970 and 1983, indicating low performances.

Apart from the above-mentioned factors, it is important to emphasise here that many African economies have suffered from their similarity and their lack of complementarity. Under present circumstances, the opening up of markets primarily benefits finished goods outside the customs union, thereby reducing the knock-on effects and the economies of scale expected from regional productive structures, while maintaining high dependence on imports of intermediate and finished goods. Consequently, the virtuous dynamics expected from the transformation of the industrial fabric of the integration zones and an optimal allocation of resources is barely perceptible. Within WAEMU, there is a slow diversification of intra-regional trade with a view to greater complementarity likely to promote more regional integration, in spite of the incentive measures and harmonisation of the legal and regulatory framework.

Weak political commitment of the states has undermined the performance of the RECs

There have been several indicators of the weak political commitment of the states to deepen the regional integration process. Member states have not been committed by the numerous protocols adopted by the African Union or RECs, yet their goodwill is necessary to put the protocols into practice. The considerable share of taxes on foreign trade in the countries' tax revenues has constituted a dissuasive factor in the establishment of customs unions without compensatory financial resources. Some of the principal factors underpinning these weak performances are:

- Inadequate convergence of economic, financial, fiscal and social policies, testifying to the states' low political commitment to regional integration;
- Inadequate regional capacity for the production of goods and services, and entrepreneurship of international dimension;
- Deficient communication, transport, energy, water and telecommunications infrastructure;
- Political and security instability in some of the integrating regions or countries;
- Deficient national or regional development finance institutions and inadequate mobilisation of regional savings, and high dependence on external financing; and
- Weak performance of community institutions due to their inability to streamline national plans and regional development strategies, and/or develop sector networks for regional industrial or service development.

With regard to trade liberalisation and the consolidation of regional communities outside Africa, the continent has no alternatives but to consolidate its RECs so as to make them the spearhead of economic integration as suggested in the NEPAD agenda. This can be achieved through increased political will and a review of the role of the public authorities in Africa's development process. As regards the ambient ideology of economic liberalisation and drastic reduction of state intervention in economic regulation, lessons should be drawn from recent economic theories on the role of public authorities in the development process.

3. What strategies for the revitalisation of RECs and promotion of economic development in Africa?

Recent economic theories and role of government in development promotion

3.1. Theories of endogenous growth and the role of public capital investment, research-development and technological progress

For several years, neo-classical growth theories[8], especially the Solow model, have considered long-term determinants of economic growth as being mainly a function of population and technological trends, irrespective of economic comportments. Thanks to endogenous growth theories, there is a renewed framework of economic growth sources considered as an essentially economic phenomenon appropriate for drawing key lessons from.

Endogenous growth theories advocate for: (i) A wide diversity of sources of growth, differentiating physical capital investment, public capital investment (infrastructure, transport, telecommunication, security, education etc.), research and technological innovation, practical learning, and division of labour; (ii) A critical role played by technological progress, which is generally considered as a cumulative good and public good; and (iii) Marginal profitability of capital independent of capital stock, rendering self-sustained growth possible depending on the trend of the savings ratio. This approach reflects a shift from the ultra-liberal economic theories that deny any efficiency of the economic role of the state in stimulating economic growth and structural policies. The role of the state, as schematically described in endogenous growth models, is at two levels: The state managing externalities, and the state providing public goods. It is now up to African States to fully assume their role in stimulating growth by using all the necessary levers and delegating to the RECs, some specific functions that further benefit from economies of scale at regional level.

8. New growth theories by Dominique Guellec and Pierre Ralle Editions La Découverte 1995

3.2. New international trade theories, and the strategic role of government intervention

While the impact of free trade on growth promotion is recognised in theory, its impact on the reduction of inequalities between countries is discussed on the basis of facts[9]. Some economists consider that foreign trade liberalisation follows, rather than precedes, growth acceleration. Historically, economists such as Friedrisch List and John Stuart Mill have defended the argument about the protection of infant industries. Such protection, they contend, must be done during the transitional phase. Thereafter, the industries should open up to global competition.

According to the new theories and for purposes of strategic commercial policy, public authorities should promote the emergence or revival of strategic activities during a transitional period prior to opening them up to competition. Consequently, because of economies of scale, nations at an equal level of development may produce and exchange similar or differentiated goods. New approaches to international trade therefore make it possible to envisage more pragmatic trade policies combining temporary sectoral protectionism and a free-trade trend in due consideration of circumstances and collective choices. The RECs have a key role to play in providing expertise and technical assistance to states in trade negotiation, defining competitive industrial policies, and promoting local products within a regional framework.

3.3. Government intervention must guarantee the transfer of technology and accumulation of material and human capital

According to the works of Romer and Lucas, the external effects of physical and human capital are determinants for economic growth. Development of fundamental and applied research and the enhancement of the institutional environment to allow the intervention of private operators could require government involvement to ensure high and sustained economic growth. Total state participation should give way to a fair balance between the state and private sector in the creation of competing and competitive frameworks for accelerated development in Africa. The ongoing initiatives for the promotion of infrastructure through “public-private partnerships” in the continent are encouraging. The approach should be used in other sectors as well. Thus, besides the development of economic infrastructure such as road transport, energy, information and communication technologies for creating conditions of viability and profitability of private sector businesses, attention should also be given in similar respect to areas such as high-tech human

9. Free trade and protectionism – Serge D’Agostino (Bréal 2003)

capital, technological innovations, research-development, and appropriate and healthy financial and monetary systems.

In Africa, many economic spaces are characterised by similarities of production structures and the raw materials exported to global markets at volatile prices. It is important to embark on in-depth reforms by consolidating not only the physical but also human capital and technological innovations to create the necessary complementarities for integrating economies. Obviously, regional economic integration should no longer be considered solely from the standpoint of market enlargement and business opportunities. In the specific case of Africa, it is critical to set up appropriate mechanisms to locally promote the supply of priority goods and services. Accelerating the development of physical and human capital at regional level will promote local diversification of produced goods and intra and inter-REC trade within a competitive framework.

Lessons from the economic theories, and conditions for the success of the RECs

Economic growth factors and the conditions for the success of economic liberalisation indicate that public authorities should play an important role by creating the foundations for attracting foreign direct investment as well as the profitability of national and foreign private sector. RECs should play an important role in promoting regional integration and economic growth across the continent under certain conditions.

3.4. Streamlining the RECs and enhancing their efficiency constitute the framework for the economic integration of Africa

Economic globalisation and competition among partners involved in global trade call for a rationalisation of the RECs to render them more viable, more relevant, and more suitable for the changes required by global trade liberalisation. Some of the eight (8) RECs recognised by the African Union are made up of countries with overlapping memberships. This situation weakens protocol implementation and hinders the attainment of integration objectives. It actually leads to inefficient use of the continent's limited resources. To streamline the RECs and transform them into economic unions aimed at achieving a single currency for each of the zones, it would be desirable for the countries to make clear choices by each adhering exclusively to a single REC. Bearing in mind the highly political nature of membership of RECs, studies could be commissioned to analyse: (i) The structure of trade between member countries; (ii) The structure of goods and services production within the communities; (iii) The political, cultural, and historical factors likely to affect membership of the RECs; and (iv) The quest for homogeneity and balance between and within the RECs. The results of the studies should be submitted to the African political authorities as tools to aid sensitisation and dialogue. Globally, it could be considered[10] that geographical proximity, economic independence, common language and culture, as well as the history of co-operation and shared natural resources, should serve as the foundations for setting up viable RECs. As an initial approximation, a proposal could be made for the five (5) major zones set out below:

Table 2. ***Proposal for streamlining the RECs***

RECs	Population Million	No. of States
1. **ECOWAS** including WAEMU	**342.5** 101.7	**15** 8
2. **CEEAC** including CEMAC	**121.2** 85.15	**11** 6
3. **Reconstituted COMESA**	**260**	**10**
4. **Reconstituted SADC**	**172**	**13**
5. AMU	**84.2**	**5**

Source: Table constituted on the basis of various sources of information

The proposed changes mainly affect COMESA and SADC[11]. Indeed, contrary to the other regions with evident geographical consistency, COMESA has economic integration boundaries covering East, Southern and Central Africa and the Indian Ocean. This is not viable. It is necessary to prevent multiple membership, which is expensive for the countries and complicates their adoption of economic integration measures. A reconstituted COMESA would consequently comprise the following countries: Egypt, Sudan, Eritrea, Ethiopia, Djibouti, Kenya, Uganda, Comoros, Madagascar and Seychelles. A reconstituted SADC will comprise: Malawi, Zambia, Zimbabwe, Botswana, Angola, Lesotho, Mozambique, Swaziland, Tanzania, Namibia, Mauritius, and South Africa. The Democratic Republic of Congo should adhere to ECCAS. The five RECs could henceforth constitute the poles across which the dynamics of economic integration on the continent could be implemented with the support of development partners. In each REC, there should be a leader country or group of countries likely to give impetus to regional economic integration, as was the case in the European Union. Nigeria and Côte d'Ivoire could be the leader countries for ECOWAS; Cameroon and DRC for CEEAC; Egypt and Kenya for COMESA; and South Africa for SADC.

An analysis of the present structures of the RECs in Africa reveals that they do not meet the criteria of efficacy. The structures should be thoroughly reviewed as far as their mode of recruitment of officials and operation is

10. Assessing Regional Integration in Africa II- Rationalising Regional Economic Communities ECA-AU 2006
11. It is worth noting that COMESA, EAC, and SADC have set up a Tripartite Working Group aimed at reducing overlaps between the RECs and striving for a merger of the three RECs.

concerned. Red tape must be removed and excessive political dependence subdued so that the RECs become flexible structures for promoting integration in close co-ordination with national administrations. There should be a clear distribution of tasks between the RECs and the member states with a view to maximising resources and rendering the economic integration process effective. Studies on the rationalisation of the organisations with the support of multifaceted diplomatic actions, including the African Peer Review Mechanism (APRM), should lead to more optimal structuring of the RECs. By way of illustration, regional development institutions should be in charge of regional strategic frameworks for development designed in co-ordination with action plans approved by the member states. Through them, national development plans should be harmonised with regional objectives.

3.5. The RECs should be afforded stable and better managed resources to function

One of the major problems encountered by RECs in Africa is the lack of stable resources to carry out the tasks assigned to them by the African Union and NEPAD. Experience has demonstrated the many difficulties they encounter in their operations stem from the irregular financial contributions by member states. This is often accentuated by the overlapping memberships. Political will is necessary to guarantee stable and sustained public resource allocation for the RECs. A few recent experiences reveal that the direct allocation of part of the import earnings from countries outside the economic zone into secure accounts has ensured the regularity of the financial resources necessary for REC activities. Contributions from private operators to funding the operation of the RECs can also be explored, considering the potential benefits such operators would derive from a business-friendly environment created by regional integration. It is these self-financing mechanisms, which do not depend on national budgets but ensure regular transfers for the RECs, that must be promoted. Consequently, any financial and technical support of the development partners towards regional integration should give priority to programmes whose impact on sub-regional integration will have been demonstrated on the basis of the indicators of measurable results.

3.6. Promotion of competitiveness and productivity poles and the RECs

In the report on global competitiveness jointly prepared by the World Bank and AfDB, the nine pillars of competitiveness identified as economic growth drivers at different stages of economic development of countries are indicated as follows:

Table 3. *The nine pillars of competitiveness*

Basic needs Institutions Infrastructure Macroeconomics Health and primary education	→	Key competitiveness factors based on basic needs
Efficiency factors High-level education and training Market efficacy (goods, work, finance) Technological availability	→	Key competitiveness factors based on efficiency
Complexity and innovation factors Business complexity Innovation	→	Key competitiveness factors based on innovation

Source: World Economic Forum, 2006-2007

The distribution of African countries into three stages, namely, "stage of growth driven by factors of production, basic needs", "stage of growth driven by efficiency", and "stage of growth driven by innovation", generally indicate that most of them are in the first stage, except a few, such as Mauritius and South Africa. These two countries are in the second stage, where growth is driven by efficiency. At this stage, the crucial needs for accelerating growth are infrastructure development and modernisation, macro-economic stability, and improvement of health and primary education. These make it indispensable for governments and the relevant RECs to make clear division of labour and refine their complementarities in order to strengthen the countries' performance in those areas. For countries that have attained Stage 2 growth drivers and demonstrate the capacity to reach Stage 3, their needs are further driven by efficiency and innovation factors, such as high level training and education, the quality of the goods produced, work performance, and the efficiency of the financial system. The role of the RECs in those areas will be more critical. Enhanced co-ordination with the states must contribute to improving competitiveness and productivity by promoting programmes at regional level, that take due account of the common specificities of groups of countries.

3.7. Liberalisation of trade in goods and services, and defence of Africa's interests

A bold policy for structuring the productive sphere within the RECs cannot be easily contemplated in the present context of international trade negotiations, where preferential tariff dismantling is the current trend. Considering the adjustment and social costs engendered in total trade liberalisation and termination of preferential trade agreements as being discussed, it is important for African RECs to negotiate a transitional period for gradual removal of community preferences. This will provide the continent with the opportunity to put in place viable systems of production that will be gradually opened up to international competition within the framework of the RECs. An 'educative' protectionism should be promoted. The RECs are better placed than the individual states, to play a key role in the regional negotiations with multilateral institutions, such as the IMF, World Bank, UNCEAD, the European Union, WTO, and AfDB. The use of the IMF's trade integration mechanism or the World Bank's trade facilitation initiative must be consistent with regional development and poverty reduction goals and strategies, as well as those of NEPAD. Negotiations on economic partnership agreements with the European Union and the need to mobilise resources to finance the social costs of adjustment of the economies require a capacity for negotiating and co-ordinating the countries' interests. Given the extremely political nature of the negotiations and the need for leadership capacities to defend Africa's interests, it would be appropriate for the RECs to be consolidated to that end.

3.8. Mobilisation of regional private savings at the service of development

One of the fundamental reasons for slow development in Africa is the low mobilisation of regional and continental savings, owing to difficulties in attracting foreign direct investments. The extremely hesitant financial systems in Africa are selective with prohibitive credit rates. They should be revitalised and made competitive to collect savings and place them at the service of the continent's development priorities. While taking note of technical progress as an essential factor of economic development, the endogenous growth theory poses the problem of its financing. Technical progress depends on technical and scientific knowledge as assets that must be financed. The link between growth and technical and scientific knowledge can therefore be made through the funding of technical innovations that come up against considerable difficulties due to their uncertain output. Consequently, the problem arises as to the support to be accorded fundamental research, development of applied research, and guarantees to the specialised financial institutions, which provide capital to SMEs.

The African Securities Exchanges Association (ASEA) has for several years encouraged the development of stock markets as well as co-operation between them within four major regions. Efforts are underway within ECOWAS for an integration of stock markets. The main problem is how to turn the stock markets into a real instrument for financing development in Africa. Indeed, few local companies are listed. The markets are characterised by a low rate of liquidity, and there is a low dimension of the companies. Only a few stock exchanges, such as the Johannesburg Stock Exchange, are considered more active. A real problem therefore arises with respect to the mobilisation of savings. It is also worth noting that the co-ordination and harmonisation of prudential rules and bank supervision, as well as the financial policies within the RECs, cannot be made without co-ordination of national monetary policies. This consequently poses the sensitive problem of the creation of a single currency within the RECs, and the need to launch the necessary reflections to determine the conditions for its realisation. Opportunity cost and cost/benefit analyses are necessary to encourage political leaders to accept the creation of a common currency within the regional framework.

4. The role of the AfDB in the consolidation of regional integration in africa and the RECs

4.1. *Guiding principles of AfDB policy on economic co-operation and regional integration*

In the course of the 2003-2007 Strategic Plan, the African Development Bank (AfDB) Group envisaged lending selective support to NEPAD initiatives, particularly regional economic integration. The plan was to do this in conjunction with the Economic Commission for Africa (ECA) and the African Union Commission. The bank's Medium-Term Strategy for 2008-2012[12] also provides for support to regional integration by devoting increasing African Development Fund resources thereto. Coupled with that is a specific AfDB Group strategy for 2008-2012. Besides investments in cross-border infrastructure and selective support for regional public goods, the bank intends to provide assistance and advisory services. It will collaborate with the African Union with a view to enhancing the efficiency and usefulness of the network of sub-regional economic communities and bodies. The bank's new framework for regional operations will serve as a basis for expanding its operations in favour of regional integration. It is therefore clear that the bank's strategic and operational guidelines are in favour of regional integration, especially of the network of sub-regional economic communities and organs.

4.2. *Summary assessment of recent regional integration promotion operations by the bank*

In its mandate, the AfDB targets the promotion of economic co-operation and regional integration for the growth and development of Africa. The strategy for the implementation of the policy has mainly focused on:

- The financing of economic reforms, including regional economic integration;
- Regional co-operation on infrastructure;
- Private sector promotion; and
- Consolidation of institutions and support for sustainable development.

Many initiatives have been undertaken in that perspective. They include the financing of studies for the consolidation of the regional integration of

12. 2008-2012 Medium-term strategy of the Bank ADB/BD/WP/2008/23/Rev.5/Approv-ADF/BD/WP/2008/14/Rev.5/Approv

African economies. Among the initiatives and concrete results attained are[13] studies such as "economic integration in Southern Africa (SEISA)", feasibility study of the intra-African Satellite Communication system (RASCOM), and a study leading to the establishment of the African Export/Import Bank (Afreximbank). As a strategic partner of the NEPAD process, the bank has been designated the lead organ for the development of infrastructure, and financial and banking standards. In that regard, the bank supports the African Peer Review Mechanism, the formulation of the Short-term Action Plan (STAP) of the infrastructure development programme in Africa, and the establishment of the mechanism for financing NEPAD's Infrastructure Project Preparation Facility (IPPF), which it hosts. Besides these structures, the Bank supports the comprehensive Africa Agricultural Development Programme (CAADP/NEPAD), Infrastructure Consortium for Africa, (ICA), the African Water Facility (AWF), and the African Fertilizer Development Financing Mechanism (AFDFM). The Bank has also lent technical support to regional member countries and RECs on regional co-operation consolidation policies, trade, and economic integration.

As regards lending operations, the bank has financed 200 multinational operations covering almost all African countries. This is a net increase in the resources allocated to regional operations by the ADF, which rose from 10 percent under the 8th ADF to 17.5 percent during the current 11th ADF. Investments in regional infrastructure accounted for nearly 50 percent of the total number of projects approved by late 2006. Regarding multilateral investments, with the support of Trust Funds of many development partners, several regional and multinational projects were financed. They included credit lines for industrial and agricultural projects with regional development Banks, regional units for the production of goods and services such as the West African Cement Company (CIMAO), the creation of *Shelter Afrique* (African Project Development Facility) or the African Management Services Company (AMSCO).

An analysis of the impact of these actions reveals the lack of clear guidelines for the bank's interventions. It also exposes the need for regional integration strategy frameworks, such as regional integration strategy papers to supplement the country strategy papers being prepared by the bank. Considered from a project performance standpoint, only 53 percent were deemed satisfactory, whereas, in terms of institutional capacity building and impact, performance was less satisfactory. From a sector standpoint, it appears that infrastructure dominated, while human capital, technological innovations and research-development, and other important factors for giving impetus to economic growth, were downplayed. Similarly, little attention was paid to the key role of RECs in giving impetus to economic growth on the continent.

13. Economic co-operation and regional integration policy paper- ADB Policy paper 2000.

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4.3. *The AfDB's co-operation strategy for regional integration should be bolder and more ambitious*

On analysing the above principles, it can be seen that the bank intervenes mainly in the area of regional institutional capacity building, reinforcement of regional economic infrastructure, and promotion of a business-friendly environment. Of the crucial factors of economic growth, the promotion of physical capital such as economic infrastructure, human capital (technical and technological training sessions and management skills), research and technological innovation, as well as the increase in the savings ratio, are essential elements underpinning economic growth in modern times. An analysis of the development of these factors and AfDB actions in the PMR leads to the following lessons:

- The present low level of economic infrastructure in Africa offers vast potential reserves for economic growth on the continent.
- Human capital building is a long-term exercise, but for many African countries at the initial stages of the economic growth process, basic, secondary, and technological education should be promoted and generalised for better quality and efficiency. Further correlations should be made between knowledge production and development of economic activities (matching the needs of the employment market).
- Although useful for Africa, highly technical human capital must be supported in relation to the continent's priority needs in research-development and technological innovations. The consolidation of this type of skill should be made selectively as a first step through the establishment of regional research poles based on existing potentialities and the creation of specific networks.
- The consolidation of research-development and incentives for innovations are essential for development inasmuch as technological innovation is at the service of humankind to seek solutions to serious problems affecting people in their environment.
- Increasing national savings and their mobilisation at the service of the economy and wealth creation should be consolidated through incentive public policies. This also assumes that financial systems should be reformed for further efficiency and security. That in turn poses the problem of monetary integration within a regional space as a means of increasing wealth creation, and, subsequently, savings.

It clearly appears that the bank's strategy for regional integration should henceforth include new dimensions. These include training of management in cutting-edge technology, support for research-development and technological innovation, modernisation of financial systems and collection of savings, and rationalisation and harmonisation of monetary systems with a view to creating unified monetary zones. The role of public authorities in economic growth stimulation in the regional framework cannot be challenged. The major challenge concerns the regional ownership of the initiatives in the framework of the RECs based on firm political and financial commitments at national level.

4.4. Some new strategic thrusts of AfDB support to regional integration in Africa

On the basis of past experiences and lessons drawn from past economic theories, it appears important for the bank to play an essential role of advocacy with international institutions in defending the state's role in stimulating economic growth. It is also fundamental for the states to sustain the RECs in co-ordinating the production of essential growth factors and regional public goods. Improving the business climate at regional level constitutes a prerequisite for private sector development and its full involvement in financing infrastructure and other factors of economic growth. Regional integration through market liberalisation is a necessity. However, it requires the establishment of growth bases (which is not the case) and depends on the public authorities. The principal axes to be retained for the bank's support in co-ordination with other partners and the states participating in the regional integration process are:

Promoting co-operation with the priority RECs approved by the African Union

In considering the regional integration of Africa as a priority thrust of the continent's development, the bank should have a consistent policy for building the capacities of RECs in order to provide them with efficient, non-cost-intensive structures that could contribute effectively to regional development objectives.

Contributing to the formulation of regional development strategy frameworks and their harmonisation with national poverty reduction strategy papers

The RECs should work closely with national governments with a view to determining and promoting development synergies and integration programmes of economic and social development. Development partners, in their support for the development of the countries, should be consistent in their approach while promoting actions conducive to regional integration whose national components require priority financing actions;

Supporting regional strategies for cutting-edge professional capacity building, research-development support and promotion of technological innovation

Within the framework of regional development strategies, professional capacity building, research-development support and integration programmes for economic and social development constitute fundamental areas in which financing is necessary and requires the support of government, foreign partners or even the private sector. This applies to many areas: Malaria, HIV-AIDS, the fight against desertification, renewable energies and mainly solar or wind energy, agricultural advancement, and development of generic drugs for tropical diseases, etc.

Promoting the harmonisation and convergence of economic policies and good governance within the RECs

The co-ordination of economic and monetary policies is an indispensable stage in monetary integration at regional level. The RECs should place very special emphasis on accelerating this co-ordination to promote monetary integration and a regional monetary policy that responds to the needs of the growth of integrating countries. More specifically, it would be interesting to make the link between a bold but prudent monetary policy aimed at creating wealth and increasing national or regional savings. Africa should take inspiration from the experience of emerging countries such as India and China. There are many economic researches and case studies that should be conducted with the intention to draw lessons for Africa, particularly in the present context of global financial crisis.

Promoting a healthy and dynamic financial system in line with African specificities

The financial system in Africa does not address the challenge of the continent's needs, and is often hesitant in taking risks to promote development. Institutions such as regional or sub-regional development banks rarely take account of the specific needs of small wealth-creating operators, who sometimes contribute largely to the GDP. In a number of African countries participating in regional integration, there is an important informal sector that undertakes intense economic and commercial cross-border activity that deserves being supported to increase its efficiency and profitability. This assumes that community institutions should support these specificities by analysing their logic and dynamics, and provide meaningful solutions for their development. The venture capital financing for the promotion of SME and small to medium industries as well as the problem of the role of regional stock exchanges in Africa constitute considerable stakes that require co-ordinated actions at regional or continental level.

Promoting private sector development and public/private partnership for increasing the Community supply of goods and services

Regional integration strategy in Africa should further foster dynamics among economic actors. The priority choices should focus on the liberalisation of productive energies driven at promoting the development of the production of goods and services and sub-regional trade. This liberalisation of energies assumes an enabling business environment characterised by a simplification and harmonisation of regulatory texts relating to business, such as the simplification of the business start-up procedures, protection of private property, access to credit for SME-SMI and micro enterprises, contract compliance, and labour market flexibility.

Besides support to access to quality and competitively-priced economic infrastructure, such as transport, electricity, water, and telecommunications, the RECs should also play a key role in the co-ordination of sector socio-professional groupings at the level of the production of goods and services. This would involve building their technical and professional capacities, development of intra and inter-community trade and support to the development of business partnerships, and integration into the global trade market. The list of areas is not exhaustive. In the framework of the ongoing discussions with the RECs, the bank could embark on an enhanced fine-tuning of the needs, and in relation to its priorities, determine a strategic plan for supporting regional integration in Africa. This strategic plan may be formulated with the bank playing an advocacy role to mobilise new financing through other donors, to co-ordinate and rationalise the use of the many existing trust funds, and to finance regional priorities.

5. Conclusion

The regional integration process based on the RECs retained within the framework of NEPAD constitutes one of the means for the development of Africa due to its extreme balkanisation. By revisiting the economic theories relating to the determining factors of economic growth, it appears that physical infrastructure is critical but inadequate. The role of high-level human capital, technological innovation, research-development, and regional financial integration within an adequate institutional framework seems equally decisive. Consequently, the crucial role of the public authorities to create sustainable bases for economic growth has been highlighted by the theories.

It therefore appears necessary to define the most appropriate approaches for revitalising the RECs and making them more flexible and effective towards accelerating the development of the continent. The AfDB needs to play a key advocacy role to reaffirm the states' political will to integrate and delegate to the RECs some powers relating to the consistency and streamlining of regional programmes with national programmes. It should also provide leverage to the RECs in obtaining the necessary financial resources to achieve this objective. The RECs should demonstrate efficiency in the use of resources and produce concrete results for economic integration in co-ordination with national programmes.

As a development-focused continental financial institution, the AfDB finds it important to lend sustained support to this process through the proposals made. Some of the measures proposed are being implemented, but many are yet to be carried out to enable the bank to take the leadership role in this regional integration process in Africa. Because of the definition of the bank's strategy on regional integration, the revision of its operational and financial instruments of intervention in the RECs, and out of the need for a prudent mobilisation of its own or delegated resources, the bank's strategic thrusts as previously defined can be transformed into reality.

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