

Opening up access to global markets

Hard and soft infrastructure that speeds the flow of goods, people, and services is key to deepening regional connectivity and making Africa more competitive. The Bank's financial support for the Lome Container Terminal is consolidating Togo's reputation as a trans-shipment hub for West and Central Africa.

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Chapter 4
Integrate Africa

Over the past two decades, Africa has made important progress on regional economic integration, with trade barriers falling, cross-border infrastructure expanding, and a range of policy challenges successfully addressed. The entry into force of the African Continental Free Trade Area (AfCFTA) Agreement[1] in May 2019 is a major boost to Africa's regional integration agenda. But non-tariff barriers remain pervasive and significant gaps in regional infrastructure persist. And even as the Covid-19 pandemic disrupts regional trade and supply chains, tourism, the movement of people, and commodity markets, it highlights the need for African countries to accelerate integration. The Bank is therefore scaling up its efforts to support Africa's economic integration, so that the continent can fully realise the economic and social benefits that integration will bring.

Connecting markets and industries through economic integration

Many of Africa's economies are too small to produce the sophisticated goods that compete with imports and succeed in global markets. This leaves most African businesses operating in small domestic markets where purchasing power is low and competition that would improve productivity is limited. This holds back economic diversification and growth and helps explain why most African countries have made limited progress on moving their economies from traditional agriculture, informal services, and primary commodities towards value-added manufacturing. Deprived of industry's unique capacity to generate jobs at scale, economic growth has been less inclusive in Africa than in other developing regions. This makes it more difficult for governments to raise revenues to invest in services for their citizens and improve their quality of life.

> *In 2017, three quarters of African countries had less than 30 million inhabitants. Small domestic markets hold back innovation, diversification, and growth*

Regional economic integration can address many of these challenges. When businesses can trade across borders, they can expand production and benefit from economies of scale. They are more exposed to competition and are challenged to operate more efficiently. Expanding regional trade can also help countries to diversify their output and move up the value chain. It is notable that intra-African exports are 4.5 times more diverse and have twice the share of medium- and high-technology products as African exports to the rest of the world.

Since the 1980s, Africa's regional economic communities have established or revitalised a range of free trade agreements, customs unions, and monetary unions. Their efforts helped expand formal trade between African countries by 12.5% annually between 2000 and 2016, and increase it from 11% to 15% of total African trade over the same period. But these figures remain well below levels of regional trade within Asia, which reached 61% of all Asian trade in 2015–2017.

Because of this, **intra-African trade as a proportion of Africa's total trade in goods** remained low—14% in 2018 (the latest data available). The figures reflect commodity exports as well as consistent demand for manufactured goods from Africa's leading

Box 5 **UNCTAD and the African Union launch the Trade Barriers Africa tool**

On 13 January 2020, the United Nations Conference on Trade and Development (UNCTAD) and the African Union launched a new online tool for reporting and monitoring non-tariff barriers in real time across Africa, in support of free trade.

With this tool, traders and businesses moving goods across the continent can now instantly report the challenges they encounter, such as excessive import documents or unjustified packaging requirements. Complaints logged on the platform will be monitored and resolved by government officials in each nation and by a special coordination unit housed in the AfCFTA secretariat. The initiative will help improve national and regional trade policies.

1 At the time of writing, trading under the AfCFTA Agreement, set to start in July 2020, had been postponed due to the Covid-19 pandemic. The African Union will confirm a new date.

Table 7 **Africa's progress in regional integration is mixed (Level 1)**

INDICATOR	AFRICA		ADF COUNTRIES		TRANSITION STATES	
	Baseline 2015	Latest 2019	Baseline 2015	Latest 2019	Baseline 2015	Latest 2019
Deeply and broadly integrated countries (number)	19	20	15	15	5	7
Cost of trading across borders ($)	2384	2384	2675	2675	2878	2960
Intra-African trade as a proportion of total trade in goods (%)	14.6	13.5	22.6	20.5	32.7	20.5
Regional economic communities' average score (0 low–1 high)	0.47	0.43	..	..	..	..
Countries with liberal visa policies (number)	13	10	11	9	7	4

Improvement over baseline Stability Deterioration

industrialised economies, such as Egypt and South Africa. In general, ADF countries and countries in transition generated higher levels of formal intra-African trade as a proportion of their total trade in goods (21% each).

The high costs of trading across Africa's borders undermine trade expansion and deeper integration. The costs are driven by weaknesses in regional infrastructure, such as roads, railways, and border crossings; by tariff barriers; by formal non-tariff barriers such as quotas, export restrictions, and regulations; and by informal non-tariff barriers such as facilitation payments at borders.

> *When businesses can trade across borders, industry can expand, economies can diversify, and countries can move up the value chain*

Consequently, in 2019, the **costs of trading across borders in Africa** was $2384 per 20-foot container by sea transport, the same as in 2015. It is clear that more needs to be done (Box 5) to reduce the non-tariff barriers and infrastructure constraints that hold back regional trade in Africa.

Numerous restrictive visa regulations still constrain the movement of people in Africa. The African Union's Agenda 2063 aims to remove restrictions on Africans' ability to travel, work, and live anywhere across the continent. Still, the **number of countries with liberal visa policies** (visa-free travel or visa on arrival) declined to 10 in 2019, compared with 11 in 2018 and 13 in 2015. However, according to the 2019 Africa Visa Openness Index report—produced with the Bank's support—a record 47 countries improved or maintained their visa openness scores, while 13 countries moved upwards in rank. To streamline travellers' experience, 21 countries now use eVisa platforms that boost transparency and accessibility.

Greater economic integration and closer ties amongst African countries have allowed regional economic communities to address common challenges and foster cooperation amongst their members. In 2019, Africa's **regional economic communities achieved an average score** of 0.43 on the African Regional Integration Index, an index that assesses how well countries, regions, and the continent are integrated. This is a slight decline from 0.47 in 2016, when the last index was published. Many regional communities have made progress in freeing the movement of people and causing macroeconomic policies to converge within their blocs, but more effort is required on other dimensions of regional integration, such as infrastructural and productive integration. The number of **deeply and broadly integrated countries** on the index was 20 out of 54 in 2019, up from 19 in 2016. The figure highlights Africa's extensive potential to boost integration and tap into its benefits.

Africa could also benefit from closer integration in a number of other areas, including finance and transport. This said, African countries have benefited from increasing intraregional flows of finance in recent years, boosting investment and reducing dependence on volatile investment flows from outside the region. African countries have also promoted closer collaboration in aviation, primarily through the Single African Air Transport Market (SAATM), which launched in 2018. Twenty-eight countries, representing 80% of Africa's aviation market, have now signed up to the SAATM. It is estimated that just 12 key countries implementing this market in full would create 155 000 jobs and increase GDP by $1.3 billion per year.

There is considerable optimism that the AfCFTA will trigger a major acceleration in regional integration. Signatories are expected to remove tariffs on 90% of goods within 5 to 10 years, reduce a wide range of non-tariff barriers, and liberalise trade in services with measures to facilitate the movement of people and finance.

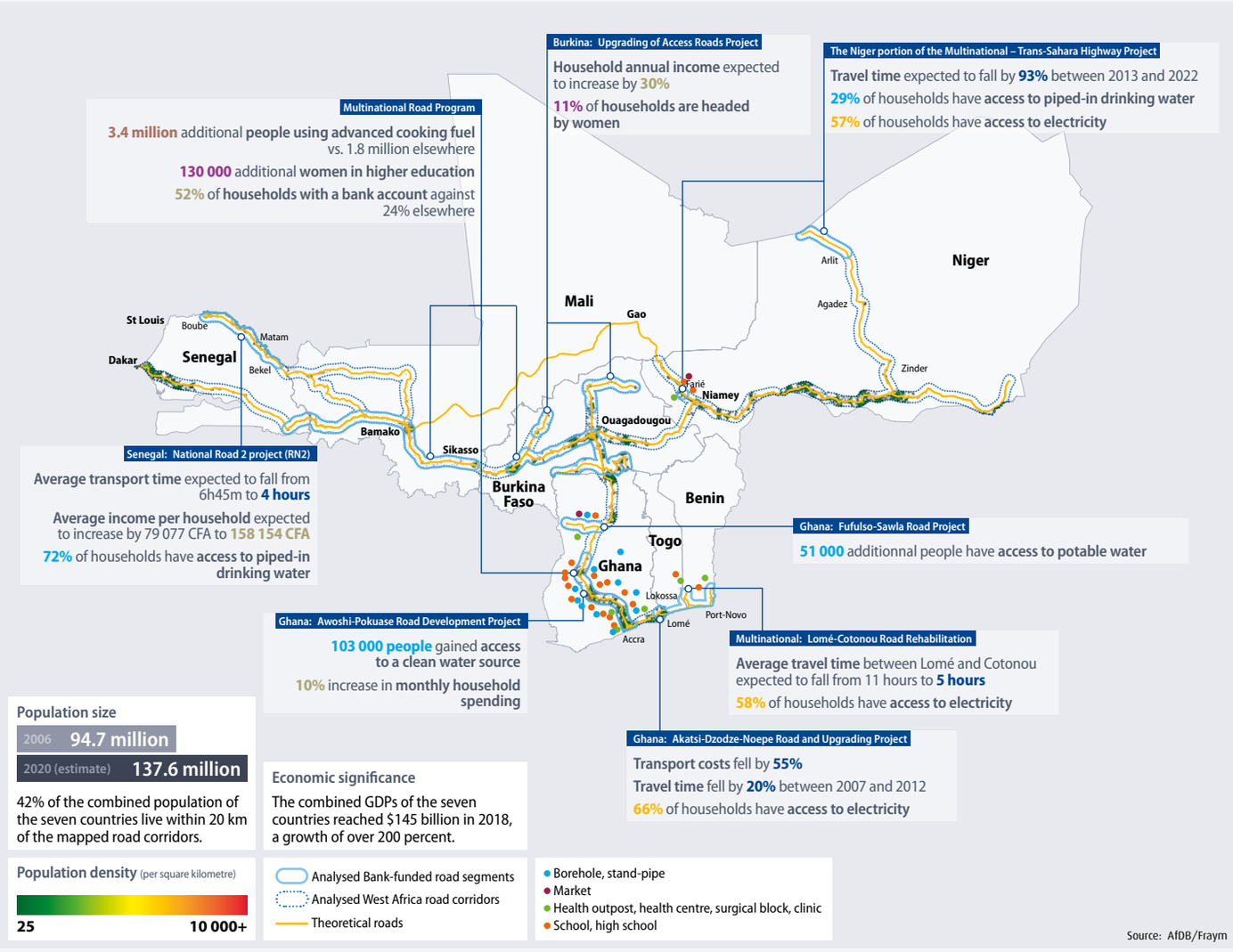
The Bank's support for regional integration

Regional integration has been a priority for the Bank ever since the Bank was founded, and it is one of the Bank's five core operational objectives today. Most of the Bank's finance for regional integration goes to infrastructure connectivity, reflecting the high costs of regional and cross-border projects and the large gaps that African countries face in financing infrastructure (Figure 5).

Figure 5 **High-resolution impact mapping**

Assessing living conditions of communities near Bank-funded roads in West Africa

The Bank is using high-resolution impact mapping to assess the impact of eight road projects covering seven countries in West Africa: Benin, Burkina Faso, Ghana, Mali, Niger, Senegal and Togo. Focusing on an unprecedented geographic scale, the map provides details on the roads' economic footprint, improvements in human development and how they promote integration throughout the entire region. By comparing data from household surveys in 2006 (before) and 2020 (during or after) and applying geotagged datasets, and satellite imagery, the methodology can assess with a high degree of reliability the changes in people's living conditions — for example, additional people with access to energy — within 20 km of the roads. Not all changes are directly attributable to the project: they reflect broader improvements in living conditions over time.



Source: AfDB/Fraym

Changes across the seven West African countries from 2006 to 2020

Improved access to clean water and sanitation

- **2 730 000** additional **households** access piped-in drinking water
- **1 814 000** additional **households** with access to flush-toilets

Mobility to markets

- **728 000** additional **households** owning cars

Gender

- **2 448 000** additional **households** headed by women

Connection to electricity

- **6 378 000** additional **households** connected to electricity

Improved health conditions

- **Child stunting rates** in the region have stayed around **30%**
- **84% child immunisation coverage** in 2018 (from 75% in 2005)
- **16 774 000** additional **people** know where to get an HIV test
- **7 400 000** additional **women** visiting health centers

Better access to education

- **11 399 000 adults** gained literacy skills

Table 8 **Integrate Africa indicators (Level 2)**

INDICATOR	AFRICA			ADF COUNTRIES		TRANSITION STATES	
	Baseline 2015	Actual 2019	Target 2019	Baseline 2015	Actual 2019	Baseline 2015	Actual 2019
Transport: Cross-border roads constructed or rehabilitated (km)	380	436	983	380	436	0	0
Energy: Cross-border transmission lines constructed or rehabilitated (km)	0	12	360	0	11	0	0

Achieved 95% of 2019 target Achieved less than 95% of 2019 target Achieved less than the baseline

In 2019, the Bank completed the rehabilitation and construction of roads linking Burundi, Rwanda, and the East Africa Community; linking Ethiopia and Kenya; and linking Kenya and Tanzania. Through these and other projects, the Bank **constructed or rehabilitated 436 km of cross-border roads** in 2019, all of which were in ADF countries. While these results represented an increase of 12% over 2018, they were below the Bank's target for 2019.

> *By tracking data and sharing best practices, the Africa Visa Openness Index is freeing the movement of labour*

Also in 2019, the Bank worked on the final stages of the Nairobi-Mombasa-Addis Ababa road corridor, which reduced travel time between Nairobi and Addis Ababa by a third and spurred a four-fold increase in trade between Ethiopia and Kenya. We also supported the development of the Lomé-Cotonou Transport Corridor, which is due for completion in 2020 (Box 6).

In relation to maritime transport, in 2019 the Bank completed the construction of a new container transport terminal at the port of Lomé in Togo. This terminal supports regional trade between Burkina Faso, Mali, Niger, Nigeria, and Togo. It also handles domestic trade.

> *We are moving vehicles, ships, and electricity across borders, while taking climate change into consideration*

In recent years, the Bank increased investments in the integration of electricity infrastructure across Africa's borders, to enable neighbouring countries to trade electricity more efficiently and coordinate their investments in generation capacity. In 2019, we **constructed or rehabilitated 12 km of cross-border transmission lines**. The Bank also recently supported a feasibility study for the Nigeria-Niger-Benin/Togo-Burkina Electricity Interconnection Line, which will ensure the stable integration of the national electricity grids of Economic Community of West African States countries and includes the construction of a transmission line of about 875 km.

Recognising how important access to finance is to regional trade, during 2016–2018 the Bank supported a number of regional facilities that provide trade finance to African financial institutions, corporations, and SMEs. We completed risk participation agreements

Box 6 **Stories from beneficiaries – The Lomé-Cotonou Transport Corridor**



Financed with $109 million from the Bank's African Development Fund, this project aims to relieve traffic congestion and respond to the challenges faced by hauliers between Benin and Togo.

The project supports infrastructure development—including a truck inspection area, a large customs warehouse, five sanitary blocks, weighbridge and scanner control rooms, a veterinary control room, and facilities to serve truckers and pedestrians—and was scheduled for completion in March 2020. The project is also working to harmonise procedures for the movement of people, goods, and transport at border crossing points between Lomé and Cotonou.

Once complete, the transport corridor will halve the time it takes trucks to cross the Benin-Togo border. It is expected to increase trade across the border by 15%.

Senegalese trucker Issa Diaby is eager to see the project completed. "As I approach the border between Togo and Benin, I cross my fingers to spend as little time as possible. Above all, I pray that the corridor will be completed quickly in order to make traffic flow more smoothly," he says.

with Afreximbank, which supported $490 million worth of trade through 145 transactions, 63 of which involved SMEs; Chartered Bank, which facilitated trade finance transactions in sectors such as agriculture and manufacturing inputs, with 24% of transactions supporting intra-African trade and 439 transactions attributed to SMEs; and First Rand Bank, which supported 12 issuing banks in 5 countries, with half of transactions going on regional trade.

The Bank is also engaged in a range of activities to support the implementation of the AfCFTA. We are members of the AfCFTA Continental Task Force, through which we provide technical support for trade negotiations and the operationalisation of the AfCFTA Secretariat in Accra, Ghana. We are also working with African countries to develop AfCFTA implementation strategies.

Promoting low-carbon economies through integration

The Bank's Climate Change Action Plan for 2016–2020 identifies opportunities to strengthen linkages to address climate change, use resources more efficiently, and invest in greener regional programs. More investments in regional infrastructure such as transport, ICT, and power interconnection will play a valuable role in creating integrated, low-carbon economies. In 2019, all of the Bank's regional operations, including its regional integration strategy papers and its regional/multi-country projects, were screened for climate risks and opportunities and for their compatibility with the nationally determined contributions submitted by African countries under the Paris Agreement.

New programmes

The Board recently approved a number of major new programmes to strengthen regional power and transport infrastructure, increase trade finance, and promote regional trade. For example, we approved assistance for the East African Power Pool, which promotes power system interconnectivity across 11 member countries: Burundi, Democratic Republic of Congo, Djibouti, Egypt, Ethiopia, Kenya, Libya, Rwanda, Sudan, Tanzania, and Uganda. We also approved assistance for the Metier Sustainable Capital International Fund II, which supports renewable energy and resource-efficient infrastructure projects across Africa, and to Mozambique, both for the construction of a transmission line between Vilanculos, Chibuto, Matalane, and Maputo and for related infrastructure that will help distribute electricity from the planned Central Térmica de Temane power plant.

In addition, the Bank approved projects in Kenya and Tanzania to link the ports of Dar es Salaam, Tanga, and Mombasa; in Ethiopia and Djibouti, to improve road and transport infrastructure and connections with Kenya and South Sudan; and in Mozambique and Tanzania, to support the second phase of a road upgrading project that will socially include communities along the road.

We also supported the Eastern and Southern African Trade and Development Bank to provide trade and project finance to projects in the infrastructure, energy, manufacturing, agribusiness, and healthcare sectors in the Common Market for Eastern and Southern Africa region. ■