

African Development Bank Group



# Development Effectiveness Review 2012

## PROMOTING REGIONAL INTEGRATION

Thematic review



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# Abbreviations

<b>ADF</b>	African Development Fund	<b>GDP</b>	Gross Domestic Product
<b>AfDB</b>	African Development Bank	<b>ICT</b>	Information and Communication Technology
<b>AEC</b>	African Economic Community	<b>IGAD</b>	Intergovernmental Authority on Development
<b>AU</b>	African Union	<b>IPPF</b>	Infrastructure Project Preparation Facility
<b>CEMAC</b>	Communauté économique et monétaire de l'Afrique centrale (Economic and Monetary Community of Central Africa)	<b>NEPAD</b>	New Partnership for Africa's Development
<b>CEN-SAD</b>	Communauté des États Sahelo-Sahariens (Community of Sahel-Saharan States)	<b>REC</b>	Regional Economic Community
<b>CMA</b>	Common Monetary Area	<b>RISP</b>	Regional Integration Strategy Paper
<b>COMESA</b>	Common Market for Eastern and Southern Africa	<b>RMF</b>	Results Measurement Framework
<b>CPIA</b>	Country Policy and Institutional Assessment	<b>SADC</b>	Southern African Development Community
<b>EAC</b>	East African Community	<b>ONRI</b>	NEPAD, Regional Integration and Trade Department
<b>ECCAS</b>	Economic Community of Central African States	<b>PIDA</b>	Programme for Infrastructure Development in Africa
<b>ECOWAS</b>	Economic Community of West African States	<b>UMA</b>	Union du Maghreb Arabe (Arab Maghreb Union)



**Bringing people together in Africa**  
The Bank is committed to supporting Africa's vision of an integrated economic space where economic opportunities are shared among the peoples of Africa.

# Foreword

One of the enduring legacies of Africa's history is the division of the continent into more than 50 countries. This fragmentation comes with a high economic cost. The majority of Africans live in countries whose national markets are simply too small to achieve the economies of scale necessary to becoming internationally competitive.

The solution to this problem is well known. Regional economic integration — allowing the free movement of goods, services, people and capital between national markets — is fundamental to achieving robust and equitable growth in Africa. Only by giving Africa's producers access to regional markets and linking them up into more sophisticated value chains can we hope to make them competitive in an interconnected world. Regional integration is the key to boosting productivity and achieving lasting improvements in living standards.

African governments have repeatedly committed themselves to the pursuit of regional economic integration. Yet national priorities regularly trump regional ones. As a result, progress on implementing these commitments has often been disappointing. It is imperative that we accelerate progress in this key area.

Regional integration has always been at the heart of the African Development Bank's mandate. Our goal is ambitious — to help unlock Africa's immense economic potential by better connecting its people and integrating its economies. In the last five years, we have invested \$11 billion in building the infrastructure that Africa needs to boost trade and economic growth. Across Africa, we have funded roads, bridges, border posts, optic fibers, power pools, rails, airports and ports that have brought African people together and have connected its markets to the rest of the world.

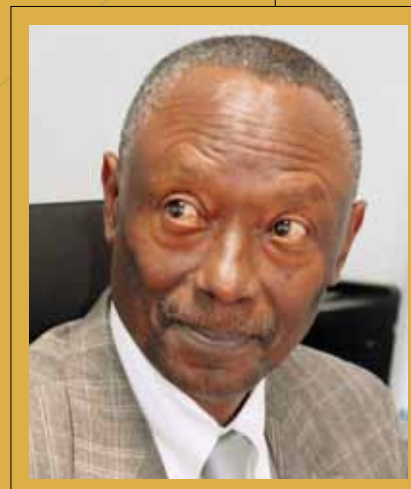
We understand that integration is not only about 'hard' infrastructure, it is also about institutions and regulations. In other words, the 'soft' infrastructure that Africa needs to encourage the free movement of goods, services, capital and human talent. We support Africa's Regional Economic Communities and their member countries on overcoming regulatory and institutional barriers to trade and financial integration. We are also working closely with partners such as the African Union and the United Nations Economic Commission for Africa to promote policy dialogue on shared challenges and strengthen the African voice in global policy forums.

This Development Effectiveness Review presents the results of the Bank's support for regional integration in Africa. It finds that, together with our partners, we have made an important contribution in this critical area.

But we cannot yet be satisfied with the rate of progress. In the coming period, we will intensify our efforts. We have committed 28% of the resources for the current Africa Development Fund for regional initiatives, and we are building up our own capacity to support our member countries on the complex regulatory and institutional challenges involved in integration.

Ultimately, however, it will take more than financial resources to overcome the barriers to regional integration. We need a strong commitment from Africa's political leaders to putting regional integration at the heart of their national development strategies.

We stand ready to support Africa in this endeavour.



A handwritten signature in blue ink, consisting of a stylized 'G' followed by a series of loops and a long horizontal stroke.

**Gilbert Mbeshherubusa**

Vice President Sector Operations in charge of Infrastructure,  
Private sector and Regional Integration



**Supporting Regional Economic Communities**  
Through our Regional Integration Strategies, we are helping Africa's Regional Economic Communities with support tailor-made to their unique challenges.

# Executive summary

This **Development Effectiveness Review** is one of a number that the African Development Bank (AfDB or Bank) will produce in 2011–13, following our first Annual Development Effectiveness Review, highlighting our progress in particular sectors or areas of the Bank's portfolio. This Review looks at the Bank's regional integration initiatives.

There is a clear recognition among African policy makers that regional integration is a prerequisite for robust and equitable growth. With its 54 states and low population density, Africa is the most fragmented of continents. Economic integration is critical to building economies of scale and achieving international competitiveness. It also helps to ensure that the benefits of growth are shared.

Yet regional integration is by no means easy to implement, and the clear commitment made at the political level has not yet been translated into sustained progress. While Africa's Regional Economic Communities (REC) have reached agreements on some ambitious initiatives, the implementation has been held back by a lack of national political commitment and administrative capacity.

The AfDB has been strongly committed since its founding to supporting this key dimension to Africa's development. This report assesses the contribution we have made. It is organised in four chapters, corresponding to the four levels of our Results Measurement Framework (RMF). The first chapter provides an overview of Africa's progress on regional integration. The second examines the Bank's contribution to this progress, presenting aggregate data from our regional operations and describing some of our initiatives to support integration at the continental and regional levels. The third chapter examines how well we manage our portfolio of operations in this area and the fourth examines

how effectively we manage ourselves so as to deliver results on regional integration.

## Africa's progress on regional integration

The regional integration agenda incorporates a range of objectives. It is about giving African producers access to regional markets and integrating them into more productive regional value chains. It includes integrating financial markets, to enable capital to flow more readily among national economies. It also includes promoting the free movement of labour, for more efficient regional labour markets and for improved access to skilled labour for specialist production. All these objectives are essential to achieving structural transformation in African economies, boosting productivity per worker and therefore living standards.

*Intra-African trade more than doubled between 2005 and 2011, from \$49 billion to \$108 billion.*

Promoting the free movement of goods, services, labour and capital requires investments at a number of levels. First, it calls for the development of adequate 'hard' or physical infrastructure, including regional transport links and energy and telecommunications networks, together with institutional arrangements for their management and maintenance. Second, it requires a 'soft' or institutional infrastructure to facilitate cross-border transactions and allow the integration national markets. This includes dismantling regulatory barriers to trade and harmonising essential policies and institutions among trading partners. There is also a third dimension, which consists of joint action to address cross-border challenges of a regional or continental nature, such as water management, climate change adaptation, cross-border health issues and other areas benefitting the region as a whole.

### Box I Independent evaluation of AfDB's multinational operations

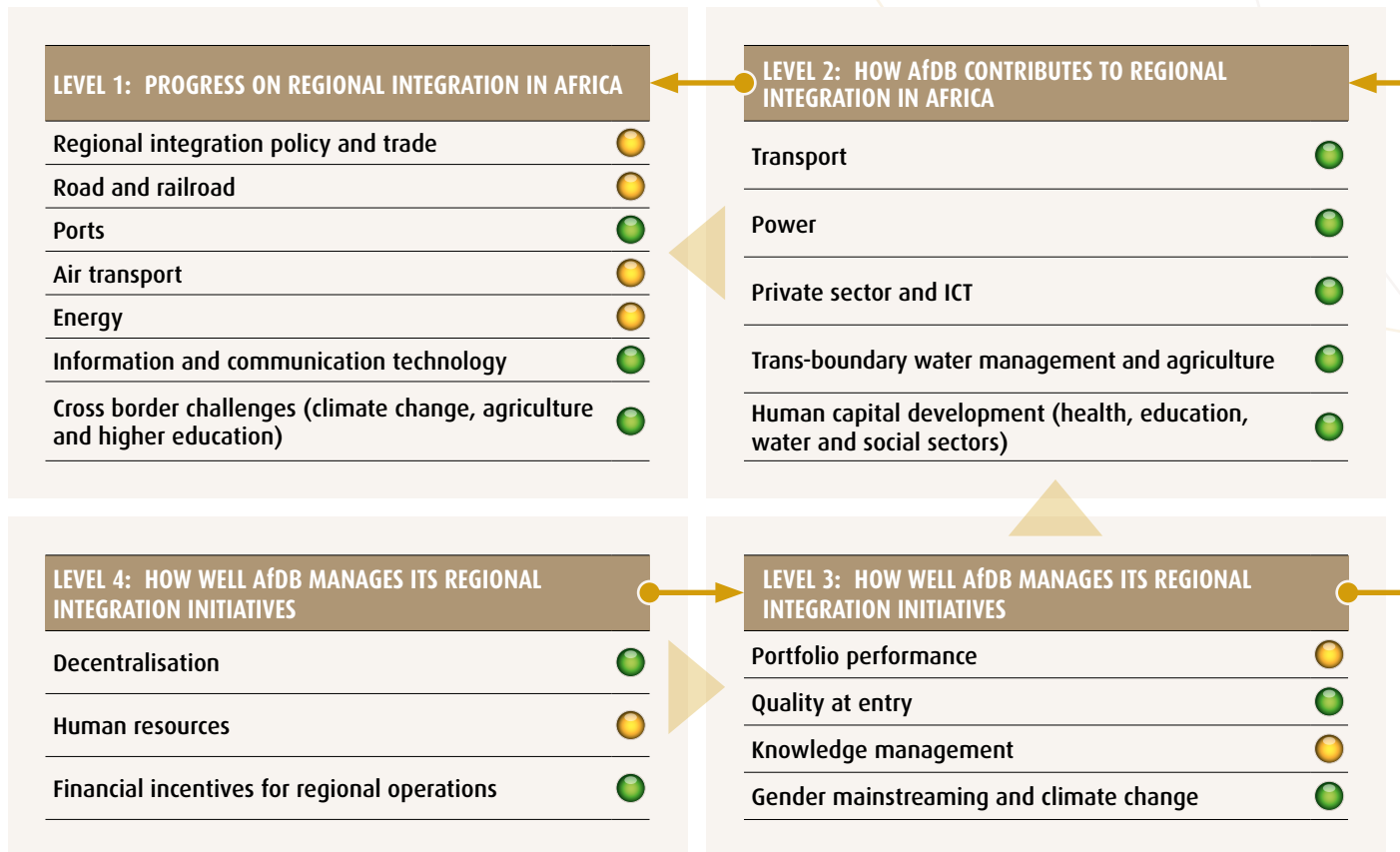
**Scope** — This independent evaluation assessed over the past decade (2000-2010) the relevance the Bank's strategic and operational framework for fostering regional integration and the efficiency, effectiveness and sustainability of the Bank's multinational operations.

**Findings** — The evaluation found that the Bank has developed an increasingly coherent strategic and operational framework to guide its assistance towards regional integration and that multinational operations have responded to needs of Regional Member Countries. It also highlighted the need to integrated lessons learnt in new multinational operations and fine-tune our business model.

**Recommendations** — The evaluation recommended the following reforms:

- ▶ Clarify the strategic focus of the Bank's approach to regional integration.
- ▶ Establish a mechanism for systematic feedback and learning from the Bank's experience with multinational operations.
- ▶ Align mandates and resources of the regional integration department.
- ▶ Define the roles, responsibilities and division of labour between departments.
- ▶ Adapt the business model to the specificities of multinational operations.

## Summary performance scorecard 2012



For Level 1 Africa's relative performance is measured by comparing its progress with progress in Africa's peer group (low-and middle-income countries across the world); for Level 2 the Bank's performance is measured by comparing expected and actual achievements for all operations that have been completed; for Level 3 and 4 the Bank's progress is measured against its progress in achieving its 2012 targets set out in the Bank Results Measurement Framework.

- **Made progress:** More than half of the indicators in the group improved over baselines or reference groups.
- **Little progress:** Results are mixed, with equal number of indicators showing improvement or little/no progress.
- **Progress stalled or regressed:** More than half of indicators in the group stalled or regressed over two or more review periods.
- **Progress could not be measured because of lack of data**

Thus far, Africa's achievements across these different dimensions of integration remain relatively modest. Between 2005 and 2011, intra-African trade more than doubled, from \$49 billion to \$108 billion; however, half of intra-African trade takes place within just one region, the Southern African

road and rail networks are often in poor condition. Goods traded regionally may have to cross several national borders, with high costs and extensive delays.

The 18<sup>th</sup> and 19<sup>th</sup> African Union Summits held in 2012 approved the Programme for Infrastructure Development in Africa (PIDA) and identified the growth of productive sectors as a priority. It is estimated that \$70 billion of PIDA investment will generate \$172 billion in additional growth. There has been a number of other efforts to boost the level of investment in regional infrastructure, including the Infrastructure Consortium for Africa launched at the G8 Gleneagles Summit in 2005. China is also investing some \$9 billion a year into African infrastructure, despite the global financial crisis. As a result, external financial support to African infrastructure rose from \$37 billion in 2007 to \$56 billion in 2010. Nevertheless, the resources still fall well short of the need. Infrastructure spending

*External financial support to African infrastructure rose from \$37 billion in 2007 to \$56 billion in 2010.*

Development Community (SADC), where South Africa trades with its neighbours. Overall, Africa is still the least economically integrated developing region by some margin. This is a reflection of the continent's dispersed geography and vast infrastructure deficit. Forty percent of sub-Saharan Africans live in landlocked countries with the lowest road densities in the world. Regional

needs in Africa are estimated at \$93 billion per year over the next decade. This amounts to roughly 15% of the continent's GDP, comparable to China's investments in its own infrastructure over the last decade.

Tackling the 'soft' or institutional infrastructure for trade is equally important. Evidence from around the world reveals that three-quarters of delays in shipping are attributed to administrative procedures, such as customs clearance or inspections. While the Regional Economic Communities (RECs) have agreed in principle to address these barriers, progress is being held back by a lack of strong commitment from national governments and by capacity constraints within national administrations. As a result, regional trade still faces a range of non-tariff barriers, including restrictive rules of origin, weak legal and regulatory environments and a lack of trade facilitation.

Labour mobility is another area where it has proved difficult to move from commitment to action. Many of the RECs have developed harmonised systems for managing migration, but these are yet to be widely implemented by member states. The Economic Community of West African States (ECOWAS) has introduced visa-free entry for up to 90 days, but most regions still have restrictive visa requirements between their member states. Smaller countries are often weary of making commitments in this area, fearing that their labour markets will be flooded with newcomers.

Integration of financial markets has made some important progress. The front runners are the two Communauté Financière Africaine (African Financial Community) monetary unions, in West Africa with eight member states and in Central Africa with six. The Common Monetary Area (CMA) comprising South Africa, Lesotho and Swaziland is another important stepping stone to financial integration. Many African countries have undertaken reforms to develop their financial institutions and strengthen their financial markets. The rapid spread of cross-border banking investments and the emergence of Africa-wide lenders indicates that financial markets are becoming increasingly integrated. However, financial flows are still well below their potential and a number of challenges still need to be addressed, including weak financial infrastructure and limited capital market development.

There is no shortage of ambitious regional integration initiatives. In fact, among the world's developing regions, Africa has the highest concentration of economic integration and cooperation agreements. Almost all the 54 countries belong to at least one regional grouping and about half belong to two or more. This overly complex regional architecture comes at a price, imposing conflicting requirements on countries that are members of more than one REC. Some moves are afoot to simplify the structure, most notably through the creation of a common free trade area across the three major Southern and East African RECs.<sup>1</sup>

The RECs have made important progress in recent years, in a number of cases concluding free trade agreements. They are focal points for promoting policy coherence and regulatory harmonisation among their members, and are also tasked with mobilising resources for regional infrastructure development. Nevertheless, the RECs rely principally on national authorities to enforce their decisions, and in some cases integration measures have been agreed at the regional level with little follow-up by member states.

*The Economic Community of West African States has introduced visa-free entry for up to 90 days.*

Overall, there is still a great deal to be done before the vision of an economically integrated Africa can become a reality. There is no question that Africa's leaders recognise the importance of regional integration to sustainable development. But the structures and processes required to transform this commitment into sustained action will need to be strengthened.

### **How AfDB contributes to regional integration**

As Africa's premier development finance institution with a major infrastructure portfolio, the AfDB is well positioned to play a lead role in fostering economic integration on the continent. This review captures the aggregate results of our regional and multinational projects that were completed between 2009 and 2011, as measured by our Results Measurement Framework. This is not, however, the full extent of the Bank's contribution to regional integration. Many of our national operations also contribute to regional integration goals, such as building national segments of road corridors or investing in port facilities. Our private-sector operations also make an important contribution, particularly in the Information and Communication Technology (ICT) sector.

Regional integration has been part of the Bank's mandate since its creation in 1963. Over the past decade, we have developed a more systematic and focused approach to this goal. In 2006, a dedicated department was created — the Department for NEPAD, Regional Integration and Trade — to lead our efforts in this area. Our Regional Integration Strategy 2009–2012 now provides a comprehensive framework for our efforts. It focuses on strengthening integration policies at the national and regional levels, addressing capacity constraints and building regional infrastructure, recognising all these areas as mutually reinforcing. It also includes targeted support for promoting regional public goods (cross-border challenges like climate change), regional financial integration and aid for trade. It identifies a mix of funding instruments and delivery mechanisms, in line with the Bank's triple role as catalytic financier, knowledge broker and partner.

<sup>1</sup> The Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and the Southern African Development Community (SADC).

Our priorities in each region are elaborated through five-year Regional Integration Strategy Papers (RISPs). So far, four RISPs have been prepared, covering West, Central, East and Southern Africa, with the RISPs for North Africa in the pipeline. Our RISPs are closely aligned to the regional development objectives agreed in each REC, and tailor-made to address specific regional challenges and support existing institutions and processes. They include capacity development support for the RECs and outline our major investments in hard and soft infrastructure.

For example, in Central Africa we are helping to support the joint management of the Congo Basin, the second-largest forestry and water resource in the world. In East Africa, we are developing transport corridors to assist with linking the region's four landlocked countries to regional markets and ports. In West Africa, we are supporting the establishment of a West African Monetary Zone Payment System.

*The Bank completed 51 transport projects valued at over \$3 billion, covering road, airport, sea port and railway infrastructure.*

At the continental level, we support Africa's participation in global policy debates, such as the G20 and international negotiations on climate change, by strengthening the development of common positions. We have initiated a range of continental initiatives to mobilise finance for high priority investments in regional infrastructure, support financial integration and maximise market access through aid for trade initiatives.

The lion's share of our financial resources goes towards infrastructure development, which is our area of comparative advantage. Between 2009 and 2011, the Bank completed 51 transport projects valued at over \$3 billion, covering road, airport, sea port and railway infrastructure. We built or rehabilitated over 4000 km of roads and several major bridges. Our private-sector operations, such as a loan to Ethiopian Airlines to support fleet modernisation and investments in regional information and communication technology networks, also make an important contribution to regional integration.

We are helping with the management of trans-boundary natural resources, particularly water. We support a range of inter-government institutions and processes for environmental protection, such as the Gambia River Basin Development Organisation and the Commission for Controlling Desert Locusts. We are an executing agency of the Global Environment Facility, which provides financial and technical support in support of sustainable development. Through initiatives such as the lake Chad sustainable development programme, we are helping to finance joint storage reservoirs and dams, as well as systems for sharing information on groundwater resources. We have invested in regional collaboration including, exchanges for agricultural goods and services, agri-business support funds and knowledge centres for agricultural research and extension.

In the energy sector, we have worked with the African Union to support the Conference of Energy Ministers of Africa — a new, high-level body that will streamline intergovernmental coordination and promote a harmonised energy policy. We are supporting the development of regional power pools, to promote cheaper and more reliable energy. We are strongly committed to helping Africa achieve a green development path by promoting clean energy technologies. We are working with the African Union and the UN Economic Commission for Africa on a range of initiatives designed to generate knowledge and finance in support of carbon-neutral development and climate change adaptation.

Finally, we have adopted a strong focus on higher education and technical and vocational training, to ensure that African economies have access to the skills they need to be internationally competitive. Our strategy includes developing regional and national centres of excellence, which can be important drivers of regional integration including by bridging the traditional linguistic divide and build Africa's intellectual capital.

Overall, our multinational portfolio has achieved the majority of the targets we set for ourselves, with good prospects for continuing improvements in performance in the coming years.

### **How well AfDB manages its regional integration operations**

The Bank's multinational portfolio consists of nearly 200 live projects, of which around half are for physical infrastructure; 10% address 'soft' infrastructure and 10% support regional public goods. Multinational operations are by nature challenging to implement, being dependent on the collaboration of a larger number of actors. Nonetheless this, an evaluation of our multinational operations between 2001 and 2010 found that, as a whole, they perform better than single-country operations, particularly on relevance and effectiveness. It appears that multinational operations undergo more rigorous selection, appraisal and due diligence processes in order to manage the risks. There were, however, a number of issues affecting project implementation, including weak counterpart capacity, a lack of knowledge of Bank procedures, delays in contracting and disbursement, late fulfilment of conditions and delays in the provision of counterpart funds.

To ensure the quality of our portfolio, we have introduced a range of measures to improve the quality at entry of our projects, including a more rigorous selection process and prioritisation framework to ensure that our operations are focused on regional integration priorities. We have increased to 59% the proportion of projects supervised twice a year. We have also moved quickly on cancelling non-performing projects, freeing up resources for more productive use. As a result, all of our projects were rated satisfactory in 2011.

We have invested in a broad range of knowledge products on regional integration, in support of our role as knowledge broker.

A number of our flagship publications have explored regional integration issues, and we recently produced a joint study with United Nations Economic Commission for Africa (UNECA) and the African Union that helped to inform a debate on trade policy at the African Heads of State and Government Assembly in January 2012. As AfDB progresses with decentralisation, knowledge generation and advocacy on regional integration is increasingly led by our regional departments.

We have led the thinking on how to adapt the Paris Declaration principles on aid effectiveness to the specific needs of regional integration. To this end, we are developing new approaches to the financing of regional projects. We are also strengthening feedback mechanisms across the Bank, to ensure that lessons from regional projects are captured and used to inform new programming choices.

### How efficient AfDB is in promoting regional integration

Our Results Measurement Framework measures 10 performance indicators illustrating our progress in adapting our organisation to the particular challenges of supporting regional integration. The most important initiative has been the progressive decentralisation of our operations through the establishment and strengthening of a network of 32 field offices and Regional Resource Centres. These are developing the sectoral and regional expertise required to lead on policy dialogue with RECs. In 2011, 47% of our multinational operations were supervised by Field Offices, while 24% were led by task managers located at the country level, suggesting that decentralisation is proceeding ahead of schedule.

Other measures include shifting from a sector-based planning process to one that combines sector, country and regional strategies, and developing new skill sets among our staff to make us better equipped to work on 'soft' infrastructure issues and

trade facilitation. Finally, we have committed 28% of our African Development Fund (ADF) resources (nearly \$2 billion between 2011 and 2013) to support regional integration initiatives.

### The way forward

AfDB remains committed to the pursuit of regional integration, using our resources, our expertise and our partnerships to encourage and support Africa's collective efforts on this challenging but critical agenda. For the coming period, we have identified a number of focus areas.

First, we will continue to concentrate our resources in regional infrastructure development, including regional transport links and power pools. In particular, we will help promote the development of Africa's major transport routes as 'corridor economic zones'. Through more ambitious forms of spatial planning, major transport projects can generate new economic and social opportunities for large numbers of people in the vicinity, contributing to equitable growth.

Second, we will help strengthen regional industrial policy to boost intra-African trade. We will support the RECs and their member countries in improving their business environments to attract more investment. We will help identify and support regional value chains to support the development of regional manufacturing networks. This is the driver of structural transformation in Africa spurring economic growth, competitiveness and worker productivity.

Third, we will continue to develop new financing instruments and approaches that are suited to the particular needs of regional projects — particularly in 'mixed' neighbourhoods of both low- and middle-income countries. We will pursue creative financing solutions, such as blending, cost-sharing and the possibility of the RECs themselves becoming loan or grant recipients. We will also explore new options for funding the delivery of regional public goods ■



**Connecting electricity grids in Africa**  
We are helping to link up national electricity grids, providing reliable and affordable power to millions of Africans.

# Introduction

The **Development Effectiveness Review (DER)** is a series of publications reviewing the African Development Bank's (AfDB or Bank) contribution to Africa's development results. Beginning with the first Annual Development Effectiveness Review published in 2011, the DER series has promoted transparency and accountability to our member countries and stakeholders. It also helps us ensure that our operations are continually improving. In 2012, we have published a series of DERs examining aspects of the Bank's portfolio, including fragile states, governance and the Bank's country programme in Rwanda. This DER looks at our progress on regional integration and infrastructure.

Regional integration has been at the heart of Africa's political agenda for many years. Given the continent's low population density, wide geographic spread and low levels of urbanisation, Africa's leaders have recognised integration as critical to building economies of scale and making the continent internationally competitive. The impact of globalisation on Africa over the past decade has only intensified its importance. Regional integration can help overcome geographical challenges by concentrating economic activity and increasing access to global markets.

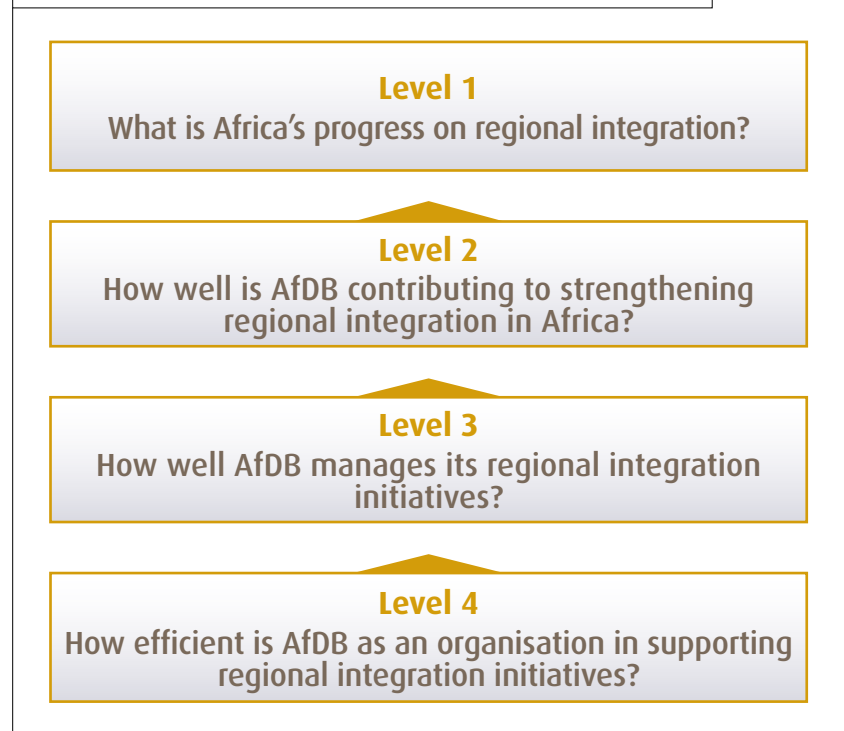
But regional integration is by no means easy to implement. Many early African initiatives foundered, in part due to the inevitable preoccupation of newly independent states with establishing national policies and institutions. The legacy of these initiatives is a complex architecture of overlapping Regional Economic Communities (RECs), of which eight are recognised by the African Union. The 1991 Abuja Treaty renewed the commitment to creating a continent-wide African Economic Community (AEC) in stages up to 2028, with existing RECs providing the building blocks. This first steps have already been taken by establishing a Tripartite Free Trade Agreement which will merge COMESA, EAC and SADC into a single free trade area.

The African Development Bank (AfDB) is supporting this endeavour in a number of ways. It is the continent's leading financier of infrastructure, with a strong focus on regional connectivity. It is promoting a common economic space through harmonisation of national laws and institutions in areas such as customs and the financial sector. It is also working to build the capacities of the RECs and their national counterparts to promote regional integration.

We note, of course, that regional integration is a shared endeavour across many African institutions, and many of our efforts are undertaken jointly with other partners, in particular the African Union and the United Nations Economic Commission for Africa (UNECA).

This report reviews the African Development Bank's contribution to promoting regional integration in Africa. It is organised in four chapters, corresponding to the four levels of our Results Measurement Framework. The first chapter provides an overview of Africa's progress on regional integration, covering trade, infrastructure development and the promotion of regional public goods. The chapter examines the Bank's contribution to this progress, presenting aggregate data from our regional integration and infrastructure portfolio and describing some of our initiatives to support integration at the continental and regional levels. The third chapter examines how well we manage our portfolio of operations in this area, while the fourth examines how effectively we manage ourselves so as to deliver results on regional integration ■

Table 0: **AfDB's Results Measurement Framework**





### **Linking producers and markets**

We are investing road infrastructure across the continent, helping to link producers to their markets and isolated communities to livelihood opportunities.

# Level 1: Africa's progress on regional integration

**A**frica is the world's most fragmented continent. Of its 54 countries, 28 have a GDP under \$10 billion, 26 have a population of under 10 million and 16 are landlocked. With its wide geographical spread and low population density, Africa finds it difficult to achieve the economies of scale required to become internationally competitive. As a result, the continent is missing out on the additional growth opportunities that come from integration with the global economy, leaving it narrowly dependent on commodity exports with limited added value.

Africa's leaders have long recognised the importance of economic integration as a solution to the continent's fragmentation and relative isolation. In successive agreements, they have committed themselves to the pursuit of greater integration. These commitments, however, have not always proved easy to implement. In practice, national priorities have tended to trump regional ones.

Regional integration is a complex process, often represented as having three dimensions. First, hard infrastructure consists of developing regional transport, energy and telecommunications networks and putting into place institutional arrangements for their management and maintenance. Second, soft infrastructure refers to removing intangible barriers to the free movement of goods, services, capital and labour, and creating the institutional frameworks necessary to integrate national markets. This includes dismantling trade barriers, harmonising policies to promote intra-regional trade and investment, creating institutions to manage trans-boundary markets and improving the regional business environment. The third and final dimension consists of joint action to address cross-border challenges of a regional or continental nature, such as water management, climate-change adaptation, cross-border health issues and other areas benefitting the region as a whole.

This chapter reviews Africa's overall progress on regional integration. It begins with Africa's success in promoting regional trade and financial and labour market integration. It looks at efforts to address the regional infrastructure gap, including roads, railways, ports, energy and information and communication technologies. It also examines regional integration efforts undertaken by the Regional Economic Communities (RECs). Finally, it assesses how well African countries collaborate on the provision of regional public goods such as cross-border water management, climate change and adaptation, and on the development of centres of excellence in higher education to bridge the traditional linguistic divide and build Africa's intellectual capital.

## Africa's progress on regional integration

African countries trade primarily with other continents. Historically, Africa's exports went to Europe and North America. In recent years, trade links with the emerging economic powerhouses of China, India and Brazil have become increasingly important. According to official statistics, as much as 90% of Africa's exports are destined for the rest of the world. They consist of unprocessed commodities. With its limited manufacturing base, the continent is unable to capture much additional value from its commodity exports.

Regional integration is about changing this pattern. It aims to increase the density of economic ties among African countries, so that producers can find regional markets for their goods. It

means linking together Africa's productive capacity into regional value chains able to take advantage of local specialisation and build economies of scale, so as to compete more effectively in

*Regional integration increases the density of economic ties, so that producers can find regional markets for their goods.*

the global marketplace. It also involves linking the continent's economically marginal areas to its regional growth poles, so that the benefits of growth are shared more equitably.

Table 1: Progress on regional integration in Africa (Level 1)

This table summarises the continent's development progress on regional integration between 2005 and 2012. For each indicator, relative performance is measured by comparing its progress with progress in Africa's peer group (low- and middle-income countries across the world):

- Africa's progress is higher than its peer in low and middle-income countries;
- Africa is progressing but is lower than its peer low and middle-income countries;
- Africa's progress has slipped compared to the baseline;
- Data are not available to measure progress.

INDICATOR	AFRICAN COUNTRIES		ADF COUNTRIES	
	Baseline 2005	Latest 2012	Baseline 2005	Latest 2012
<b>REGIONAL INTEGRATION POLICY AND TRADE</b>				
<span style="color: orange;">●</span> CPIA Regional Integration and trade cluster (avg. CPIA)	3.58	3.6 <sup>c</sup>	3.59	3.61 <sup>c</sup>
<span style="color: orange;">●</span> Logistics Performance Index (LPI): overall (1=low to 5=high)	2.34	2.48	2.32	2.37
<span style="color: orange;">●</span> Africa share of global trade (%)	2.5	3.1 <sup>c</sup>	1.0	1.5 <sup>c</sup>
<span style="color: orange;">●</span> Total Intra-African trade (billion \$)	48.5	108.4 <sup>c</sup>	31.3	68.7 <sup>c</sup>
<b>ROAD AND RAILROAD</b>				
<span style="color: green;">●</span> Proportion of paved road per RMC (%)	35	47 <sup>c</sup>	14	17 <sup>c</sup>
<span style="color: red;">●</span> Railway tracks <sup>1</sup> (km)	58 000	50 000 <sup>c</sup>	25 000	14 000 <sup>c</sup>
<span style="color: orange;">●</span> LPI: Quality of trade and transport-related infrastructure (1=low to 5=high)	2.12	2.31	2.06	2.19
<b>PORTS</b>				
<span style="color: orange;">●</span> Container port traffic (TEU container, million)	13.9	19.3 <sup>c</sup>	0.4	0.5 <sup>c</sup>
<span style="color: green;">●</span> Share of global container trade (%)	2.8	3.6 <sup>c</sup>	0.7	1.0 <sup>c</sup>
<span style="color: green;">●</span> Average waiting time at port (Av. days imp. and exp.)	30.6	25.6 <sup>c</sup>	41.6	30.5 <sup>c</sup>
<span style="color: orange;">●</span> LPI: Efficiency of customs clearance process (1=low to 5=high)	2.19	2.29	2.17	2.18
<b>AIR TRANSPORT</b>				
<span style="color: green;">●</span> African share of global passengers (%)	2.7	3.9	..	..
<span style="color: orange;">●</span> Number of carrier departure (take-offs of plane, thousand)	553	761	175	192
<b>ENERGY</b>				
<span style="color: orange;">●</span> Total electricity consumption (kWh per capita)	666	690 <sup>c</sup>	159	170 <sup>c</sup>
<span style="color: orange;">●</span> Energy use per unit of GDP (per unit of GDP)	697	738 <sup>c</sup>	351	449 <sup>c</sup>
<b>INFORMATION AND COMMUNICATION TECHNOLOGY</b>				
<span style="color: green;">●</span> Countries connected to underwater fibre optic cables (number)	13	21 <sup>c</sup>	8	15 <sup>c</sup>
<span style="color: green;">●</span> Amount of underwater cables connecting Africa (number)	3	19 <sup>c</sup>	2	18 <sup>c</sup>
<span style="color: green;">●</span> Cumulative capacity of cables (bandwidth in terabites)	2.9	102 <sup>c</sup>	1.6	101 <sup>c</sup>
<span style="color: green;">●</span> Fixed and mobile phone subscribers (per 1000)	183	559 <sup>A</sup>	86	415 <sup>A</sup>
<span style="color: orange;">●</span> Secured internet service (per 1 million persons)	16.1	34.2 <sup>c</sup>	0.4	2.2 <sup>c</sup>
<span style="color: orange;">●</span> African share of secured internet service (%)	2.74	2.49 <sup>c</sup>	0.05	0.12 <sup>c</sup>
<b>CROSS BORDER CHALLENGES (CLIMATE CHANGE, AGRICULTURE AND HIGHER EDUCATION)</b>				
<span style="color: green;">●</span> CO <sub>2</sub> emissions (milions of metric of CO <sub>2</sub> )	1075	1131 <sup>B</sup>	228	226 <sup>B</sup>
<span style="color: orange;">●</span> Urban pollution (Avg. PM10 particles in cities)	56.1	45.6 <sup>B</sup>	59.0	46.5 <sup>B</sup>
<span style="color: green;">●</span> Forest areas (in 1000 square km)	6 877	6 700 <sup>B</sup>	40 490	40 204 <sup>B</sup>
<span style="color: orange;">●</span> Percentage of global forest area (%)	17	16.7 <sup>c</sup>	15.6	15.2 <sup>c</sup>
<span style="color: green;">●</span> Staple crop yield index (2002 value = 100)	110	115 <sup>A</sup>	109	113 <sup>A</sup>
<span style="color: green;">●</span> Agriculture value added per worker (constant \$2000)	877	1308 <sup>A</sup>	393	455 <sup>A</sup>
<span style="color: orange;">●</span> Enrolment in tertiary education (% of gross)	6.6	8.0 <sup>B</sup>	3.4	5.1 <sup>B</sup>

.. = data not available; GDP = gross domestic product; CPIA = Country Policy and Institutional Assessment; LPI = Logistics Performance Index; CO<sub>2</sub> = Carbon Dioxide; PM = Particulates less than 10 microns in diameter; TEU = Twenty-foot Equivalent Unit.

Latest data available is for <sup>A</sup> 2009, <sup>B</sup> 2010, <sup>c</sup> 2011.

<sup>1</sup> The decline in the railway track indicator is due to inadequate maintenance and to lack of capacity by Regional Member Countries to register data appropriately.

**Notes:** ADF countries are the 39 lower-income AfDB member countries that qualify for concessional funding. They are Benin, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Comoros, Congo Republic, Democratic Republic of the Congo, Côte d'Ivoire, Djibouti, Eritrea, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Nigeria, Rwanda, Sao Tomé and Príncipe, Senegal, Sierra Leone, Somalia, South Sudan, Sudan, Tanzania, Togo, Uganda, Zambia, and Zimbabwe. Cape-Verde and Angola are in transition.

**Source:** African Development Bank; World Bank Group, *World Development Indicators* database, *Doing Business 2011*; Airport Council International.

Thus far, progress on regional integration has been modest.

● **Intra-African trade**<sup>1</sup> more than doubled between 2005 and 2011, from \$49 billion to \$108 billion. If informal cross-border trade is taken into account, the figure is probably much higher. However, half of intra-African trade takes place within just one region, the Southern African Development Community (SADC), where South Africa trades with its neighbours. Overall, the continent's remains the least economically integrated developing region by some margin.

This in turn holds back ● **Africa's share of global trade**. The continent accounted for just 3.1% of total international trade in 2011. While this is up from 2.5% in 2005, it is well behind the 6% figures of 25 years ago. Low-income ADF countries account for just 1.5% of global trade. The share of inter-African trade is only 12%, well below other regions such as Asia-Pacific (39%) and Latin America (21%), see Figure 1.1 overleaf.

Limited trade integration is a reflection of Africa's dispersed geography and its fragmentation into separate national markets. Forty percent of sub-Saharan Africans live in landlocked countries with the lowest road densities in the world. Regional road and rail networks are often in poor condition. Goods traded regionally may have to cross several national borders, encountering significant delays.

The 18<sup>th</sup> and 19<sup>th</sup> African Union Summits held in 2012 approved the Programme for Infrastructure Development in Africa (PIDA) and identified the growth of productive sectors as a priority. It is estimated that \$70 billion of PIDA infrastructure investment will generate \$172 billion in additional growth. There have been major efforts in recent years to mobilise the resources that are required. The Programme for Infrastructure Development in Africa, managed by AfDB, focuses on the development of energy, transport and ICT infrastructure and the management of trans-boundary water resources. The Infrastructure Consortium for Africa, launched at the G8 Gleneagles Summit in 2005 and endorsed by the African Union, is another vehicle for mobilising infrastructure finance.

Other international actors, including China and the Arab Funds, also play an important role. China's investment in African infrastructure remains at around \$9 billion per year, despite the global financial crisis. Some of the Chinese investments are structured around the exploitation of oil and mineral resources, including in fragile states. These include roads and bridges in the Democratic Republic of Congo; railways in Angola, Gabon and Mauritania; and power stations in Zambia. But China is also investing in major regional and national infrastructure. It is building high-voltage power transmission lines to connect countries in Southern Africa. It is constructing mass transit systems in Nigeria and a national communications network in Ethiopia. Private-sector commitments to the infrastructure sector are also strong — a positive sign that infrastructure development remains an attractive opportunity for investors.

From these various sources, overall external financial support to African infrastructure rose from \$37 billion in 2007 to \$56 billion in 2010. However, the resources still fall well short of the need. Infrastructure spending needs in Africa are estimated at \$93 billion per year over the next decade.<sup>2</sup> This amounts to roughly 15% of the continent's GDP, comparable to China's investments in its own infrastructure over the last decade.

Alongside improvements in physical infrastructure, regional trade requires 'soft' or institutional infrastructure. Evidence from around the world reveals the importance of this institutional infrastructure. For example, three-quarters of delays in shipping are due to administrative procedures, such as customs clearance or inspection procedures.<sup>3</sup> Although these are being progressively addressed by the RECs, regional trade still faces a range of non-tariff barriers, including restrictive rules of origin, weak legal and regulatory environments and a lack of trade facilitation. These require coordinated investments in regulatory reform and accompanying capacity building. Capacity development also enables African countries to implement World Trade Organisation agreements and enjoy the resulting expansion in trade. In recent years, however, ● **institutional capacity for regional integration and trade**, measured as part of the Bank's Country Policy and Institutional Assessment (CPIA), has improved only slightly.

*Three-quarters of all delays in shipping are due to administrative procedures, such as customs clearance or inspection procedures.*

While trade is one important measure of regional integration, labour mobility and financial integration are also key components. On labour mobility, many RECs have developed harmonised systems for managing migration, but have yet to be widely implemented by member states. ECOWAS has achieved visa-free entry for up to 90 days across its member states. The member states of SADC and COMESA still impose visa requirements on their neighbours. The Union du Maghreb Arabe (Arab Maghreb Union) is somewhat more advanced, with free movement between Libya, Morocco and Tunisia, and visa-free travel between Algeria and Tunisia. As a rule, smaller countries are often weary of making commitments on freedom of movement, for fear of their labour markets being flooded with newcomers. Thus, within CEMAC, both Gabon and Equatorial Guinea still impose visa requirements on other members.

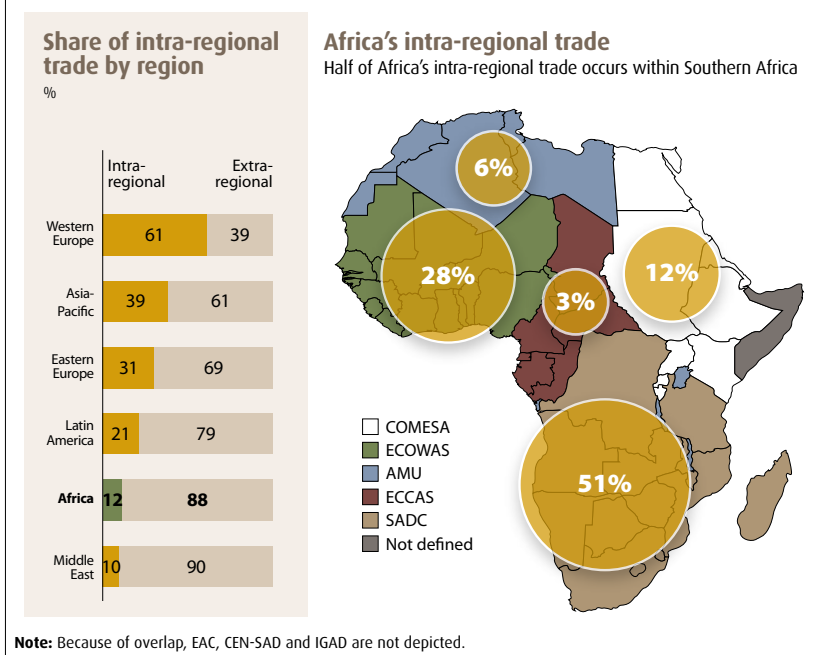
Free movement of labour is often a contentious issue in national politics. The RECs and their member states need to make greater efforts to communicate the benefits and raise the level

1 A yellow bullet indicates that Africa is progressing but is lower than its peer in low and middle-income countries.

2 The Africa Infrastructure Country Diagnostic.

3 Djankov et. al, 2010

Figure 1.1 Trade between African countries remains low



Source: African Development Bank; International Monetary Fund data.

of public debate. There is a need for more analysis of the costs and benefits of labour migration, and how to manage it so as to safeguard the interests of both local workers and migrants.

On financial integration, the level of intra-African financial flows is for the time being not particularly high, but there is considerable potential for growth, with domestic and regional financial markets largely unexploited. Many African countries are making major efforts to develop and harmonise their financial institutions and regulations and strengthen their financial markets. The two *Communauté Financière Africaine* (African Financial Community) monetary unions — in West Africa with eight member states in Central Africa with six — are

### Box 1.1 Monetary unions are a stepping stone for further regional integration

There are two *Communauté Financière Africaine* (African Financial Community) monetary unions in Africa — in West Africa (with eight member states) and Central Africa (six member states). This arrangement is inherited from the de-colonisation period, when most of France's former African colonies opted to stay in a monetary union pegged to the French franc and later to the euro, with the support of the French treasury. The African Financial Community zones have contributed to a stable macroeconomic framework and price stability in Africa. Monetary integration offers an important building block for regional integration by promoting financial integration, improving access to infrastructure finance, supporting the free circulation of goods, services and people, and helping to diversify economic activities in countries which depend on the extractive industries by supporting a stable exchange rate limiting inflation.

leading the way. The Common Monetary Area formed by South Africa, Lesotho and Swaziland is also an ideal stepping stone for harmonising financial systems.

Altogether, the number of African stock exchanges has risen from 8 in 2002 to 20 in 2009, with market capitalisation across the five leading exchanges tripling over the period. The rapid spread of cross-border banking investments and the emergence of Africa-wide lenders indicate that financial markets are becoming more integrated. A number of challenges still need to be addressed however, including weak financial infrastructure and limited capital market development.

Some RECs have signed agreements to promote investment and capital flows, in support of the regional integration agenda. The COMESA Common Investment Area and the SADC Investment and Finance Protocol are prominent of regional instruments promoting financial integration. At the continental level, the Africa Union is working towards the establishment of three pan-African financial institutions anticipated in the African Union's Constitutive Act: the African Investment Bank, the African Central Bank and the African Monetary Fund.

While data on intra-African investment flows are scarce, the available evidence suggests that they are concentrated in four major sectors: mining, quarrying and petroleum; finance; business services; and transport, storage and communications. There is considerable unrealised potential in other sectors, held back by small national markets and a lack of strong national commitment to regional integration arrangements. Most intra-African foreign direct investment goes to finance mergers and acquisitions, rather than greenfield investments. This suggests that intra-African foreign direct investment might provide attractive opportunities to countries privatising state firms or seeking to increase output from existing ones.

### Regional Economic Communities in Africa

Among the world's developing regions, Africa has the highest concentration of economic integration and cooperation agreements. Almost all of Africa's 54 countries belong to at least one regional grouping and about half belong to two or more. Figure 1.3 illustrates the various regional economic communities and their often overlapping membership.

The RECs are the main vehicle for promoting regional integration in Africa. The Abuja Treaty envisages that the African Economic Community will be created in stages, with the RECs providing the building blocks. By 2017, the RECs are expected to form free trade areas and customs unions, which would merge to form a continent-wide customs union and in due course a common market. In accordance with the principle of 'variable geometry', each REC determines the pace and sequencing of its own activities. These efforts are brought into a common framework by the African Union's Minimum Integration Programme, which identifies overall priorities and establishes monitoring and evaluation processes.

There are, however, some obvious limitations to this overly-complex regional integration architecture. The RECs pursue their own separate mandates and approaches to regional integration, imposing conflicting requirements on countries that are members of more than one grouping and wasting scarce administrative and financial resources. The system also complicates the negotiation of bilateral trade treaties with the European Union and the United States.

The RECs are the focal points for promoting policy coherence and regulatory harmonisation among their members. They are tasked with mobilising resources to support investments in regional infrastructure to support greater connectivity and free movement of persons and goods between countries. They are also responsible for ensuring action on regional public goods. Progress across the eight RECs recognised by the African Union is summarised in Figure 1.2.

Capacity within the RECs themselves is limited. They rely principally on national authorities to enforce their decisions. This has proved a significant constraint on their effectiveness. Some of the more complex regional initiatives can put limited human resources under considerable pressure. In some cases, steps towards free trade areas or customs unions have been agreed in principle, but with little follow-up by member states. In some regions, particularly the Horn of Africa and parts of West Africa, a lack of peace and security has hampered integration efforts and undermined investment.

In view of the limitations of this complex architecture, there is now a strong interest in rationalising the mandates of the RECs. The most

**Figure 1.2 Africa's progress on regional integration**

REC	Year of establishment	Free trade area	Customs union	Common market	Monetary union
<b>SADC</b>	1996	Established	Envisaged	Not-envisaged	Not-envisaged
<b>EAC</b>	2001	Established	Envisaged	Not-envisaged	Not-envisaged
<b>ECOWAS</b>	1975	Established	Envisaged	Not-envisaged	Not-envisaged
<b>COMESA</b>	1994	Established	Envisaged	Not-envisaged	Not-envisaged
<b>ECCAS</b>	1983	Established	Envisaged	Not-envisaged	Not-envisaged
<b>AMU</b>	1989	Envisaged	Not-envisaged	Not-envisaged	Not-envisaged
<b>CEN-SAD</b>	1998	Not-envisaged	Not-envisaged	Not-envisaged	Not-envisaged
<b>IGAD</b>	1998	Not-envisaged	Not-envisaged	Not-envisaged	Not-envisaged

■ Established     ■ Envisaged     ■ Not-envisaged

ambitious initiative is the Tripartite Free Trade Agreement, launched in 2008, which will merge COMESA, EAC and SADC into a single free-trade area. Trade between the 26 tripartite countries rose from \$7 billion in 2000 to \$27 billion in 2008. In Central Africa, two resource rich RECs, CEMAC and ECCAS, are planning a merger, and ECCAS has

*The tripartite Free Trade Agreement will merge COMESA, EAC and SADC, creating a single free-trade area with 26 countries.*

already began to modify its rules of origin and tariffs with a view to convergence with CEMAC. Furthermore, ECOWAS is working with the West African Monetary Institute, the West African Economic and Monetary Union and the Central Bank of West African States towards the creation of the ECOWAS Monetary Union by 2020.

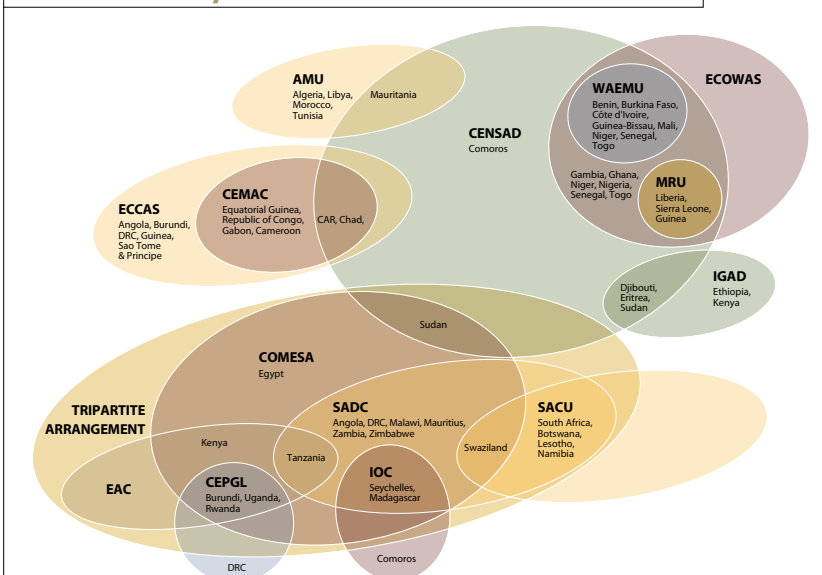
**Box 1.2 Regional integration is driving structural transformation in Uganda**

Like many African countries, Uganda has set itself the long-term goal of achieving middle income status, which will require a doubling of its present per capita income. This calls for a structural transformation to its economy through radical improvement in worker productivity and competitiveness. At present, however, large sections of the Ugandan economy are characterised by very low productivity. Facing limited competition in the domestic market, producers lack both the incentives and the means to raise their competitiveness to the level required to compete in global markets. Because many inputs are used in the production of other goods, this leaves the economy as a whole trapped in a low productivity equilibrium.

Regional economic integration can help countries like Uganda break out of this low productivity equilibrium. Access to regional markets provides a stepping stone for local producers to begin exporting, without first becoming globally competitive — particularly as Ugandan exports to its EAC partners are not subject to tariffs. Access to regional markets also enables them to achieve economies of scale and reduce their unit costs, thereby boosting their competitiveness.

Source: Summary of a speech of Dr. Louis Kasekende, Deputy Governor, Bank of Uganda; 5 October, 2012

**Figure 1.3 Consolidating regional integration initiatives is key for success**



**Note:** In addition to the eight mentioned above, there is also the Central African Monetary and Economic Community, Economic Community of the Great Lakes States, Indian Ocean Commission, Mano River Union, Southern African Customs Union and West African Economic and Monetary Union.

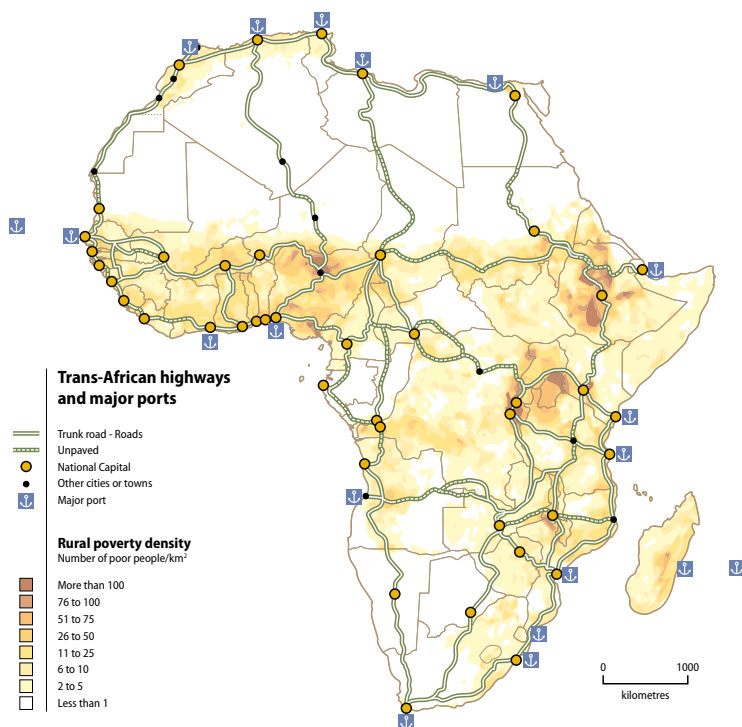
## Roads and railways

Africa's economic integration is being held back by major deficits in transport infrastructure. Figure 1.4 shows Africa's major regional transport connections. A significant proportion of the road network is unpaved, and many routes pass through fragile or conflict-affected states where basic maintenance is often neglected. We estimate that an investment of \$32 billion in upgrading and maintaining Africa's road network would lead to a \$250 billion increase in trade over a 15-year period, with the biggest gains going to the most isolated areas.

*The average waiting time at port for containers and general cargo has fallen from 30 to 25 days.*

In January 2012, the African Union Summit approved the Programme for Infrastructure Development in Africa and its Action Plan for Implementation. With assistance from the G20, this initiative is helping to build capacity to prepare project proposals for road infrastructure. Resources for infrastructure development are being raised in collaboration with the private sector through infrastructure bonds. South Africa and Kenya have successfully used this method to secure private financing for road development.

**Figure 1.4 Regional infrastructure corridors contribute to reducing poverty**



Railways are essential to regional integration in Africa. They allow for the transport of bulk cargo at significantly lower cost than road transport, while easing pressure on African roads. Much of the continent's railway network was put in place during the colonial era, however, and the costs of ageing and often dysfunctional railways with differing gauges are now being recognised.

Several countries have reconstructed their railway networks through joint concessions, such as Kenya and Uganda through the Rift Valley Railways. This enables countries jointly to mobilise the substantial investments involved. Railway master plans have also been developed in a number of regions to facilitate the rehabilitation and development of rail transport.

However, limited managerial and maintenance capacity affect the long-term sustainability of these investments. For example, the Tanzania-Zambia railway project was a spectacular engineering achievement, laying over 1800 km of track, much of it through mountainous terrain, and building 320 bridges. Yet, due to underinvestment over the past three decades, the railway company has fallen into financial difficulties and the facility has become poorly utilised.

During the structural adjustment period of the 1990s, capital expenditure was widely neglected, particularly on major infrastructure projects. More recently, the costs of poor roads, in terms of lost competitiveness and poor road safety, have compelled African countries to start investing in their road infrastructure. Landlocked countries face particular challenges getting merchandise into and out of their countries owing to poor regional road and rail infrastructure.

As a result of this increased rate of investment, the average **proportion of paved roads**<sup>4</sup> across Africa increased from 35% to 47% between 2005 and 2011. The proportion in low-income countries is significantly less, but still increased from 14% to 17%. However, during this period, the **amount of useable railway track**<sup>5</sup> declined across Africa, and particularly in low-income countries, from 58 000 to 50 000 km and from 25 000 to 14 000 km respectively. This decline is due to inadequate maintenance and to lack of capacity by Regional Member Countries to register data appropriately.

## Ports

Ports are key pieces in the regional integration puzzle. Africa's larger ports function as logistical hubs not just for the countries in which they are located, but for the wider region, particularly where supported by road and rail networks. They are vital elements linking African producers to regional and global markets.

Africa's most important ports, including Port Said, Tangier, Abidjan, Dar es Salaam, Djibouti, Durban and Mombasa, serve regional

4 A green bullet indicates that Africa's progress is higher than its peer in low and middle-income countries.

5 A red bullet indicates that Africa's progress has slipped compared to the baseline.

markets. Overall, the volume of freight through these ports has increased substantially in recent years, both in terms of general cargo (loose cargo, dry and liquid) and containerised traffic. Ports in Southern Africa, especially Durban and Maputo, have seen the fastest growth in general cargo, while ports in Western Africa have experienced tremendous growth in containerised traffic.

Nonetheless, most of these ports were not designed with a regional market in mind, and their rapid growth has posed major challenges. The average ● **waiting time at port** for containers and general cargo has fallen to 25.6 days across Africa, but this is exceeded at several key ports. Mombasa, Dar es Salaam and Tema have serious capacity problems, while Mombasa and Dar es Salaam have reached their container storage limits. Durban is under constant pressure, while Luanda is also short of capacity. The equipment at some of these ports is dilapidated, undermining their efficiency. Generally, African ports operate at well below international norms, resulting in both higher charges and slower processing times.

The African port sector urgently needs a policy and regulatory overhaul. Many of the ports are managed by statutory institutions and have limited autonomy from their governments, reflecting their status as strategic assets. This reduces their capacity to innovate. Privatisation and commercialisation of port operations could facilitate the modernisation of services. There is a need for modal integration to link ports to other forms of transport, and administrative streamlining to allow other service providers (e.g., rail and trucking companies, revenue and customs services) to operate efficiently. Many RECs are now leading efforts to improve planning around regional ports and link them to the management of transit corridors.

### Box 1.3 The cost of fragmentation

Africa pays a high economic cost for its fragmentation into multiple national jurisdictions and its slow progress on facilitating the transit of national borders. For example, a journey of 3000 kilometres from Lusaka to Durban takes 8 days: 4 days of travel time and 4 days spent at border crossings. Although trucks run at 50-60 km per hour, their effective speed is no more than 12 km per hectare for the journey. For an 8-axle, interlink truck, time wasted at border crossings can cost up to \$300 a day<sup>1</sup>.

To place this in an international context, it takes 2-3 weeks to transport copper from the Democratic Republic of Congo to the port at Mombasa. In Europe, the same distance would take 48 hours to cover. In Denmark, three documents and two signatures are required to complete the requirements for shipping cargo abroad. In Burundi, the same process requires 11 documents, 17 visits to several offices located in different areas and 29 signatures. Whereas a Danish exporter needs 5 days to complete the documentation process and prepare a container for shipping, an exporter in Burundi needs an average of 67 days just to move goods from the factory to the ship.

<sup>1</sup> See World Bank. Africa's Infrastructure: A Time for Transformation.

Overall, ● **container traffic across Africa** grew dramatically between 2005 and 2011, from 13.9 million to 19.3 million containers. The ● **share of global container traffic** handled by African countries also increased, from 2.8% to 3.6%. The period also saw some improvements to soft infrastructure, with a reduction in the average number of documents required for import and export.

### Air transport

Around 120 000 people are directly employed in Africa's air transport sector, and 20% of jobs in the tourism sector are linked to air travel. Air cargo is vital to major export trades, such as flowers from Kenya or fish from Tanzania and Uganda.

Over the past five years, the number of airports in Africa has remained stable. For the time being, there is sufficient capacity to handle the present level of traffic, although greater efficiency could be achieved through better scheduling, some modest investments in parallel taxiways and improvements to terminal facilities. Air transport in sub-Saharan Africa remains expensive by international standards. Landing charges are high, owing in large part to the absence of significant concession revenues (e.g., from business activities at airports such as retail, catering and car parking), which are used by many airports globally to subsidise operating costs. This gap suggests additional investment opportunities for the private sector.

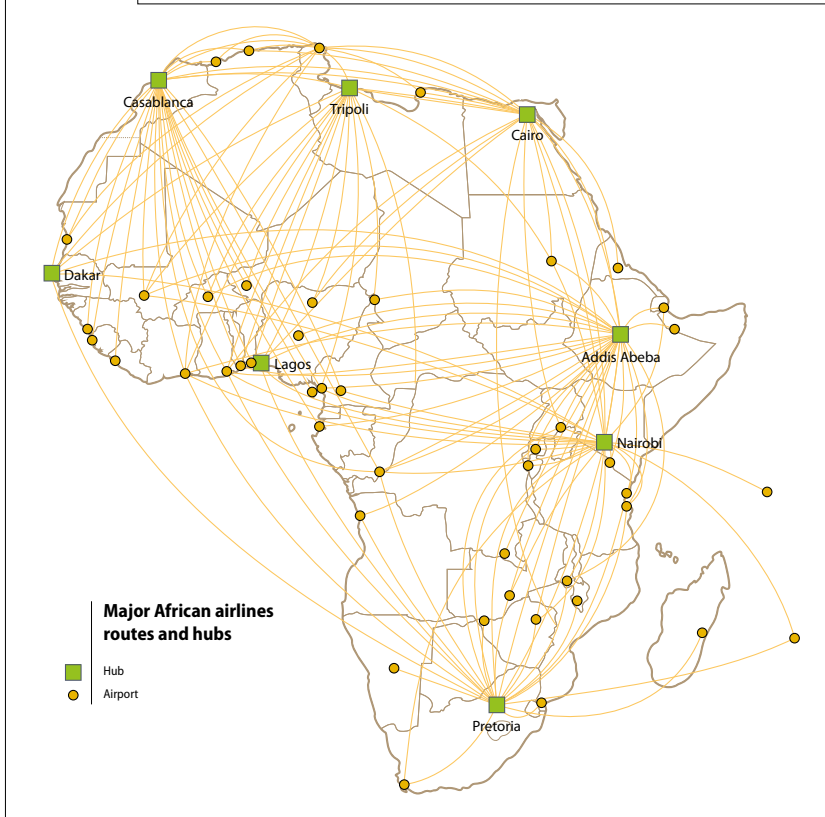
*The African share of global air travel grew from 2.7 to 3.9% between 2005 and 2011.*

Despite the high costs, Africa's ● **share of global air passenger traffic** has grown, reaching 3.9% in 2011. However, it is dominated by domestic (39%) and inter-continental traffic (49%). Air traffic among African countries accounts for only 12% of passengers, indicating a possible bottleneck to regional integration.

The proliferation of international airlines (many of them subsidised) has made it difficult for African airlines to develop their markets. Weak management and a lack of privatisation have limited capital investment and left most airlines excluded from the loyalty programmes enjoyed by international carriers. As a result, African airlines lag behind on technological upgrades and fleet modernisation. Under the 1999 Yamoussoukro Decision, African countries agreed to liberalise international air travel and allow competition for national carriers. In practice, however, the only countries to have implemented this agreement are those without national airlines to protect.

Both passenger and cargo traffic are highly sensitive to global economic cycles. In spite of the global financial crisis, however, the ● **number of carrier departures in Africa** rose from 553 000 in 2005 to 761 000 in 2011 — an increase of more than a third.

**Figure 1.5 Africa needs better air connectivity**



This growth is linked to the development of regional air transport hubs, including airports in Morocco, Cairo, South Africa, Ethiopia and Kenya. International airlines prefer to route passengers and cargo through these hubs, rather than travelling directly to smaller

**Box 1.4 Power pools provide cheap and reliable energy**

In the coming years, power grids in East and Southern Africa will be connected into a single regional power pool. A transmission line running through Tanzania and Zambia will connect the Southern African Power Pool and Eastern Africa Power Pool, making it possible to trade energy among 24 countries. An enlarged power pool will enable member countries to share, and in some cases postpone, investments in generating capacity and to maintain narrower reserve margins, thereby lowering operating costs. It will also enable burden sharing and back-up support, providing more reliable power supply for millions of people.

Where growth in electricity demand is high, joint regional planning of investments can generate enormous savings. In Southern Africa, the regional integration of investments is expected to result in savings of at least \$4 billion (equivalent to 5% of total system costs) over a 20-year period. Not all power needs, can be planned at the regional level, however, and regional power pools must be built on a foundation of sound national and local planning.

national airports. Subsidised airlines — such as Middle-Eastern carriers — still fly to a wide range of African capitals. However, this also creates additional competitive pressure for African domestic airlines.

**Energy**

Africa faces a huge power deficit. With a combined population of 800 million, the 48 countries of sub-Saharan Africa generate roughly the same power output as Spain, a country of 45 million. Africa's **total electricity consumption** increased from 666 KWh to 690 KWh per capita between 2005 and 2011, but remains at just 170 KWh among low-income ADF countries. This is barely enough to run a single light bulb per person for a few hours a day. In many parts of the continent, this figure is decreasing with population growth. The household electrification rate is 42.7% for Africa, but this falls to just 10% in rural areas. Thirty African countries face regular energy shortages and energy costs are extremely high, particularly in rural areas relying on off-grid power. The lack of reliable and affordable energy supplies is a major impediment to economic growth.

Paradoxically, the continent is experiencing an energy boom, with vast oil and gas reserves discovered in Eastern and Western Africa. Yet without substantial regional and national reforms, these discoveries will not improve continent's energy security.

In addition to the needs for investments in hard infrastructure, there is an urgent need to foster the development of regional power pools. By jointly planning their networks and introducing equitable cost sharing, neighbouring countries can increase capacity and reliability, and develop economies of scale that would translate into more affordable pricing. Regional power pools can also help to attract investment into the electricity sector — although regional projects tend to be more complicated than national ones. Ultimately, this would lead the development of a continental energy market with coordinated supply systems.

There have been a few major investments in regional energy infrastructure, including the Ethiopia-Djibouti and Ethiopia-Kenya connections, as well as the 300 KV Nigeria-Benin coastal transmission backbone, which when completed will link the West African coastal states of Côte d'Ivoire, Ghana, Nigeria, Benin and Togo. However, the development of regional power pools also requires the reform and harmonisation of national power regulations and the development of dispute resolution mechanisms, which to date have been slow. So far, only Southern Africa has made the transition to a competitive regional power market. In Central, East and West Africa, power pools are still making the transition from planning to implementation, although there is bilateral electricity trade in those regions.

Africa has more than half of the world's renewable energy potential. Its wind, geothermal and hydropower potential has barely been tapped. For example, the Inga Dam in the Democratic

Republic of Congo has the potential to produce 100 000 MW of electricity, yet currently yields a mere 650-750 MW. Africa's huge gaps in conventional energy infrastructure make it well-placed to pursue low-carbon solutions. Those who rely on diesel generators currently pay around \$1 per kilowatt-hour. In contrast, photovoltaic solar energy production could cost as little as 20 cents. Small-scale, off-grid, clean energy solutions may be the most cost-effective means of bringing energy to remote populations. Developing these options will require substantial investment, however, as well as solutions to obstacles such as insecure property rights, unclear regulatory frameworks and unfavourable tariff structures.

### Information and communication technology

ICT is an important element of regional integration and access to global markets. Telecommunications are a key input for business engaged in regional and international trade. Faced with high transport costs for their physical outputs, some African countries (such as Rwanda) have even identified the potential for exporting services by building a knowledge-based economy. This calls for first-class information and communication technology connections.

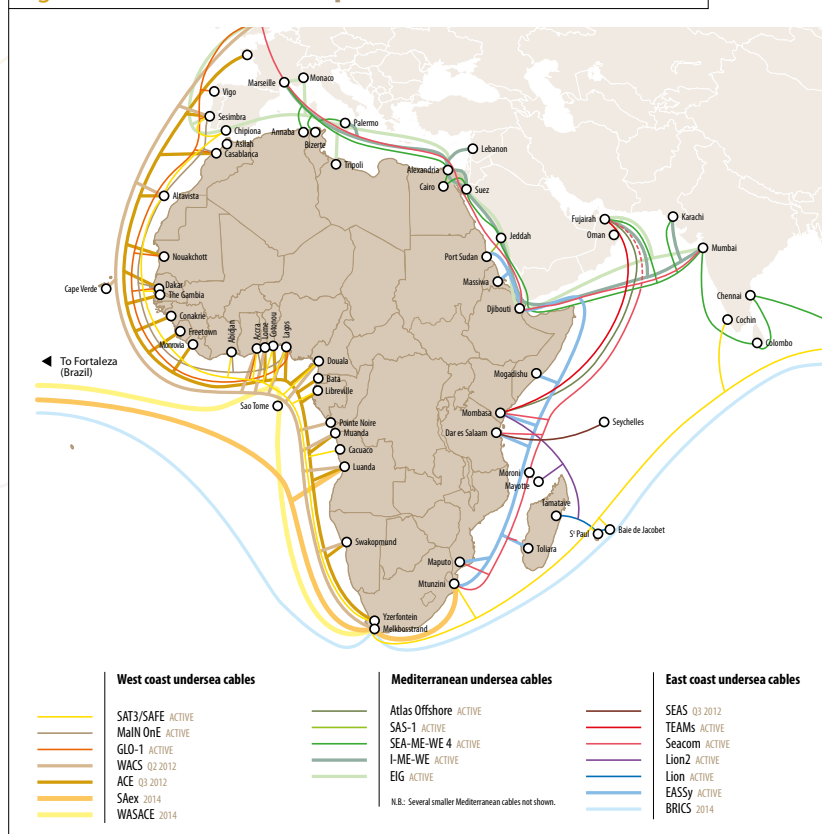
Africa's data network is increasing rapidly. In 2011, there were 19 **undersea cables connecting the continent** to the rest of the world, up from 3 in 2005. **Cumulative capacity** or bandwidth increased from 2.9 to 102 terabits. While Africa's **share of secured internet services** globally decreased from 2.74% to 2.49% between 2005 and 2011, in the face of rapid growth in other regions, the absolute **number of secure services** more than doubled from 16.1 to 34.2 million for Africa as a whole, and rose from 0.4 million to 2.2 million for low-income countries.

Voice networks are also growing rapidly. By 2011, 559 people in every 1000 across the continent had **fixed and mobile phone subscriptions**. Africa is leapfrogging fixed-line networks and moving directly to mobile technologies. Indeed, with the support of Chinese phone giant ZTE, Angola's capital Luanda will soon benefit from high speed 4G services, ahead of much of Europe and the US.

Some African countries are expanding into satellite communications technology. For example, Nigeria has established NigComSat, an independent company charged with managing the commercial and business operations of communication satellites. In December 2011, with Chinese support, it launched NigComSat-1R, a hybrid geostationary satellite with a 15-year lifespan that is providing Nigerians with improved and cost-effective telephone, television and internet coverage. Ghana also launched a Space Science and Technology Centre in May 2012, which will plan satellite programmes over the coming years.

Unlike many other areas of infrastructure development, investment in ICT is largely private-sector driven. However,

Figure 1.6 African fibre optic undersea cables



there are major differences in the levels of financing available between coastal and landlocked countries. With lower levels of income and larger, more rural populations, landlocked countries are less attractive prospects for investors. This suggests a need for continuing public investment to create incentives to extend services to rural areas.

Across the world, telecom regulators play an important role in ICT infrastructure development, overseeing market structure and the introduction of new technology. Ideally, African governments should be setting telecommunications policies, while regulatory agencies implement them and the courts review and enforce them. In practice, many African countries have yet to agree on key division of roles. In several cases, private investment is being held back by regulations that favour public providers.

### Meeting cross-border challenges

Like all other regions, Africa faces a series of cross-border challenges that can be addressed only through regional collaboration. These include adapting to climate change, managing regional water resources and supporting regional labour markets through the development of networks of higher education institutes. Such challenges require both enhancement of national capacity and inter-governmental structures to facilitate joint initiatives and shared investments. There is always a risk, however, that regional needs will lose out to urgent national priorities.

**Climate change and adaptation** – Africa has experienced many extreme weather events and environmental changes in recent years, many of which can be linked to broader changes in the climate globally. There have been acute food shortages owing to failed or erratic rainfall and declining soil fertility, together with flash flooding. Infectious disease outbreaks are often a cross-border phenomenon. Competition for declining natural resources has increased, in some cases leading to conflict. The preservation of Africa's forests, with their significant capacity to store carbon dioxide, is a global public good. These challenges are beyond the capacity of any single country to address, and call for regional or international cooperation.

*Many of Africa's most important natural water sources, including lakes and rivers, are shared by two or more countries.*

The African Union has been leading the development of a common position on climate change, through the Committee of African Heads of State on climate change and the Africa Group of Negotiators. During the United Nations Framework Convention on Climate Change negotiations in Durban, African leaders called for greater resources for climate change mitigation and adaptation. Alongside financing, the continent will need strengthened institutional capacity, policies and regulatory frameworks to respond to climate change and other trans-boundary environmental issues. RECs are increasingly playing a pivotal role in these efforts.

Key indicators related to CO<sub>2</sub> emissions and the environment across the continent show some promise. Africa has enormous potential

#### Box 1.5 Addressing water shortages through regional cooperation

Many parts of Africa are facing a water crisis. The continent's vast lakes, extensive rivers and widespread ground water are threatened by various phenomena, including high rainfall variability and climate change, desertification, deforestation and other environmental degradation. Because the continent's most important water resources span national boundaries, they lack effective governance arrangements and adequate investment in their protection and development.

The Africa Water Vision for 2025 sets out an agenda for addressing this crisis. Developing through a participatory process launched in 1999, it calls for new ways of thinking about water management, with a particular focus on regional cooperation. Its Framework for Action calls for improved governance of water resources, improved 'water wisdom', measures for meeting urgent water needs and the strengthening of the financial base for the future.

Since then, under the guidance of the African Ministers' Council on Water, 18 countries have adopted integrated water resource management plans in line with the Water Vision.

for green growth with ● carbon dioxide emissions having increased only slightly between 2005 and 2011, and ● forest areas remain stable. ● Urban pollution has also declined. This suggests real potential for Africa to follow a green growth trajectory.

**Agriculture and cross-border water management** – Many of Africa's most important natural water sources, including lakes and rivers, are shared by two or more countries. With 82% of the continent classified as arid or semi-arid, water is a scarce resource. It is vital for Africa's agricultural development. If it is not managed well and equitably, it can become a source of conflict.

Africa's regions have established a number of intergovernmental commissions to manage trans-boundary water resources, such as the Nile Basin, Lake Victoria and Lake Chad. These commissions facilitate joint decision making on the protection, development and use of these resources and promote investment in shared infrastructure.

For example, the Gambia River Basin Development Organisation brings together the governments of Senegal, the Gambia, Guinea and Guinea-Bissau to agree on the rational management of shared river basins and to address joint economic and environmental challenges in a sustainable way. Outcomes to date have included increases in grain yields of 10% and livestock production by 16%.

Similarly, the Commission for Controlling Desert Locusts in the Western Region is a joint initiative by the governments of Mauritania, Mali, Niger and Chad to promote food security and environmental protection by preventing desert locust invasions. It has been implementing a research programme on the use of bio-pesticides, as well as developing new systems for environment monitoring.

Agriculture plays a vital and strategic role in Africa's development. It is central to economic growth, increased incomes, improved living standards, poverty eradication, and enhanced food security. Recent indicators are positive. Between 2005 and 2011, the ● stable crop yield increased from 110 to 115 and the ● value added per agricultural worker from 877 to 1308.

In 2002, responding to strong interest from African governments to put agriculture at the forefront of the region's development agenda, the African Union Commission and the New Partnership for Africa's Development (NEPAD) Planning and Coordination Agency launched a process to develop an Africa-wide strategy agenda for rural growth and poverty reduction. This became known as the Comprehensive Africa Agriculture Development Programme.

Comprehensive Africa Agriculture Development Programme aims to help African countries reach a higher path of economic growth through agriculture-led development. Through NEPAD, Comprehensive Africa Agriculture Development Programme addresses policy and capacity issues right across the continent,

and in all areas of agriculture. The Comprehensive Africa Agriculture Development Programme is entirely African-led and owned and represents African leaders' collective vision for agriculture, which is to eliminate hunger and reduce poverty through average annual growth rate of 6% in the sector by 2015. To achieve this, African governments have agreed to increase public investment in agriculture to a minimum of 10% of their national budgets and to raise agricultural productivity by at least 6% every year.

**Higher education and pan-African knowledge generation** – To compete effectively in the global economy, Africa needs a critical mass of human capital, particularly in scientific and technical areas. Elite institutions for tertiary education are very difficult for most African countries to develop on a purely national level. This is an area where regional cooperation brings obvious advantages. Traditionally, however, it has been held back by the linguistic divide between Francophone and Anglophone countries. Africa needs to build tertiary institutions capable of bridging this divide and excelling internationally.

While there has been a major drive to boost primary education, and more recently secondary education, across sub-Saharan Africa, the tertiary level has suffered from relative neglect. Yet, it has a critical role to play in improving economic performance and reducing poverty. Higher education can help foster a more entrepreneurial society with increased rates of saving and investment. Many observers attribute India's economic dynamism to its sustained efforts to provide high-quality, technically oriented tertiary education to its citizens. Africa has seen recent growth in **enrolment in tertiary education**, from 6.6% to 8.0% between 2005 and 2011, but needs to increase both the volume and the quality of the education and training on offer.

As regional integration progresses, the RECs will need to give more attention to how to develop a knowledge economy and to compete with more technologically advanced economies. They need to build a pool of highly skilled individuals capable of operating at the regional level, across the Anglophone-Francophone fault line.

## Conclusion

We still have much to do before the vision of an economically integrated Africa can become a reality. There is no question that Africa's leaders recognise the importance of regional integration to sustainable development. Yet the structures and processes required to transform this commitment into sustained action will need to be strengthened.

The continent continues to face a vast infrastructure deficit. While initiatives such as the Programme for Infrastructure Development in Africa and large-scale investments by China and other emerging economies have boosted the rate of investment, they still fall well short of the need. As a result, Africa's many landlocked countries and remote regions face enormous barriers to realising their economic potential.

*Elite institutions for tertiary education are very difficult for most African countries to develop on a purely national level.*

The RECs have made some real progress in harmonising national regulations on the movement of goods, services, labour and capital. However, the complexities of the regional architecture and the lack of strong national commitments to supporting regional initiatives mean that an array of 'soft' barriers still stand in the way. As a result, regional trade has been growing, but not at the pace seen in other developing regions. Labour mobility is still limited by restrictive visa regimes. The various monetary unions are an ideal stepping stone for further regional integration in Africa, although actual financial integration is occurring only slowly.

There are some bold initiatives underway, such as the merger of COMESA, EAC and SADC into a single free-trade area; the continued progress of monetary union in West Africa and the merger of the Eastern and Southern African Power Pools. In the coming years, as these efforts demonstrate the huge gains available from regional integration, we would expect to see the pace of integration accelerate ■



**Supporting young people**

The Bank is redoubling its efforts to promote technical and vocational training in science and technology, to help young people access the labour market and ensure that African economies have the skills they need to be internationally competitive.

# Level 2: How AfDB contributes to regional integration

**A**s Africa's premier development finance institution with a major infrastructure portfolio, the AfDB is well-positioned to play a lead role in fostering economic integration on the continent. Under its 1999 Vision Statement, the Bank committed itself to promoting economic integration and cooperation as a core objective. In 2000, the Bank adopted a new policy on Economic Cooperation and Regional Integration, addressing how it would help its Regional Member Countries compete in the global market. In 2006, we established a dedicated department to promote regional integration (ONRI). Our Regional Integration Strategy 2009–2012 provides a comprehensive framework for our approach. In the current period, we have committed 28% of our African Development Fund resources to regional operations.<sup>1</sup>

This is not, however, the full extent of the Bank's contribution to regional integration. Many of our operations that are financed purely on a national basis also contribute to regional integration goals, such as building national segments of road corridors or investing in port facilities. Our private-sector operations have also made an important contribution to regional integration, particularly in the information and communication technology sector. Given the many actors across Africa — firms, national governments, RECs, Africa-wide institutions — that are engaged in promoting regional integration, it is difficult to attribute results specifically to the Bank's endeavours. This chapter can therefore only offer some of the highlights of our contribution in this complex field.

This chapter presents the aggregate results of our regional and multinational projects that reached completion between 2009 and 2011. Data from our Results Measurement Framework is presented together with a simple traffic-light rating, indicating our level of progress towards our overall targets.

## The Bank's approach to regional integration

Regional integration has been part of the Bank's mandate since its creation in 1963. Over the past decade, we have developed a more systematic and focused approach to this goal. Our Regional Integration Strategy 2009–2012 now provides a comprehensive framework for our efforts. It focuses on strengthening integration policies at the national and regional levels, addressing capacity constraints and building regional infrastructure, recognising all these areas as mutually reinforcing. It also includes targeted support for promoting regional public goods (cross-border challenges like climate change), regional financial integration and aid for trade. In addition, it identifies a mix of funding instruments and delivery mechanisms, including technical support and policy advice to RECs and their member governments, in line with the Bank's triple role as catalytic financier, knowledge broker and partner.

We have developed a range of strategies and guidance to help ensure greater selectivity and focus in our regional investments.

For example, our Regional Operations Selection and Prioritisation Framework provides guidelines on selectivity, promoting ownership and maximising impact in regional operations. It sets forth criteria for choosing multinational investments, such as strategic relevance and demonstration effects.

*One-third of our private-sector operations have a strong regional dimension.*

Regional integration is also an important theme in our private-sector operations, with over a third of our non-sovereign lending having a strong regional dimension. These include infrastructure projects, lines of credit to regional banks and development finance institutions, and support for multi-national equity funds. Our private-sector operations play a catalytic role in development finance. We are particularly well-positioned to promote public-private partnerships, which help to mobilise private investment into regional networks

<sup>1</sup> The 28% contribution is based on a 20% set-aside as well as resources from the performance based allocation.

Table 2: How AfDB contributes to regional integration in Africa (Level 2)

This table presents the contribution the Bank is making to regional integration through its operations in Africa. The Bank's performance is measured by comparing expected and actual achievements for all operations that have been completed between 2009 and 2011:

- Bank operations achieved 95% or more of what was expected at the beginning;
- Bank operations achieved 60%–94% of what was expected at the beginning;
- Bank operations achieved less than 60% of what was expected at the beginning;
- Data are not available to measure performance.

INDICATOR	2009–2011		
	Expected	Delivered	Percentage delivered
<b>TRANSPORT</b>			
<span style="color: green;">●</span> Roads constructed, rehabilitated or maintained (km)	4080	4080	100%
<span style="color: orange;">●</span> Feeder roads constructed or rehabilitated (km)	280	230	82%
<span style="color: green;">●</span> People with improved access to transport (number in thousands)	1 430	1 430	100%
<b>POWER</b>			
<span style="color: green;">●</span> Length of transmission and distribution lines rehabilitated or installed (km)	7667	7665	100%
<span style="color: green;">●</span> Distribution substations and transformers constructed or rehabilitated (number)	28	51	182%
<span style="color: red;">●</span> People with new electricity connections (number)	8570	750	9%
<span style="color: green;">●</span> Staff trained/recruited in the maintenance of energy facilities (number)	1680	1690	101%
<span style="color: green;">●</span> People benefiting from new electricity connections (number in thousands)	595	595	100%
<b>PRIVATE SECTOR AND ICT</b>			
<span style="color: green;">●</span> Micro enterprises created (number)	581	581	100%
<span style="color: green;">●</span> Government/NGO staff trained in microfinance management (number)	285	285	100%
<span style="color: grey;">●</span> Government revenue from investee and sub-projects (UA m)	..	496	..
<span style="color: grey;">●</span> Jobs created (number)	..	55 430	..
<span style="color: grey;">●</span> Jobs created for women (number)	..	9540	..
<b>TRANS-BOUNDARY WATER MANAGEMENT AND AGRICULTURE</b>			
<span style="color: green;">●</span> Households with access to water (number)	1827	1827	100%
<span style="color: green;">●</span> Rural marketing and production facilities constructed or rehabilitated (number)	515	575	112%
<span style="color: orange;">●</span> Land whose use has been improved: replanted, reforested, landscaped, etc. (ha)	183 150	163 030	89%
<span style="color: green;">●</span> Rural population trained/recruited/using improved technology (number)	26 000	31 700	122%
<span style="color: green;">●</span> Agricultural inputs provided (Ton)	241 000	241 000	100%
<span style="color: green;">●</span> Total population benefited (number, thousand)	2009	2007	100%
<span style="color: green;">●</span> Boreholes, wells and sanitation infrastructures constructed or rehabilitated (number)	388	391	101%
<span style="color: green;">●</span> Staff trained/recruited in the maintenance of water facilities (number)	390	390	100%
<span style="color: green;">●</span> Latrines constructed or rehabilitated (number)	2500	2500	100%
<b>HUMAN CAPITAL DEVELOPMENT (HEALTH, EDUCATION, WATER AND SOCIAL SECTORS)</b>			
<span style="color: green;">●</span> Health workers trained (number)	7569	7679	101%
<span style="color: green;">●</span> People with access to better health services (number, thousand)	1207	1207	100%
<span style="color: red;">●</span> Primary, secondary and tertiary health centres constructed/equipped (number)	53	31	58%
<span style="color: orange;">●</span> Students newly enrolled (number)	16 000	14 700	92%
<span style="color: green;">●</span> Teachers and other educational staff recruited/trained (number)	200	460	230%
<span style="color: green;">●</span> Social facilities established or rehabilitated (number)	347	396	114%

.. = data not available; ICT = Information and Communication Technology; NGO = Non-Governmental Organisation.

Source: African Development Bank.

and are an important complement to our own investments. Indeed, we increasingly approach our own investment projects as levers for mobilising capital from other partners, both new and traditional.

Our priorities in each region are elaborated through five-year Regional Integration Strategy Papers (RISPs). So far, four RISPs have been prepared, covering West, Central, East and Southern Africa, with the RISPs for North Africa in the pipeline. Our RISPs are closely aligned to the regional development objectives agreed in each REC, and tailored to address the specific challenges of each region. They are prepared in close consultation with the RECs and their member states, and are designed to support existing institutions and processes. The strategies identify the main priorities in each region, explore capacity needs in the RECs and member states and propose collaborative action, such as management of shared environmental resources or adaptation to climate change.

The RISPs guide the development of our Country Strategy Papers for that region. They ensure that future investment decisions take into account regional integration needs.

For example, the Central African region is home to the Congo Basin, the second-largest forestry and water resource in the world. Our Central African RISP therefore focuses on improving the management of these resources, as well as meeting other infrastructure needs. One of our flagship regional projects is the Congo Basin Ecosystems Conservation Support Programme. This is a \$49 million initiative to protect bio-diversity within this unique ecosystem while improving living conditions for the population, by helping to build up the institutions responsible for implementing the Central Africa Forests Commission Convergence Plan. We are also planning significant investments in the Central African Consensual Transport Master Plan and the Central Africa Power Pool.

Eastern Africa is the largest of Africa's RECs, with four landlocked countries, making regional planning of infrastructure a critical need. Our RISP focuses on strengthening the role of the various Eastern African regional communities and intergovernmental bodies, including COMESA, the Inter-Governmental Authority on Development and the Indian Ocean Commission. Among our major infrastructure investments in the region, we are supporting the 438 km Mombasa–Nairobi–Addis Ababa Road development with a \$323 million loan. The project will improve transportation communications between Kenya and Ethiopia, reducing shipping time and costs and helping to promote the port of Mombasa as a cost-effective alternative for Ethiopian trade. We also have an active private-sector portfolio, providing lines of credit to the East African Development Bank in Kampala, Uganda and the Eastern and Southern African Trade and Development Bank in Nairobi, Kenya. Our position as one of the largest shareholders in both institutions helps us play an important role in promoting financial integration across the region.

Southern Africa is the most advanced region in terms of regional integration. Two prominent RECs are leading the process: the

Southern African Development Community (SADC) and Common Market for Eastern and Southern Africa (COMESA). There are also active intergovernmental bodies, including the Regional African Satellite Communications Organisation and the African Oil Fund. The RISP for Southern Africa draws on the COMESA-EAC-SADC Tripartite Agreement, as well as the integration work programmes in SADC and COMESA. It prioritises regional infrastructure and capacity building, and helps support regional cooperation in areas such as macroeconomic convergence and knowledge management. One of our flagship regional operations in Southern Africa is the Nacala Road Corridor Project (\$324 million), which is providing Zambia, Malawi and Mozambique with improved road access to the Nacala Port, while helping local communities access to markets and services. Given the economic weight of South Africa, we have a strong private sector portfolio in this region, including energy generation (hydroelectricity and other renewables) and lines of credit to various South African banks.

*One of our flagship regional operations is the Nacala road corridor project, which provides Zambia, Malawi and Mozambique with access to the Nacala port.*

With its major natural-resource endowments, there is a compelling case for economic integration in West Africa. The region has made important progress. It established free trade-zones in 2004, followed by a customs union, a framework for the free movement of persons, an ECOWAS passport and the transformation of the ECOWAS Secretariat into a strengthened ECOWAS Commission. The Bank's RISP focuses on linking regional markets and building capacity for implementation of the regional integration agenda. It is aligned with the ECOWAS Vision 2020 and the Regional Strategic Plan. Among our regional operations, we have supported the West African Monetary Zone Payment System (The Gambia, Guinea and Sierra Leone) with

#### **Box 2.1 The Bank is fostering regional integration by strengthening the capacity of RECs**

The Bank works closely with the Regional Economic Communities (RECs) to foster regional integration. This can include harmonising financial policies and regulations at both national and regional levels to facilitate cross-border financial flows and enhance trade. The Bank is also helping to strengthen inter-REC cooperation to speed up the implementation of regional trade agreements. At present, slow implementation of agreements on issues such as rule of origin is adding significantly to the cost of cross-border trade. The Bank is also supporting trade facilitation through a range of measures. We are helping to improve transport and logistics, simplify customs procedures and provide capacity building in support of the implementation of trade agreements. We are helping to develop private enterprise, particularly in export sectors that have been hit hard by the financial crisis. We are also helping to monitor aid for trade programmes at the regional level.

a \$21 million project helping to develop a single currency and harmonise payments systems among the members. We also provided over \$100 million in lines of credit to the West African Development Bank.

*The Bank is supporting the West African Monetary Zone Payment System, which will develop a single currency and harmonise payments systems among the members.*

Our North African RISP was delayed by recent political events in the region, but a background publication on unlocking North Africa's potential through regional integration has been prepared and the RISP is due to be finalised in 2013. Before the recent political upheaval, North Africa was the continent's most economically buoyant region. It plans to establish a free trade-zone, followed by a customs union, a common market and eventually an economic community. Among our regional initiatives, we are helping to build the capacity of the Arab Maghreb Union (AMU), which has been the major driver of dialogue and cooperation in the region.

### Transport

Inadequate infrastructure is restricting the ability of Africa's private sector to grow, consolidate internal markets and create value chain through regional production networks. In particular, it is holding back the growth of labour-intensive manufacturing, which is one of the keys to promoting inclusive growth on the continent.

The AfDB has adopted trade and transport facilitation as a tool for regional integration. This includes measures to facilitate the free flow of traded commodities, passengers and vehicles across borders. Under the 2009 regional integration strategy, our trade and transport facilitation activities cover both 'hard' and 'soft' infrastructure activities.

*Across the continent, 1.43 million people enjoy improved access to transport as a result of our investments.*

Our investments in transport linkages and connectivity between countries aim to help Africa consolidate its internal market and enhance efficiency through the sharing of regional resources. Our priorities include building, rehabilitating and maintaining regional corridors, trunk and rural roads and railways, together with transport-related information and communication technology infrastructure. Some of our private-sector investments also promote the development of regional transport (see Box 2.2 on our support for Ethiopian Airlines).

Our transportation portfolio is closely aligned with other policy priorities, such as urban development. Under our

### Box 2.2 The Bank is investing in African airlines and networks

Air travel between African countries is challenging, and often passengers need to transit Europe or the Middle East. The Bank is helping Ethiopian airlines to expand its fleet by providing a corporate loan to finance its 2010–2018 investment plan. This investment in fleet modernisation will improve fuel efficiency, enhance African and international connections and facilitate African trade and investment. The investment is also intended to increase competitiveness and therefore the profitability of Ethiopian Airlines, which has experienced consistent revenue and passenger growth in recent years. The investment is expected to pay off through increased foreign exchange earnings and tax revenues for Ethiopia, while promoting regional integration.

Urban Development Strategy 2011–2015, we are preparing transportation projects in several African cities, to promote the development of urban economic hubs.

Between 2009 and 2011, the Bank completed 51 transport projects valued at over \$3 billion, covering road, airport, sea port and railway infrastructure. They included the ● **construction, rehabilitation or maintenance of over 4000 km of roads**<sup>2</sup>, including several bridges. Across the continent, 1.43 million people enjoy ● **improved access to transport** as a result of our investments.

One important multinational project was the construction of the Kankan-Kouremale-Bamako road. By improving road connections between economic and administrative centres in Guinea and Mali, this project has reduced transport costs and promoted economic activity. Two bridges were built over the Niger and Tinkisso Rivers, as was 87 km of road. This was accompanied by investments in the local environment, including in irrigation facilities and tree planting.

Looking ahead, the Bank approved a further eight transport projects in 2011, of which five are multinational. They include the construction of the Trans-Gambia Bridge between Senegal and The Gambia, with associated border improvements. We will invest in a road corridor between Mombasa, Nairobi and Addis Ababa in Kenya and Ethiopia and the Kazungula Bridge project connecting Zambia and Botswana. We will help to rehabilitate the Lomé-Cotonou Road between Benin and Togo, and we are one of the financiers of the Rift Valley Railway Project linking Kenya and Uganda.

Maintenance is vital to the sustainability of transport infrastructure, but it has often received insufficient attention and resources. We have therefore helped to establish second generation road funds and semi-autonomous road agencies (or authorities) across the continent, to ensure that maintenance is given due attention. At the project level, the Bank's project preparation teams check capacity within the responsible authorities to provide the necessary supervision and maintenance

2 A green bullet indicates that the Bank's operations achieved more in 2011 compared to 2005.

through the project lifecycle. They also assess existing funding mechanisms for maintenance (e.g., road funds) and advise on how these could be improved.

Africa can also improve the sustainability of its transport infrastructure by using environmentally sound technologies and innovations. This makes good economic sense, too. It can be prohibitively expensive to retrofit or replace infrastructure with environmentally sound alternatives at a later point. Opting immediately for more sustainable solutions can also attract new and additional funding. Our environmental assessment policies help to ensure that all the projects we invest in pay due attention to the environmental dimension.

Road safety is a major concern across Africa. The human and financial cost of road accidents is horrendous, estimated at up to 5% of Africa's GDP. In 2010, road accidents cost \$26 billion — nearly the same as the total of aid for infrastructure in Africa. The Bank is working with other development partners on a decade action plan to improve road safety management, ensure safer road infrastructure and vehicles, promote safety for drivers and other road users, and develop appropriate post-accident response capacity. In the meantime, the Bank is promoting initiatives involving local communities and community-based organisations in monitoring conditions along road corridors, with a focus on preserving road signs and sensitising communities to safety.

## Energy and climate change

Africa has contributed far less than other regions to climate change, but is expected to suffer disproportionately from its impact. In view of this vulnerability, there is an urgent need to invest in building up adaptive capacity, to help reduce the risks to communities and enhance the potential for sustainable growth.

The Bank is strongly committed to helping Africa achieve a green development path. Consistently with our climate change action plan, we are promoting clean and modern energy technologies and services. At the same time, we are helping Africa overcome its huge deficit in electricity generation capacity. At present, the 42 countries of sub-Saharan Africa, with a combined population of 800 million people, generate roughly the same power output as Spain, a country of 45 million. The resulting lack of affordable and reliable electricity is a major brake on private-sector development.

At the pan-African level, we have worked with the African Union to convene the Conference of Energy Ministers of Africa. This new, high-level body will streamline inter-governmental coordination and promote harmonised energy policies and strategies across the continent.

We are developing a new energy policy that will help African countries boost their energy capacity in a socially, economically

### Box 2.3 How the Bank is prioritising green growth in Africa

The Bank is preparing a Long-Term Strategy setting out the kind of development organisation it will strive to become over the next decade. One of the Bank's long-term objectives is to promote inclusive and green growth. The Long-Term Strategy envisages that, while African countries will gradually transition towards greener growth and become less carbon-intensive, the transition pathway will be unique to each country. The Bank will therefore have to adapt its support to the national context. Some countries have already embarked on bold green growth strategies that recognise the imperative of adapting to climate change as an opportunity for promoting jobs and wealth creation. Early adopters such as Ethiopia, Mozambique, South Africa and Rwanda are showing the way.

and environmentally sustainable manner. The objectives of the strategy will include energy security and access for all; a cleaner, climate-resilient energy growth path; a pro-poor focus with enhanced governance; and increased and innovative financing. Two priority areas — ensuring access to modern energy, and fostering clean energy investments — will form the backbone of our energy portfolio.

Between 2009 and 2011, we helped to ● **rehabilitate or install 7665 km of transmission and distribution lines** and 51 ● **distribution stations and transformers**. Nearly 600 000 ● **people benefited from these investments**.

*In Central Africa, the Bank is implementing a vast biodiversity conservation programme that will lead to the creation of 14 protected areas hosting some of the world's most spectacular fauna and flora.*

Regional cooperation is vital to achieving energy security for most African countries. One example is the Ethiopia-Djibouti interconnection project. For Djibouti, this Bank-supported initiative offers the most cost-effective option for addressing its energy constraints. For Ethiopia, besides electrifying its border towns, it helps to generate foreign-exchange revenue to support the government's electrification programme. The project will provide clean, cheap and reliable energy to 12 towns in Ethiopia, while meeting a large share of Djibouti's annual energy needs. It will enable electrification of surrounding areas at little incremental cost, thus improving the local quality of life and expanding opportunities for socio-economic development.

The Bank is supporting adaptation to climate change through a series of partnership initiatives. For example, the Climate for Development Initiative for Africa, jointly implemented with the African Union and United Nations Economic Commission for Africa (UNECA), has supported the development of the Africa

Climate Policy Centre, hosted by UNECA, and the ClimDev-Africa Special Fund, a multi-donor facility managed by AfDB. The ClimDev-Africa Special Fund's activities generate, promote and share information on climate issues. As part of this process, AfDB has committed \$30 million towards strengthening the institutional capacities of four African regional climate centres.

and regulations, well-designed public-private partnerships and complementary public investments.

Under its ICT operations strategy, the AfDB has made stimulating private investment a key priority. In recent years, our concessional financing has supported the preparation of some large regional ICT projects, including the Common Market for Eastern and Southern Africa Air Space and the NAVISAT Project aimed at improving navigation and air-traffic management services to enhance the safety and efficiency of African air transportation.

Ultimately, it is hoped that investments like these will improve the efficiency of African economies and public services, as well as contribute to a more informed and engaged public. The task is enormous, however, requiring tens of billions of dollars in investments.

Our private-sector activities also include support for trade finance. In the wake of the 2008 global financial crisis, our African Governors asked us to increase our involvement in trade finance to help offset the sudden collapse in commercial financing. In early 2009, we responded to this call by establishing our first trade finance initiative. The trade finance initiative was initially designed around two main components: lines of credit to African financial institutions specifically to support the restoration African trade flows; and a commitment to funding the global trade liquidity fund, which is managed by the International Finance Corporation. Thus far, the Bank has disbursed \$450 million under this initiative and has been widely commended for its timely and robust response to restoring trade flows. The trade financial initiative will continue to support regional integration and export diversification.

### Trans-boundary water management

One of the Bank's most important contributions to regional public goods concerns the management of trans-boundary natural resources and other shared agricultural challenges. This is all the more important as 80% of Africa's water resources are shared between two or more countries. It is vital that African countries create mechanisms to manage their shared water resources effectively, as well as respond to cross-border threats like locust plagues. Regional collaboration is also needed to establish early-warning systems, share meteorological and climate data, and manage extreme events such as floods and droughts.

We offer extensive support for the establishment of collaborative frameworks for the joint development and management of regional public goods. We have supported a number of inter-governmental commissions with cross-border initiatives, including the Gambia river basin development organisation and the commission for controlling desert locusts described in the previous chapter. Through initiatives such as the lake Chad sustainable development programme, we have helped to finance joint storage reservoirs and dams, as well as systems for sharing information on groundwater resources.

*The Bank installed 7665 km of transmission and distribution lines, which benefited 600 000 people.*

We also administer the Climate Investment Fund, a fund designed to help developing countries pilot transformations in clean technology, sustainable management of forests, increased energy access through renewable energy and climate-resilient development. Having been involved with the Climate Investment Fund since its inception in 2008, the Bank is now actively supporting African nations and regions as they develop the Funds investment plans.

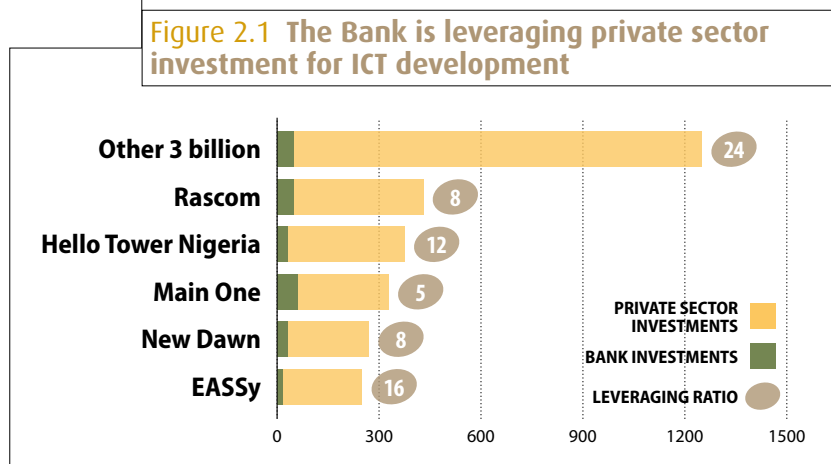
### Private sector and ICT

The Bank's private-sector operations also make an important contribution to regional integration, particularly in the ICT sector. Since 2009, regional dimensions of our private-sector investments have included the financing of small and medium-sized enterprises in West Africa through a line of credit to the *Banque ouest-africaine de développement* and support for the Lomé port expansion project. Our private-sector portfolio has helped to **establish 581 micro-enterprises**, which created 55 000 jobs, including 9500 for women.

*The Bank financed \$ 235 million in the ICT sectors which leveraged an additional \$ 2.7 billion in private sector investment.*

Information and communication technology is a sector where private investment plays a particularly important role. However, it needs to be facilitated by appropriate government policies

**Figure 2.1 The Bank is leveraging private sector investment for ICT development**



Source: Review of the Bank's information and communication technology Operations Strategy and Action Plan for the Medium Term 2012-2014

Our interventions in the water sector are guided by our integrated water resources management policy. This is now being revised to reflect new challenges such as climate change and to incorporate new opportunities for promoting a green growth path. We also have a rural water supply and sanitation strategy that seeks to improve water governance and access to water and sanitation services in rural areas. Through these strategies, the Bank supports African countries with implementing the Africa Water Vision 2025 (see box 1.5) and achieving their water and sanitation Millennium Development Goals.

For example, our rural water supply and sanitation initiative aims to accelerate sustainable access to improve rural water supply and sanitation facilities across Africa, with the goal of 80% coverage by 2015. We also host and manage the Africa Water Facility, an initiative of the African Ministers' Council on Water created to help countries mobilise resources. Among its many initiatives, the Africa Water Facility helps to strengthen the governance of water resources by building up capacity in African governments and regional organisations, strengthening the information base, piloting innovative approaches and attracting new sources of investment.

Between 2009 and 2011, the Bank delivered all its expected outcomes in the water sector, constructing or rehabilitating nearly 400 ● **wells, boreholes and sanitation infrastructures** and 2500 ● **latrines**. To ensure the sustainability of these investments, 390 ● **workers were trained in water facility maintenance**.

### Regional agricultural initiatives

Agriculture is the foundation of the African economy, employing 60% of the population. The continent has enormous untapped potential in this area. Some 16% of its land is arable — the highest proportion of any continent — but only 21% of this is currently being cultivated. Developing these resources is vital to improving food security and reducing rural poverty.

Agriculture is an area that benefits substantially from regional collaboration. Regional integration can help create value chains and increase productivity in agriculture products. The Bank supports a range of regional agricultural initiatives, including exchanges for agricultural goods and services, agri-business support funds and knowledge centres for agricultural research and extension. Two of our multinational projects, the promotion of science and technology in agricultural development and support to agricultural research for development of strategic crops in Africa initiatives, are providing assistance.

The Bank's agriculture sector strategy 2010–2014 guides its agricultural work, including the development of water-storage infrastructure. Aligned with the comprehensive African agriculture development programme, the agriculture sector strategy aims to promote agricultural productivity, food security and poverty reduction. Its priorities include promoting access to regional

### Box 2.4 The Banks rapid response to the African food crisis

In 2008, spiralling global food and fuel prices dealt a severe blow to food security in Africa, greatly affecting the poorest households, which spend a high proportion of their incomes on food. In response, AfDB launched its African food crisis response to provide a framework for accelerated support to those African countries that were most affected. The African food crisis response will inject an additional \$800 million into Africa's agriculture sector in the short term and \$2.3 billion over the medium to long term.

The short-term response includes budget and balance-of-payments support, the dissemination of rice seeds and additional allocations from the AfDB's Surplus Account. The medium- to long-term response will focus on improving rural infrastructure, promoting the use of fertilisers, increasing rice production, promoting trade, scaling up private-sector food security operations, conducting agricultural research and establishing a crisis response facility.

markets through rural infrastructure and extending the proportion of agricultural land under sustainable use.

The Bank is also an executing agency of the global agricultural and food security fund, a multilateral mechanism to assist in the implementation of the G20 pledges made in Pittsburgh in September 2009. It aims to improve the flow of development finance in support of national and regional agricultural and food security strategic investment plans, in order to reduce hunger and poverty.

Investments in agriculture are complemented by the Bank's work on renewable natural resources, including land, water and forests. One example is the Congo Basin Forest Fund, an innovative funding mechanism developed in partnership with the Central Africa Forests Commission and the UK Government. The initiative has developed strategies to slow the rate of deforestation, reduce poverty amongst forest dwellers and maximise carbon storage. In Central Africa, the Bank is implementing a vast biodiversity conservation programme with a budget of nearly \$60 million. The programme will lead to the creation of 14 protected areas hosting some of the world's most spectacular fauna and flora.

The Bank is also an executing agency of the Global Environment Facility. Demand for projects that protect the environment and promote sustainable development has been increasing over the past decade, as countries expand their economic activity in sectors such as tourism, agriculture, energy and transportation. The Bank and the Global Environment Facility represent an important source of funding and technical expertise for resource-limited African countries. The recently approved \$20.5 million Regional Lake Chad programme is one result of our engagement with the Global Environment Facility.

Between 2009 and 2011, our investment in agriculture ● **benefitted 2 million people** and ● **trained 26 thousand people**.

## Development of human capital

Africa's growth potential is closely tied to the development of its human capital. With two-thirds of its population under 25, Africa is the youngest continent in the world. To ensure that growth is both inclusive and sustainable, the continent needs to harness the energy and creativity of its young people by providing them with the opportunity for high-quality education and training.

The Arab Spring highlighted the dangers of youth unemployment and the need to close the education and skills gap between women and men. In response, the Bank has intensified its commitment to promoting inclusive growth. Among other things, this means ensuring that young people, including women, have the education and skills they need to succeed in the labour market.

To this end, the Bank has adopted a strong focus on higher education and on technical and vocational training. In particular, we aim to promote science and technology, to ensure that African economies have the skills base they need to be internationally competitive. Our Higher Education, Science and Technology Strategy focuses on strengthening regional and national centres of excellence, building science and technology infrastructure, and linking these to productive sectors of the economy.

*We are working to strengthen Africa's voice in global negotiations on sustainable development.*

We see considerable potential for regional centres of excellence to drive regional integration. These may be institutions located in a single country and serving a regional need, or regional networks of institutions linked through ICT. They help to ensure that the regional labour market includes the high level and technical skills that Africa needs to be competitive. They also help to build knowledge networks across national boundaries.

Examples of regional centres of excellence supported by the Bank include the *Centre Africain d'études supérieures en gestion* (Dakar), the African Economic Research Consortium (Kenya), the *Centre ouest-africain de formation en études bancaires* (Dakar), the Macroeconomic and Financial Management Institute (Zimbabwe), African Center for Economic Transformation (Ghana) and the Institute of Management (Kenya). The Bank is also helping to connect Africa to other regions to exchange best practices and conduct collaborative research.

One exciting regional effort to build human capital is the African Virtual University Multinational Project. This project developed an open distance and e-learning approach for programme development and delivery in the higher-education sector. Ten e-learning centres were established across Africa to design and develop e-learning materials, benefiting both students and university staff.

### Box 2.5 Building regional capacity to track progress on the Millennium Development Goals

The AfDB has approved a programme to provide technical assistance and capacity building support to the national statistical systems of 40 African countries. We will also support four sub-regional organisations and five statistical training centres with a regional mandate. We aim to improve the quality and coverage of official statistics at regional, sub-regional and national levels, contributing to more effective economic management and improved tracking of progress towards the Millennium Development Goals. The beneficiaries will be the producers and users of official statistics, including national statistical agencies, policymakers, businesses and investors, researchers and analysts. By promoting harmonised statistical methods and adapting international standards to suit conditions in African countries, we will also help to build African and regional networks on managing for results.

Overall, our investments in regional centres of excellence have supported the ● **enrolment of 14 700 new students<sup>3</sup>** in the 2009 to 2011 period, against a target of 16 000, as well as the ● **recruitment and training of 460 teachers and other educational staff.**

### Building regional capacity and strengthening collaboration

An important part of our regional integration work is supporting policy and institutional development at the continental and international levels.

We support Africa's participation in global policy debates, helping governments develop common positions and negotiating strategies. In the wake of the 2008 global financial crisis, we worked with United Nations Economic Commission for Africa (UNECA) and the African Union to support the Committee of Ten African Ministers of Finance and Central Bank Governors. We provided analytical and secretariat support for the committee's meetings in Cairo in November 2011, helping to consolidate Africa's position at key international events such as the 4<sup>th</sup> High Level Forum on Aid Effectiveness in Busan, South Korea (November 2011) and various G20 meetings.

We have worked with the African Union, United Nations Economic Commission for Africa and the United Nations Environment Programme to strengthen Africa's voice in global negotiations on sustainable development. In advance of key international events, we offer advisory services, technical assistance and financial resources to facilitate the work of Africa's negotiators. Our support helped to ensure that Africa spoke with one voice at the Seventeenth Conference of the Parties to the United Nations Framework Convention on Climate Change, the Seventh Meeting of the Parties to the Kyoto Protocol in Durban (2011), and the 2012 United Nations Conference on Sustainable Development in Rio de Janeiro (Rio+20).

3 A yellow bullet indicates that Bank's operations achieved the same in 2011 compared to 2005.

We have been working with the G20 and other international partners, including the European Union and the Organisation for Economic Co-operation and Development (OECD), to identify projects that, with G20 financial support, could offer quick wins on regional integration. Among the areas identified are better enforcement of trade rules, trade liberalisation measures and trade-related capacity building, as well as a range of physical infrastructure investments.

We are also building regional capacity and strengthening our networks through economic and sector work. We are supporting the African Peer Review Mechanism and the Extractive Industries Transparency Initiatives by providing technical and financial support. In the area of public financial management, we are encouraging the adoption and implementation of international standards and codes that contribute to greater accountability and transparency in the management of public resources. This is done in close collaboration with our partners such as the African Supreme Audit Institutions, Collaborative Africa Budget Reform Initiative and the African Association of Central Banks.

Making Finance Work for Africa is a major initiative bringing together African governments' development partners and financial sector stakeholders to support growth and poverty reduction through the development of the financial sector. The Bank hosts the Making Finance Work for Africa Secretariat, which on a number of occasions has helped convene donor meetings to discuss support for regional financial integration.

The Bank is also a major player in regional infrastructure development. Since 2002, we have supported 48 infrastructure projects under the NEPAD Short-Term Action Plan with loans totalling \$2.6 billion, while mobilising another \$2 billion in co-finance from other development finance institutions. Together with the African Union and NEPAD, we manage the Programme for Infrastructure Development in Africa, launched in 2010 as a result of the merger of a number of previous NEPAD and African Union initiatives. The Programme for Infrastructure Development in Africa is an Africa-wide program to establish a vision, policies and strategies for infrastructure development and a programme of high-priority investments up to the year 2040.

We have also developed a Trade Facilitation Framework and accompanying Institutional Capacity Building Framework to maximise our investments in 'soft' infrastructure. With the World Trade Organisation and United Nations Economic Commission for

Africa (UNECA), we support the aid for trade programme for Africa. We are helping to maximise trade opportunities by improving market access, strengthening the business environment and helping RECs and their member states to negotiate trade deals.

## Conclusion

While the AfDB has been committed since its founding to promoting regional economic integration in Africa, its strategies and approaches have become increasingly focused as the regional integration agenda has gained momentum. We have an overarching policy framework in our Regional Integration Strategy 2009–2012 and a set of priorities tailored to the needs of each region in our RISPs.

We are extremely active at the continental level. We help African governments speak with a single voice in key international fora. We are helping to build the institutional architecture — such as the Committee of Ten African Ministers of Finance and Central Bank Governors and the Conference of Energy Ministers — needed for Africa to address its shared challenges.

We are a major player in regional infrastructure development. We manage the Programme for Infrastructure Development in Africa together with the African Union and NEPAD. We are helping to build transport connections among countries, linking producers to regional markets and major ports. We are investing in regional power pools, to help promote energy security and reduce electricity costs. We have helped develop policies and frameworks for managing trans-boundary water resources and to mobilise international finance for investments in clean energy and climate-resilient development. We are helping to create regional centres of excellence in higher education and vocational training, spanning Anglophone and Francophone countries, to provide Africa with the skills it needs to compete internationally.

We are also investing in the 'soft' infrastructure needed to support regional integration, with a strong focus on trade facilitation. We are helping to strengthen and harmonise national regulations on trade, remove barriers to market access and create the national and regional institutions required for better management of regional infrastructure.

Overall, our multinational portfolio has achieved the majority of the targets we set for ourselves, with good prospects for continuing improvements in the coming years ■



**Building regional power pools**  
The Bank is supporting the merging of the Southern-African and the Eastern-African power pools which will make it possible to trade energy among 24 countries.

# Level 3: How well AfDB manages its regional integration initiatives

**T**his chapter assesses how well the Bank manages its operations in support of regional integration. It looks at the overall performance of the portfolio, the quality of our project designs and our compliance with aid effectiveness principles. It describes some of our efforts to generate new knowledge and build capacity on regional issues, and assesses whether our projects are advancing the Bank's cross-cutting policy commitments in areas like gender mainstreaming and climate change.

We note that the profile of our regional portfolio has changed dramatically over the past decade, with the introduction of new approval processes and criteria in recent years. However, many of the projects that closed in the 2009–2011 period are legacy projects approved in the early part of the past decade. We would therefore expect to see significant changes in the performance of the portfolio over the coming years. We also note that this chapter covers only our multinational operations; it does not assess single-country projects that support regional objectives.

## The Bank's portfolio performance

The Bank's multinational portfolio consists of nearly 200 live projects. Around 48% of our portfolio goes towards physical infrastructure; 10% towards 'soft' infrastructure, including trade facilitation; and 10% towards the promotion of regional public goods. The operations also contribute to a range of strategic outcomes under our regional integration strategy, including enhanced international and regional trade and improved competitiveness through the creation of economies of scale. Financially, these multinational operations are supported by 28% of the resources from the current African Development Fund as well as non-sovereign operations.

Multinational operations are by nature challenging to implement, being dependent on the collaboration of a large number of actors. Despite these challenges, an assessment by the evaluation department of our multinational operations between 2001 and 2010 found that, as a whole, they perform better than single-country operations, particularly on relevance and effectiveness. It appears that multinational operations undergo more rigorous selection, appraisal and due-diligence processes in order to manage the risks.

There were, however, a number of issues affecting project implementation, including weak counterpart capacity, a lack of knowledge of Bank procedures, delays in contracting and disbursement, late fulfilment of conditions and delays in the provision of counterpart funds. These challenges are shared

with single-country operations. In addition, many multinational operations work closely with Regional Economic Communities (RECs), where they can encounter additional capacity constraints.

*We have committed 28% of the resources from the current African Development Fund to support multinational operations.*

One of the ways that we ensure the quality of our portfolio is through close supervision of project implementation. Regular supervision enables us to identify issues as they arise and adapt accordingly. In 2011, 59% of our regional operations were **formally supervised twice a year**<sup>1</sup>, which is a significant improvement on 2009 and ahead of the AfDB average, but still short of our target of 65%.

We track the number of projects in the portfolio flagged as problematic, either because implementation is not progressing or

Figure 3.1 Portfolio performance

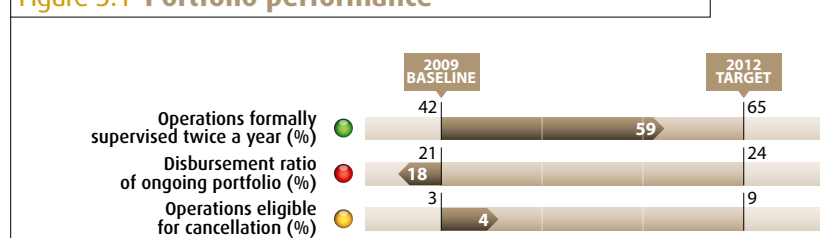


Table 3: How well AfDB manages its regional integration initiatives (Level 3)

This table presents the Bank's progress on regional integration in achieving its 2012 targets for portfolio management:

- Good progress has been made, and we are on track to achieve our target; ● Little progress has been made and we are at risk of not achieving our target;  
● No progress has been made, or we have moved even further away from our target; ● Data are not available to measure performance.

INDICATOR	REGIONAL OPERATIONS			ALL OPERATIONS		
	Baseline 2009	Latest 2011	Target 2012	Baseline 2009	Latest 2011	Target 2012
<b>PORTFOLIO PERFORMANCE</b>						
● Operations formally supervised twice a year (%)	42	59	65	40	57	60
● Problem projects in ongoing portfolio <sup>1</sup> (%)	4	3	5	6	5	5
● Disbursement ratio of ongoing portfolio (%)	21	18	24	28	18	32
● Operations eligible for cancellation (%)	3	4	9	13	7	9
<b>QUALITY AT ENTRY</b>						
● Time elapsed from approval to first disbursement (months)	14	16	10	12	13	10
● Operations that disclose ESIA on time <sup>1</sup> (%)	100	100	90	85	95	90
● Operations rated satisfactory <sup>2</sup> (%)	75	100	90	77	93	95
● Infrastructure Project Preparation Facility: Number of project approved (amount)	7	10	14	7	10	14
● Infrastructure Project Preparation Facility: Total amount approved (\$ Millions)	3	10	28	3	10	28
<b>KNOWLEDGE MANAGEMENT</b>						
● Exiting projects with a timely project completion report <sup>3</sup> (%)	100	100	100	91	91	100
● Project completion reports rated satisfactory (%)	67	100	80	75	78	80
● New economic and sector work and related papers (number)	5	5	27	5	5	27
<b>GENDER MAINSTREAMING AND CLIMATE CHANGE</b>						
● Project completion reports with gender-disaggregated data (%)	33	57	75	54	64	75
● New projects with at least one gender indicator (%)	63	67	70	59	74	70
● Climate-proofed projects (%)	..	60	15	..	60	15

.. = data not available; ESIA = Environmental and Social Impact Assessment.

<sup>1</sup> The baseline already exceeds the corporate target for regional operations.

<sup>2</sup> Baseline is 2010

<sup>3</sup> Although the baseline target was already 100%, this indicator is included to ensure continuous performance monitoring.

Source: African Development Bank.

because the project is unlikely to achieve its intended objectives. From 2010 to 2011, ● the proportion of projects at risk across

*An assessment by our evaluation department found that our multinational operations perform better than single-country operations.*

Africa fell to just 3%, ahead of our target. The proportion of ● operations eligible for cancellation remains very low at 4%, well below our target maximum of 9%. This reflects the

use of rigorous selection and appraisal processes. Cancellation of multinational projects is often challenging, requiring the agreement of several governments. Nonetheless, we have cancelled \$10.3 million in projects in recent years, freeing up the resources for more productive use.

Nevertheless, our ● disbursement ratio<sup>2</sup> has declined in recent years, from 21% to 18%. This is attributed to the launch of a number of large new operations in the past year that have yet to reach their first disbursement.

1 A green bullet indicates that AfDB has made good progress and is on track to achieving its target.

2 A red bullet indicates that AfDB has not made progress or has regressed with regard to its target.

### Quality at entry

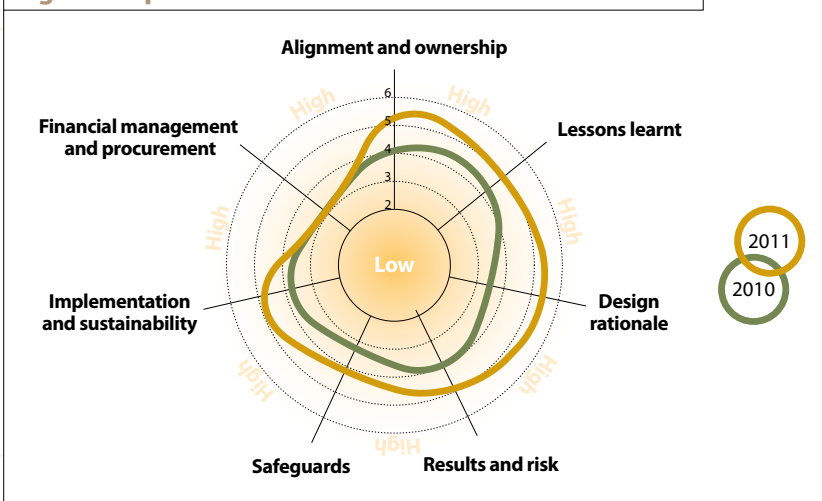
Quality at entry is a measure of whether our projects are well designed and appropriate to the needs of the recipient. It is a critical element of successful portfolio management, as flaws in project design can be very difficult to correct once implementation is underway.

Quality at entry should ensure that country commitments and ownership are embedded in the design of the project, to ensure smooth implementation and long-term sustainability. This is particularly important for regional operations, where shared ownership by a number of governments is required if the project is to achieve its goals. Ensuring sustainability is another challenge, with maintenance obligations for regional infrastructure networks shared across countries.

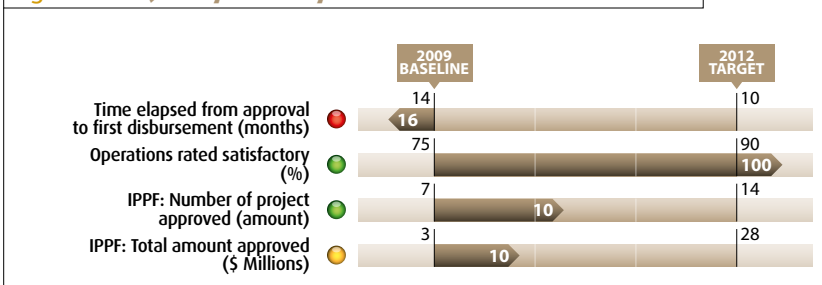
To ensure these elements are in place, the Bank has developed a two-step regional operation selection and prioritisation framework, to ensure they are relevant and focused on clear outcomes. The selection process takes into account our RISPs and the prioritisation of projects under the Programme for Infrastructure Development for Africa.

Our operations in support of regional public goods go through a separate scrutiny process. They are prioritised through a three-step filtering framework that verifies the public good in question and ranks projects according to their likely development impact, before they are submitted to the Operations Committee for a decision on resource availability.

**Figure 3.2 Scores of Project Appraisal Reports for regional operations reviewed in 2011**



**Figure 3.3 Quality at entry**

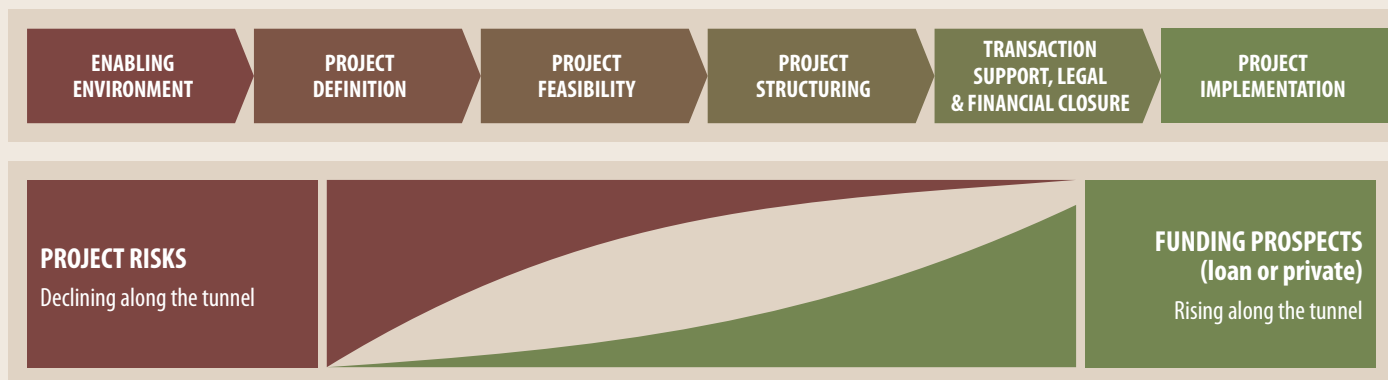


### Box 3.1 Mobilising funds for complex regional investment projects

To strengthen the quality at entry of complex multinational projects, the Bank hosts the NEPAD Infrastructure Project Preparation Facility. The facility's task is to prepare viable and bankable regional infrastructure projects in energy, transport, ICT and trans-boundary water resources. It involves a two-stage screening process to ensure strategic alignment and to test for project readiness and development impact.

By ensuring high-quality and viable infrastructure projects, the facility helps to mobilise both public and private finance. The diagram shows the six steps involved in moving from a project concept to successful completion (the 'Tunnel of Funds'). As each step is successfully concluded, the level of risk declines and the prospect of attracting finance improves. By helping projects through the high risk early stages, grants from the facility can be catalytic, opening the door to financiers with a lower risk appetite.

#### Tunnel of funds steps and risk vs. finance:



Source: NEPAD Infrastructure project Preparation Facility — Strategic Business Plan 2011–2015

**Box 3.2 An innovative approach to improve the impact of private-sector operations**

Nearly two-thirds of our private-sector portfolio is regional. Our private-sector operations are developed according to different criteria than public-sector ones. Private-sector loans are required to make a positive return on investment, while contributing to development outcomes. These outcomes are assessed through an ‘additionality and development outcome assessment’ process, undertaken by the Office of the Chief Economist.

The assessment process is geared towards improving quality at entry by addressing two issues. First, what can a multilateral development institution like the AfDB bring to the project that commercial lenders cannot? Second, what level of development outcome can be expected? This is assessed through a multidimensional analysis of different types of development impact, including for households, government, macroeconomic resilience, the environment, gender and social effects, and private-sector development. The ratings of our assessment of regional private-sector projects steadily improved between 2009 and 2011.

Source: ADOA framework and EDRE.1 Analysis

Our rigorous quality at entry processes have proved effective at ensuring the strategic relevance of our regional operations and the active engagement of our counterparts. As a result, all of our **● projects were rated satisfactory** in 2011, which is a very encouraging result. The **● average time elapsed between approval and first disbursement** increased from 14 to 16 months, against a target of 9 months. Figure 3.2 shows how scores from Project Appraisal Reports improved across the board from 2010 to 2011.

**Knowledge management**

Regional integration poses a complex set of policy and implementation challenges and the evidence as to which approaches work best is constantly evolving. At the Bank, we are committed to developing and learning from this evidence base. Our regional integration strategy emphasises our triple role as catalytic financier, development partner and knowledge broker. Good knowledge management is critical to effective advocacy and policy dialogue with international partners, RECs and national authorities.

and poverty reduction strategies, regional integration assistance strategies and RISPs.

We help to develop the REC’s capacity through a variety of technical studies, such as surveying progress on the harmonisation of norms and standards on vehicle size and axle loads between ECCAS and ECOWAS, and preparatory work for an EAC Road Sector Development Programme and Customs Union Strategy.

A number of the Bank’s flagship publications address regional integration issues. Our Infrastructure and Growth Action Plan, for example, serves as a platform for advisory services, measuring results and mobilising resources. Another successful strategy knowledge product was a ‘roadmap study’ on the establishment of a COMESA-EAC-SADC Free Trade Agreement. The 2009 edition of our African Economic Outlook explored how the continent is using ICT in innovative ways to transform the business environment, overcome traditional infrastructure constraints and contribute to the development of regional markets. To make the most of these opportunities, it called for improved policies and a stronger regulatory role for national governments.

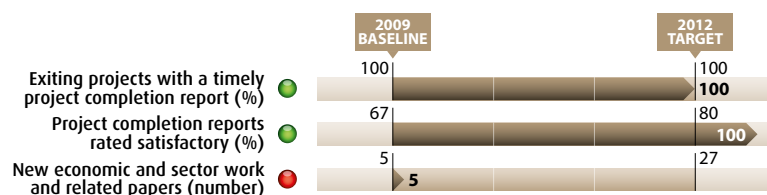
*We have generated policy-relevant knowledge through a range of strategic and technical studies, including a roadmap for establishing the COMESA-EAC-SADC Free Trade Agreement.*

To that end, we have carried out extensive research and statistical analysis on key topics related to regional integration and trade. We prepare a wide range of knowledge products to enhance our lending portfolio, including economic sector work, regional growth

We produced a joint study with UNECA and the African Union on *Assessing Regional Integration in Africa*, which help informed debate on trade policy at the African Heads of State and Government Assembly in Addis Ababa in January 2012. Our *Africa Development Report 2010* focused on trade logistics, in particular maritime ports, in order to explore ways of overcoming impediments to trade. Africa’s ports are the gateways for 80% of Africa’s global merchandise trade. The report found that Africa will be unable to take full advantage of increased South-South trade without significant improvements in its port infrastructure, in particular to allow for the increasing containerisation of trade.

The Bank’s regional departments are playing an increasingly active role in knowledge generation for regional integration. For example, studies on the importance for regional infrastructure connections for Burundi and on best practices on domestic resource mobilisation in Southern Africa were all led by our regional departments.

**Figure 3.4 Knowledge management**



### Box 3.3 Deepening knowledge on regional integration for informed decision-making

#### Guidelines and approaches

- ▶ Infrastructure consortium for Africa annual reports
- ▶ Infrastructure project preparation facility annual reports
- ▶ Africa's Infrastructure: A time for transformation (as part of the Infrastructure Consortium for Africa)
- ▶ The Infrastructure Consortium for Africa's Strategic Business Plan
- ▶ Infrastructure Project Preparation Facility Annual Reports
- ▶ Infrastructure Project Preparation Facility Operational Manual
- ▶ Infrastructure Project Preparation Facility Operations Procedures

#### Policy, strategy or operations

- ▶ Financial integration report
- ▶ Review of risk mitigation instruments published
- ▶ Assessing Regional Integration in Africa II, III, IV, V
- ▶ ICA stock-taking of technical assistance in the power sectors of five African countries
- ▶ African infrastructure intelligence report
- ▶ Assessing Regional Integration in Africa IV
- ▶ COMESA macroeconomic convergence report
- ▶ Barriers to intra-African trade
- ▶ Intra-Regional trade in Southern Africa: structure, performance and challenges
- ▶ Development of Framework to enable key African business associations participate more effectively in trade policy issues

- ▶ Liberia: Programme of assistance to trade related institutions
- ▶ Aid for trade central Africa report
- ▶ Aid for trade case studies for west Africa
- ▶ Financial globalisation and international financial integration: Analysis of impact of financial integration on economic activity, trade openness and macroeconomic volatility in Africa
- ▶ Accessible Africa: Addressing soft constraints to Regional Integration (Review 2009–2011)
- ▶ Regional integration activities report (1969–2010)
- ▶ Transparency in trade reports: Benin, Madagascar and Senegal
- ▶ Harmonization of legal and operational frameworks of CEMAC stock markets
- ▶ Proposed road map for trade facilitation as part of the Doha development agenda
- ▶ Supporting macroeconomic convergence in Africa
- ▶ Africa infrastructure outlook 2040
- ▶ Africa sector energy outlook 2040
- ▶ Africa sector transport outlook 2040
- ▶ Africa sector water outlook 2040
- ▶ Africa sector information and communication technology (ICT) outlook 2030
- ▶ Programme for infrastructure development in Africa study reports (energy, transport, water, information and communication technology)

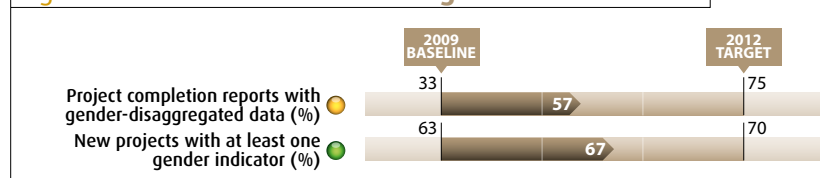
## Gender mainstreaming and climate change

The Bank is committed to mainstreaming gender across its portfolio. We aim to include gender-disaggregated data in the monitoring of all our projects, to capture any differences in impact on women and men, and in 2012 we incorporated new gender standards into our quality at entry assessment processes. In 2011, 57% of our **project completion reports included gender-disaggregated data**<sup>3</sup>, which is slightly behind the AfDB average. However, two-thirds of our **new projects included at least one gender indicator**.

Responding to climate change is a central part of the Bank's Green Growth Agenda. At the operational level, this means climate proofing our infrastructure projects, as well as contributing to sustainable development by encouraging investment in renewable energy. For example, in 2010 Cape Verde received private-sector funding for the Cabeolica Wind Power Project, which is developing onshore wind farms on four islands in the Cape Verdean archipelago. At the policy level, we have been working with the African Union, UNECA and the United Nations Environment Programme (UNEP) to support African negotiators at key international events on climate change, including Rio+20.

In the future, both gender and climate change will be integrated into our Integrated Safeguards System, which will cover both public and private operations. The new system will introduce new criteria, such as promoting biodiversity.

Figure 3.5 Gender mainstreaming



## Aid effectiveness

The AfDB is strongly committed to following the principles of aid effectiveness agreed in the Paris Declaration and its successor agreements — namely, ownership, alignment, harmonisation, managing for results and mutual accountability. These principles have been developed with single-country projects in mind, however, and can be difficult to apply to regional initiatives. There is still much to be done in terms of defining good aid practice for regional initiatives, which have captured less than 3% of aid flows to Africa over the past 10 years.

3 A yellow bullet indicates that AfDB has made little progress toward its target.

### Box 3.4 Integrating aid effectiveness into regional operations

**Paris Declaration Principle 1 - Ownership:** Advocating regional integration in countries is key to building ownership. Knowledge products can help by highlighting the advantages and disadvantages of further integration for individual countries. This can set the stage for more delegation of authority to regional economic communities (RECs). At the same time, policy and technical capacities of RECs will have to be strengthened.

**Paris Declaration Principle 2 - Alignment:** Aligning regional and national development strategies are crucial to ensure complementary. This not only includes aligning hard physical infrastructure, but also the soft regulatory framework. The aligning of national and regional strategies can include priorities and costs of joint initiatives. These regional development initiatives can be funded by the private sector, African countries, emerging developing countries or traditional donors.

**Paris Declaration Principle 3 - Harmonisation:** Harmonising of regulations — the softside of regional integration — is critical to linking African markets on goods, services and labour. The first step is harmonising trade and financial regulations which is necessary to create free-trade zones. REC can also standardise project funding and implementation modalities, to make it easier to partner with each other and mobilise donor support for large regional investment projects.

**Paris Declaration Principle 4 - Managing for results:** Building capacity to monitor and evaluate the impact of regional integration initiatives will be necessary to demonstrate results and impact for consumers. For example regional transport corridors and power pools can significantly reduce the cost for end-users. These kinds of results can be widely disseminated to policy-maker and the general public.

**Paris Declaration Principle 5 - Accountability:** Strong accountability mechanisms can secure credible commitments to regional integration. This can be reinforced through mutual assessment and peer reviewing of REC policies.

As our regional integration strategy recognises, country ownership and leadership are key principles for regional operations. To achieve their objectives, multi-country operations require close collaboration among a wider range of stakeholders, and must satisfy both national interests and regional integration objectives. The roles and responsibilities of the different actors must be carefully negotiated for each regional project.

*The Infrastructure Consortium for Africa plays a key role on mobilising resources, sharing knowledge and coordinating the delivery of complex projects.*

Regional projects are also required to work closely with RECs, which are complex institutions with multiple layers of governance and many stakeholders to satisfy. Often, the responsibilities and lines of accountability between RECs and national authorities are unclear. Decisions taken by RECs are often left to national authorities to implement. In practice, there are capacity constraints on both sides and national development priorities frequently trump regional considerations.

Meeting the Paris Declaration commitments on the use of country systems for procurement and financial management in regional operations is particularly challenging. The rules and regulations of several different countries may be involved. It is not uncommon to find that the national agencies nominated to implement regional projects have weak management capacity, particularly in processing contract awards and disbursements. While this challenge is not specific to regional operations, it is

magnified when several countries are involved. This underscores the importance of providing additional support and technical assistance to counterparts to facilitate project implementation.

We have, nonetheless, made good progress on promoting donor harmonisation. For example, the Infrastructure Consortium for Africa plays a key role in mobilising resources, sharing knowledge and coordinating the delivery of complex projects. Through its sector platforms in water, transport and energy, the Consortium is building close working relationships across a range of national, regional and international partners, including linking to new financiers such as China, India, the Arab funds and the private sector. Its flagship regional programmes, such as the North-South Corridor, the West Africa Power Pool, the Horn of Africa Initiative and the Central and Eastern Transport Corridors, represent best practices on the delivery of complex, multi-national projects. The Consortium is working on expanding its membership to include the G20 countries, giving it a stronger coordinating role.

The AfDB has been leading an initiative to adapt the Paris Declaration principles to the needs of regional integration initiatives. In November 2010, we hosted a regional meeting on aid effectiveness in Tunis, which calls for, among other things, more investment in building the capacity of RECs and a dialogue among international development agencies on new ways of planning, financing and implementing development projects that span national boundaries. Some of the practical suggestions discussed at the Tunis event are summarised in Box 3.4.

Altogether, we are strengthening feedback mechanisms to capture lessons learned from our regional operations, involving focal points in each of our sector and regional departments. All

of the regional projects completed in 2011 had ● **timely Project Completion Reports**, and all of the ● **Project Completion Reports were rated satisfactory**. We are creating a central repository of lessons learned, which will be regularly analysed and used to inform new programming choices.

## Conclusion

Overall, the Bank's portfolio of operations in support of regional integration is in robust health, with most of our targets achieved. Multinational operations are by their nature challenging to implement, with the involvement of several states magnifying their complexity. Nonetheless, an evaluation of our multinational operations found that, as a whole, they perform better than single-

country operations. This is down to the more rigorous processes we have developed for selection, appraisal and due diligence.

However, project implementation is still hampered on occasion by weak counterpart capacity, which leads to low disbursement ratios and delays in contracting and fulfilment of other conditions prior to first disbursement. To minimise these challenges, we have increased the level of supervision of our projects and moved to cancel non-performing operations, to free up resources for more productive use.

More work is needed among African countries and development partners collectively to define what constitutes good aid practice for regional initiatives and to boost the level of support flowing to this vital objective ■



### **Mobilising funds for infrastructure development**

As Africa's premier development finance institution, we are investing billions in infrastructure development across the continent, while helping to mobilise more resources from other development finance institutions and the private sector.

# Level 4: How efficient is AfDB in promoting regional integration

**T**he fourth and final level of our Results Measurement Framework addresses how well the Bank is set up as an organisation to support regional integration. This chapter consists of ten performance indicators illustrating our progress on decentralisation, the development of our human resources and our financial incentives to support regional initiatives

In recent years, the Bank has undergone two major reforms that have strengthened our capacity to deliver regional operations. We have been decentralising our operations by establishing a network of 32 field offices and two Regional Resource Centres. We have also implemented some fundamental organisational changes aimed at improving our responsiveness to the needs of regional member countries. This includes shifting from a sector-based organisational structure to one that combines sector, country and regional strategies.

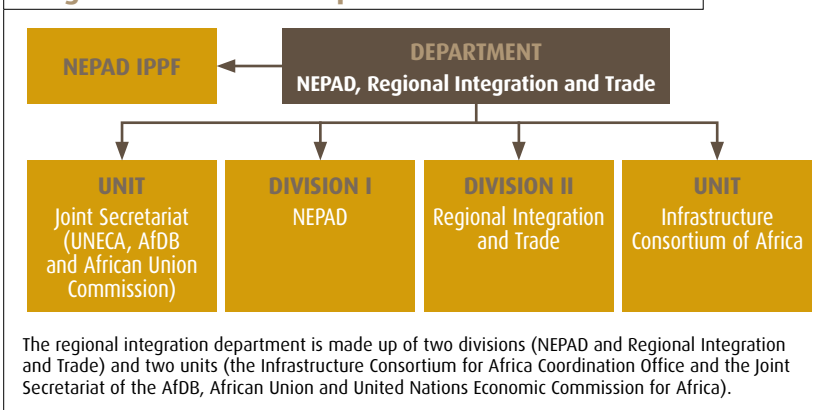
## Decentralisation and realignment

The Bank's Regional Integration and Trade Department has the overall policy leadership and coordination of regional integration and working with RECs. The responsibility for multinational projects is shared among various departments, including Infrastructure, Energy, Water and Sanitation and Agriculture Departments. Various other departments also contribute to the promotion of regional public goods, including responding to climate change and developing human capital.

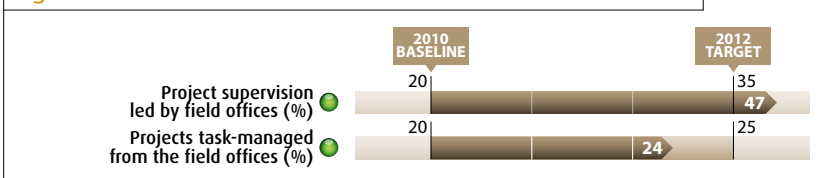
As part of the Bank's on-going decentralisation, we are realigning our structures to improve our support for regional integration processes. Over time, our Regional Resource Centres will acquire the critical mass of sector and regional expertise required for them to lead policy dialogues with RECs in their respective regions. Dialogue with national authorities will be shared between the Regional Resource Centres and field offices at the country level. As we build up the staff profile and capacity in our Regional Resource Centres and Field Offices, we will gradually delegate authority to them for the supervision and monitoring of multinational projects.

We have already made considerable progress towards this goal. In 2011, 47% of our multinational operations were **supervised by Field Offices**<sup>1</sup>, while 24% were led by **projects task-managed from the Field Offices**. This suggests that decentralisation is proceeding ahead of schedule.

**Figure 4.1 Organogram of NEPAD, Regional Integration and Trade Department**



**Figure 4.2 Decentralisation**



One of the Regional Integration Department's key mandates is to oversee the implementation of our Regional Integration Strategy and our various RISPs. To accomplish this more

<sup>1</sup> A green bullet indicates that AfDB is on track to achieving its target.

Table 4: **How efficient is AfDB in promoting regional integration (Level 4)**

This table presents the Bank's progress on regional integration in achieving its 2012 targets for organisational performance:

- Good progress has been made, and we are on track to achieve our target;
- No progress has been made, or we have moved even further away from our target;
- Little progress has been made and we are at risk of not achieving our target;
- Data are not available to measure performance.

INDICATOR	Baseline 2010	Latest 2011	Target 2012
<b>DECENTRALISATION</b>			
<span style="color: green;">●</span> Project supervision led by field offices (%)	20	47	35
<span style="color: green;">●</span> Projects task-managed from the field offices (%)	20	24	25
<span style="color: orange;">●</span> Regional Integration Department staff located in field offices (number)	..	5	5
<b>HUMAN RESOURCES</b>			
<span style="color: red;">●</span> Share of women in professional staff in Regional Integration Department (%)	24	18	25
<span style="color: green;">●</span> Operations professional staff in Regional Integration Department (number)	21	22	23
<b>EFFICIENCY OF REGIONAL OPERATIONS</b>			
<span style="color: green;">●</span> Average approval amount of a regional operation (UA Millions)	26	72	74
<span style="color: green;">●</span> Amount leveraged from other resources <sup>1</sup> (UA Millions)	42	121	181
<span style="color: green;">●</span> Leveraging ratio <sup>1</sup> (%)	23	27	35
<span style="color: orange;">●</span> Average amount approved per projects for the Infrastructure Project Preparation Facility (UA Millions)	1	1	2

.. = data not available; UA = Units of Account.

<sup>1</sup> The leveraging amount and ratio is calculated based on the performance based allocation share of regional operations.

**Source:** African Development Bank.

effectively, the Regional Integration Department is deploying professional staff to the Regional Resource Centres. Thus far, there are five ● **Regional Integration Department staff located in the Field Offices**<sup>2</sup>, and this number is expected to increase in the coming period.

for public-private partnerships, we need staff experienced in both the public- and private-sector sides and who are able to construct complex transactions.

At present, the human resources capacity of the regional integration department is tilted towards hard regional infrastructure (energy, transport and water) — areas where the Bank has a comparative advantage. However, we also need to support the development of soft infrastructure — common institutional and regulatory frameworks to encourage the free movement of goods, services, capital and labour. To this end, the department for regional integration has been increasing the number of staff with this skill set and with practical knowledge of the functioning of Africa's RECs. Over the past three years, we have recruited a number of staff with strong trade-facilitation backgrounds and experience working with RECs. The ● **number of operations professional staff in the Regional Integration department** has now reached 22, of whom 18% are ● **women**<sup>3</sup>.

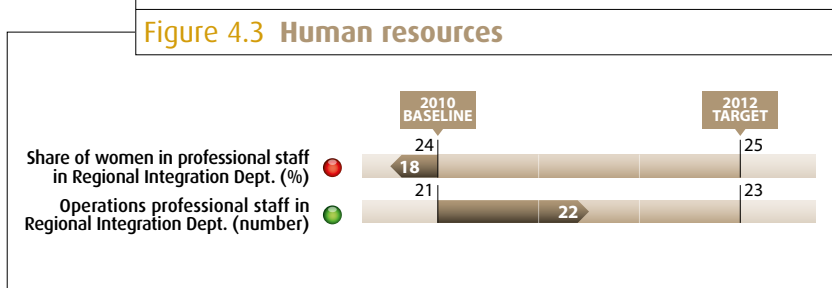
We are also mainstreaming regional integration across the Bank. The Regional Integration Department is appointed focal points in sector and regional departments, to support the monitoring and reporting on the implementation of RISPs and to ensure that regional integration goals are addressed in Country Strategy Papers. In this way, we are building a network that can generate

*Fourty-seven percent of our multinational operations were supervised by field offices in 2011.*

### Human resources

Regional operations call for a broad range of skill sets among Bank staff. We need the capacity to conduct dialogues with national authorities, engage across a range of sectors and implement our safeguard policies (environmental, gender and so on). Moreover,

Figure 4.3 Human resources



<sup>2</sup> A yellow bullet indicates that progress toward this target is starting to stall or regress.

<sup>3</sup> A red bullet indicates that no progress has been made, or we have moved even further away from our target.

feedback and lessons on different aspects of regional integration across the Bank.

### Efficiency of regional operations

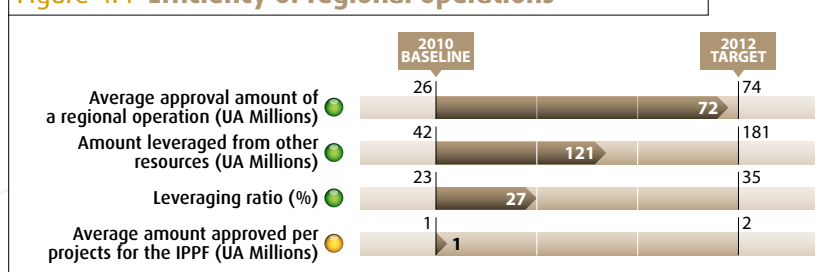
With regional integration a goal that is shared across the Bank's departments, we need to ensure that we create the right incentives for an efficient organisation to engage fully in this challenging area. The Bank has therefore dedicated 28% of its African Development Fund resources to supporting regional operations, which is equivalent to nearly \$2 billion. Up to two-thirds of the costs of multinational operations can be financed from this regional envelope. Given the opportunity to leverage their African Development Fund country allocations with a ratio of up to 1:2, this creates a clear financial incentive for the Bank's departments and staff to embark on complex regional initiatives. Thus, the number of regional operations increased from 9 in 2011, with an average size of \$72 million.

We plan to develop new ways of tracking our contributions to regional integration. At present, many single-country operations, such as the construction of ports or national segments of road corridors, contribute directly to regional integration but are not captured as such in our reporting. We are therefore planning to develop a new set of definitions covering multinational operations, regional operations, single-country operations with regional impacts and regional public goods.

### Conclusion

Decentralisation has been highly significant organisational reform for the Bank and has transformed the way we relate to our member countries. The development of a network of Regional Resource Centres has made us much better equipped to manage complex regional operations and support policy and institutional development for regional integration.

Figure 4.4 Efficiency of regional operations



Our human resources profile has traditionally leaned more towards the skills needed to manage investments in hard rather than soft infrastructure. We are improving the balance by increasing the number of staff with knowledge of the institutional and regulatory challenges associated with regional integration, which will improve our capacity to support RECs and member states ■



**Supporting infrastructure development across Africa**  
Our investments help the continent consolidate its internal market, enhance productivity and create a value chain for African products.

# Conclusion and outlook

The year 2013 will mark the 50<sup>th</sup> and 10<sup>th</sup> anniversaries of the African Union and NEPAD respectively. Over the past decade, Africa's longstanding commitment to regional economic integration has moved closer to reality. The Regional Economic Communities have pushed a number of ambitious initiatives, supported by stronger institutions and policy frameworks at the continental level. The rate of investment in regional infrastructure connections has increased, and African countries have undertaken far-reaching regulatory reforms to facilitate trade. The continent's total trade (both imports and exports) has tripled in value to \$1.2 trillion.

Yet Africa's quest for deeper integration remains beset with challenges. Inadequate hard or physical infrastructure, particularly poor transport connections and costly and unreliable power supplies, impose severe constraints on producers. The rate of investment in regional infrastructure is still well short of what is needed. National laws and administrative procedures continue to impose unnecessary restrictions, costs and delays on regional trade. Most of the reforms needed to facilitate trade have already been agreed under regional trade agreements and are not particularly costly to implement; however, they require the active support of national governments and the strengthening of national administrative capacity. Thus far, this critical aspect of Africa's growth agenda has been underemphasised in, both national development strategies and external assistance.

We believe that regional integration is vital to the structural transformation of Africa's economies, to boosting competitiveness, increasing productivity and improving living standards. It must be a central pillar of any strategy to promote inclusive growth. It concerns not just promoting increased intra-African trade flows, but also financial and monetary integration, free movement of labour and services; and the building of the soft infrastructure necessary to integrate national markets.

The time is now ripe for an acceleration of progress. Political commitment to regional integration has never been higher. The adoption in early 2012 by the African Union Summit of an Action Plan for Boosting Intra-African Trade and the planned establishment of a Continental Free Trade Area by 2017 provide ideal platforms to press ahead with opening national markets and creating new opportunities for shared prosperity.

The African Development Bank has been working with our member countries, partner institutions and the private sector to seize this opportunity. As Africa's premier development finance

institution, we have demonstrated our comparative advantage in the development of regional infrastructure and have shown ourselves to be adept at mobilising co-finance from other sources. Through the decentralisation of our operations, we are developing stronger relationships with our member countries, the RECs and private-sector entities, to help them overcome capacity constraints and undertake regulatory reforms.

*Regional integration is vital to the structural transformation of Africa's economies, to boosting competitiveness, increasing productivity and improving living standards.*

Achieving economic integration in Africa is an undertaking that will take many years, and we are only one player among many. But by sharing experiences, pooling resources and using them in a targeted way, we believe that we are making an important contribution.

## The future direction

The Bank remains committed to the pursuit of regional integration as a core objective. Regional integration forms one of three cross-cutting themes in our Long-Term Strategy 2012–2022. Under our Regional Integration Strategy, we are committed to promoting regional integration the development of hard and soft infrastructure, and to helping to addressing Africa's many cross-border challenges.

Our lending operations will be combined with further investment in knowledge products. We will continue to explore the potential for different types of regional integration in Africa to contribute to shared growth and poverty reduction, and disseminate the results among our member countries and partner organisations.

Effective partnerships will be critical to the success of our support for regional integration. We will continue to support new initiatives and processes at the continental and regional levels to enable African countries to agree on common approaches to shared problems and to speak with a single voice in international policy-making fora. We will pay particular attention to climate change, acting both as a channel for new financing and as a broker of new partnerships and regional initiatives.

We will keep our regional integration operations under close scrutiny, in order to strengthen our on-going programmes and learn lessons for future operations. We are working with various partners to develop new indicators for monitoring the progress of regional investments contribution to integration and shared growth.

We will also continue to make the case to other development partners on the need for more support for regional initiatives. We will develop new principles and approaches on how to provide aid effectively at this level.

We have identified three focus areas for our regional operations:

**Focus area 1: Infrastructure connections and development corridors** — We will continue to concentrate the lion's share of our financial resources in regional infrastructure development, in accordance with our comparative advantage. The case for scaling up investment in intra-African infrastructure is a compelling one. Overcoming the continent's infrastructure deficit will generate major benefits in trade, economic growth and human development. According to some estimates, an investment of \$32 billion in Africa's road network — still the predominant means for transporting goods and persons across the continent — could increase intra-African trade by \$250 billion over 15 years. Another study concluded that paving all the roads linking the countries of the West African Economic and Monetary Union had the potential to increase internal trade threefold.

In the area of regional transport, we will increasingly focus on using transport corridors as springboards for more ambitious exercises in spatial planning. Increasingly, Africa's major transport routes are being developed as broader development corridors or corridor economic zones, which concentrate economic opportunities and ensure that the benefits are shared across the surrounding population.

For example, COMESA, EAC and SADC are jointly promoting the development of two major north-south corridors, linking the copper belt to ports in Dar es Salaam and South Africa. In East Africa, the Northern Transport Corridor has operated for several years, linking Burundi, the Democratic Republic of Congo, Kenya, Rwanda and Uganda. The AfDB will be supporting these projects, together with USAID, NEPAD, COMESA and other partners. As part of the infrastructure development, we will support feeder roads linking the surrounding population to the corridor and a wide range of social and economic infrastructure to maximise both livelihood opportunities and access to public services.

In the energy sector, we will focus our resources on supporting the regional power pools. The sub-Saharan power pools need improved regulatory frameworks and mechanisms for dispute resolution. So far, only the Southern African Power Pool has made the transition to a competitive power market. In Central, East and West Africa, the power pools have yet to move from planning to implementation, although there is bilateral

electricity trade. We will provide a combination of financial support and technical assistance to accelerate progress on this challenging but important agenda item.

**Focus area 2: Strengthening of regional industrial policy**

— A high priority within the regional integration agenda is strengthening regional industrial policy to promote economic diversification and increased productivity. In a globalised and inter-connected world, there is an urgent need for structural change in African economies to make them internationally competitive. To this end, we will work with RECs and their member countries to identify and build up regional value chains in agriculture, manufacturing and the service sectors.

There is a strong link between industrial development and levels of intra-African trade. At present, manufactured goods make up about 45% of intra-African exports, but account for only a fifth of exports to the rest of the world. The development of regional trade and manufacturing capacity should therefore be mutually reinforcing. However, this means overcoming supply-side constraints by increasing access to transport infrastructure, providing affordable and reliable electricity, improving ICT networks and promoting human capital development. Given the small size of Africa's national markets, this can be achieved only through regional initiatives, from pooling energy resources to building up regional centres of excellence. Our private-sector operations will continue to support the development of ICT, energy networks and port development.

Through our knowledge work, the Bank will continue to support the development of regional and national industrial policies and strategies. We will support the development of the skills needed to add greater value to agricultural production and to manufacturing. We will continue to support RECs and member countries in improving their business environments to attract greater investment to manufacturing.

**Focus area 3: Development of new instruments** — While the AfDB and a few other development institutions have dedicated funds for regional operations, the majority of development partners support regional integration solely through national projects. There is a need for new aid instruments and support methods that are better suited to the specific needs of regional integration.

A particular challenge is regional projects involving both low- and middle-income countries; while the former can access concessional funds, the latter are obliged to borrow at market rates. We will explore creative financial solutions for the challenges that emerge in these 'mixed neighbourhoods', such as blending and cost sharing. We will also help RECs mobilise domestic resources for their infrastructure investments.

We will also continue to develop new approaches to increasing the leverage of our relatively limited concessional resources. This can be done externally through co-financing with other donors,

in public-private partnerships or through innovative financial solutions such as infrastructure bonds. More attention will also be paid to private-sector participation in financing regional infrastructure projects. Internally, we will maximise leverage by blending concessional funding with non-concessional resources from the AfDB window. For example, an African Development

Fund concessional loan can be supported by an ADB loan for equity participation or in the form of guarantees.

Taken together these focus areas are expected to significantly enhance the African Development Bank's work on promoting regional integration ■







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### About this publication

This thematic Development Effectiveness Review 2012 is a report on the performance of the African Development Bank (AfDB) regional integration operations. It reviews development trends in the regional integration area and explores how AfDB's operations have contributed to development results over the past three years. It also looks at how effectively AfDB manages its regional integration operations and its own organisation.

### About the African Development Bank Group

The AfDB Group is a multilateral development bank whose shareholders include 54 African countries and 27 non-African countries. The AfDB Group's primary objective is to contribute to the sustainable economic development and social progress of its regional members, individually and jointly. It does this by financing a broad range of development projects and programmes through public-sector loans, including policy-based loans, private-sector loans, and equity investments; by providing technical assistance for institutional support projects and programmes; by making public and private capital investments; by assisting countries with development policies and plans; and by supplying emergency assistance.



## African Development Bank

### Temporary Relocation Agency

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