

AFRICAN DEVELOPMENT BANK GROUP



REVISED VERSION

BANK GROUP REGIONAL INTEGRATION POLICY AND STRATEGY (RIPoS) 2014–2023

ONRI DEPARTMENT

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Contents

ACRONYMS AND ABBREVIATIONS	i
EXECUTIVE SUMMARY	iv
I. INTRODUCTION.....	1
Background and Rationale.....	1
Preparation	1
II. AFRICA’S REGIONAL INTEGRATION PROGRESS, CHALLENGES AND OPPORTUNITIES	2
Progress.....	2
Challenges.....	2
Opportunities.....	3
III. LESSONS FROM BANK GROUP SUPPORT TO REGIONAL INTEGRATION	4
Measures to Improve Bank Regional Operations	4
Key Success Factors	5
IV. REGIONAL INTEGRATION POLICY	6
Vision, Goal and Objectives	6
Guiding Principles	6
Focus Areas of the Policy	7
Implementation	8
Eligibility and Priority Criteria	8
V. REGIONAL INTEGRATION STRATEGY, 2014–2023	10
Strategic Position	10
Strategic Pillars and Operational Priorities.....	10
Pillar I: Supporting Regional Infrastructure Development	10
Hard and Soft Regional Infrastructure Development.....	10
Regional Public Goods.....	12
Pillar II: Enhancing Industrialization and Trade.....	12
Industrialization, Export Diversification and Market Development	13
Trade Policy and Trade Facilitation	15
Trade Finance Capacity.....	15
Cross-cutting Pillar: Strengthening Regional and Country Mechanisms and Institutional Capacities...	16
Support to countries	16
Human and Institutional Capacity Building	17
VI. IMPLEMENTATION PLAN	18
Internal and External Arrangements	19
Incentive Mechanisms for Developing Integration Programs	19
Resource Implications.....	20
Bank Instruments	20
Risks and Mitigation	20

Results Framework	21
Expected Outcomes.....	21
Results Matrix	21
Monitoring and Evaluation.....	21
VII. RECOMMENDATION.....	21
ANNEXES.....	
Annex 1: From the Ten Year Strategy to the Regional Integration Policy and Strategy	
Annex 2: Schematic Summary of the Bank Group’s Regional Integration Strategy Sector Strategy	
Annex 3: Results Measurement Framework	
Annex 4: Strategies of Key Partner Institutions and International Organizations	
Annex 5: How the Bank will support RMCs to address some specific “soft” issues raised in the Regional Integration Policy and Strategy	
Annex 5a Addressing Environmental and Natural Resource Issues in Trade Development	
Annex 5b: Free Movement of People and Regional Integration	
Annex 5c: Tackling Youth Unemployment through Infrastructure Development and Trade- and Industrialization-related Capacity Building	
Annex 6: Challenges along the Trade and Transit Chain and possible trade facilitation interventions	
Annex 7: Institutional arrangements	
Annex 8: Implementation Instruments	
REFERENCES	
Table	
Table 1: Bridging hard and soft infrastructure gaps.....	12
Table 2: Facilitating and Supporting Private Sector Participation in Regional Integration Activities	18
Figures	
Figure 1: How Trade Facilitation can contribute to Inclusive Growth	16
Box	
Box 1: Eligibility and ineligibility for RO incentive mechanisms.....	9
Box 2 Key Regional Initiatives Supported by the Bank	15

ACRONYMS AND ABBREVIATIONS

AfDB	African Development Bank Group
ADER	Annual Development Effectiveness Review
ADF	African Development Fund
AMU	Arab Maghreb Union
ARIA	Assessing Regional Integration in Africa
AU	African Union
AUC	African Union Commission
AU MIP	African Union Minimum Integration Program
BIAT	Boosting Intra-African Trade
CAADP	Comprehensive African Agricultural Development Program
CEMAC	Central African Economic and Monetary Community
CEN-SAD	Community of Sahel-Saharan States
CERD	Communications and External Relations Department (AfDB)
CFTA	Continental Free Trade Area
COMESA	Common Market for Eastern and Southern Africa
COSP	Strategy and Operational Policies Department (AfDB)
CSP	Country Strategy Paper
CU	Customs Union
DAA	Dakar Agenda for Action (on financing Africa's Infrastructure)
DFIs	Development Finance Institutions
EAC	East African Community
ECCAS	Economic Community of Central African States
ECON	Office of the Chief Economist, Vice Presidency (AfDB)
ECOWAS	Economic Community of West African States
EDRE	Development Research Department (AfDB)
ESTA	Statistics Department (AfDB)
EU	European Union
FDI	Foreign Direct Investment
FRMB	Resource Mobilisation & External Finance Department (AfDB)
GDP	Gross Domestic Product
GVC	Global Value Chain
G8	Group of 8 major economies
G20	Group of 20 major economies
HSG	Heads of State and Government
IAIS	International Association of Insurance Supervisors
ICA	Infrastructure Consortium Africa
ICT	Information and Communication Technology
IDEV	Independent Development Evaluation Department (AfDB, previously OPEV)
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IGAD	Inter-Governmental Authority on Development
IGOs	Inter-Governmental Organizations
IMF	International Monetary Fund
IPPF	NEPAD Infrastructure Project Preparation Facility
LPI	Logistics Performance Index

MDBs	Multilateral Development Banks
MIC	Middle Income Country
MRU	Mano River Union
MW	Megawatt
NEPAD	New Partnership for Africa's Development
NPCA	NEPAD Planning and Coordination Agency
NGO	Non-Governmental Organization
NTM	Non-Tariff Measure
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OFSD	Financial Sector Development Department (AfDB)
OITC	Transport & ICT Department (AfDB)
OIVP	Infrastructure, Private Sector, Water & Sanitation and NEPAD, Regional Integration and Trade Operations Vice Presidency (AfDB)
ONEC	Energy, Environment & Climate Change Department (AfDB)
ONRI	NEPAD, Regional Integration and Trade Department (of AfDB)
OPEV	Operations Evaluation Department (AfDB, now IDEV)
OPSM	Private Sector and Microfinance Department (of AfDB)
ORFS	Fragile States Department (AfDB)
ORQR	Results & Quality Assurance Department (AfDB)
ORVP	Country and Regional Programs and Policy Vice Presidency (AfDB)
OSAN	Agriculture & Agro-Industry Department (AfDB)
OSGE	Governance, Economic/Financial Sector Reform Department (AfDB)
OSHD	Human Development Department (AfDB)
OWAS	Water & Sanitation Department (AfDB)
PIDA	Program for Infrastructure Development in Africa
PIDA PAP	Program for Infrastructure Development in Africa Priority Action Plan
PPP	Public Private Partnerships
PSP	Private Sector Participation
REC	Regional Economic Community
RFI	Regional Financial Integration
RI	Regional Integration
RIA	Regional Investment Agreement
RIPoS	Regional Integration Policy and Strategy
RIS	Regional Integration Strategy (2009-2012)
RISP	Regional Integration Strategy Paper
RMC	Regional Member Country
RO	Regional Operation
RPG	Regional Public Good
RTGS	Real Time Gross Settlement Systems
RVC	Regional Value Chain
SADC	Southern African Development Community
SME	Small and Medium Enterprise
SPS	Sanitary and Phytosanitary
SPV	Special Purpose Vehicle
TBT	Technical Barriers to Trade

TF	Trade Facilitation
T-FTA	Tripartite Free Trade Area
TYS	Ten Year Strategy (of AfDB)
UA	Units of Account
UNECA	United Nations Economic Commission for Africa
UEMOA	West African Economic and Monetary Union (French Acronym)
UNDP	United Nations Development Programme
UNCTAD	United Nations Conference on Trade and Development
WAMI /IMAO	West African Monetary Institute/ L’Institut Monétaire de l’Afrique de l’Ouest
WAMZ	West African Monetary Zone
WTO	World Trade Organization

EXECUTIVE SUMMARY

The vision of the Bank Group is for a stable, integrated and prospering continent of competitive, diversified and sustainably growing economies participating fully in global trade and investment. The objective is to foster regional and economic integration on the continent by increasing the effectiveness of Bank Group support to Regional Member Countries, regional organizations and the private sector.

This Regional Integration Policy and Strategy for 2014–2023 is the blueprint for the Bank’s long-term support to Africa’s economic integration. It builds on the experiences of the Bank and other development partners in implementing regional integration programs. Anchored on the Bank’s Ten Year Strategy for 2013–22, it reflects the continent’s priorities as expressed in the many integration initiatives. Furthermore it distills current thinking on the economics of integration coming from the Bank, other multilateral development banks, the African Union Commission, the Economic Commission for Africa as well as many think tanks, researchers and academics.

Regional integration is to create larger, more attractive markets, link landlocked countries to international markets and support intra-African trade. Thus, the Bank’s strategy is anchored on two mutually reinforcing pillars: the first is supporting regional infrastructure development, and the second, enhancing trade and industrial development. Implementation will be aided by a cross-cutting pillar: strengthening country and regional mechanisms and institutional capacities.

To promote inclusive growth and a transition to green growth under this strategy, the Bank will tackle key constraints to boosting intra-African trade and investment, increasing the continent’s participation in regional and global value chains, supporting value addition and job creation, and using technology to develop cleaner infrastructure. It will use its knowledge instruments, technical assistance and role as a strategic partner and catalytic financier to promote economic inclusiveness, including that of fragile states, small and micro enterprises, and women and youth. The Bank will also pay attention to promoting green growth, protecting the environment and managing knowledge.

New resource discoveries, such as oil, gas and coal in Eastern and Western Africa, present good opportunities for investment. Technology-driven opportunities in agriculture can support regional value chains, attract foreign investment and boost output, as seen in the rising importance of Chinese and Indian investments. Increasing the diversity of investment sources offers chances to develop the continent’s natural resources, infrastructure and value chains. Moreover, Africa’s current demographics are set to make the continent home to the world’s youngest population by 2040—that, allied with pertinent skills and an enabling business environment, presents a potential youth dividend. The Bank will leverage its Human Capital Strategy for Africa (2014-2018) to build skills for better jobs, equal opportunities and competitiveness. Moreover an expanding middle class, now put at 355 million, raises Africa’s profile both as a market and a destination for investment.

But only regional integration will help create larger markets that are attractive to the investment and trade critical for generating sustained growth, creating jobs and transitioning to inclusive growth.

Cooperation arrangements through the RECs are expected to foster Africa’s integration. Recent regional infrastructure and trade-related initiatives and various regional infrastructure master plans provide an added impetus for a more coherent approach to integration. And at the national level, macroeconomic stability and robust growth, partly reflecting economic and governance reforms, have enhanced the potential to attract foreign investments.

The new policy will be implemented through Regional Integration Strategy Papers and Country Strategy Papers. Bank support to regional infrastructure development is to be guided by continental and regional priorities, especially the Program for Infrastructure Development in Africa’s Priority Action Plan, and will focus on design, implementation and maintenance activities. The Bank will promote public-private partnerships in infrastructure development—from planning, design, preparation and construction to operations, management and monitoring. That will help ease financial burdens of governments in regional infrastructure, offer expertise and ensure that infrastructure functions effectively. The Bank will in parallel encourage countries to adopt frameworks and international principles to guide private sector

participation in infrastructure. Indeed, one objective of the Strategy is to stimulate private interest, both domestic and foreign, in regional projects, thus boosting private investment.

The Bank will thus leverage its strategies for regional integration, private sector development and financial sector development to support regional and national mechanisms and programs to attract foreign investors, particularly into regional infrastructure, industries and other trade-development investments. It will support building capacity to implement current regional investment agreements and ensure their alignment with bilateral investment agreements among RMCs. It will support the harmonization of financial governance and standards by leveraging partnership with the Bretton Woods Institutions and the African Peer Review Mechanism. To develop regional financial markets, it will support programs to link national capital markets and develop regional capital markets. The Bank will support the African Financial Markets Initiative and support the strengthening of national payments systems to meet international standards and harmonize them regionally.

The Bank will also support trade facilitation measures, including before and after the border issues, one-stop border posts, coordinated border management and customs reform and modernization. It will tackle nontariff measures along transport corridors and advocate for reforms within RECs and RMCs. It will develop a Transport and Trade Facilitation Framework and conduct related assessments to guide the design of transport infrastructure projects to facilitate trade. And it will provide catalytic financing, technical assistance and training to address priorities identified in the WTO Trade Facilitation Agreement.

Alongside its transactional support, the Bank will boost the ability of indigenous financial institutions and development finance institutions to participate in trade finance and to intervene in SME markets. The Bank will also provide capacity building primarily for SMEs and their aggregators. It will also ensure that traditionally disadvantaged sectors—such as agricultural businesses, micro, small, and medium enterprises, and women-owned businesses—have equal access to trade finance.

The new strategy demands coordinated implementation throughout the Bank and with external partners. Internal implementation will be through a collaborative and decentralized approach, with ONRI providing strategic leadership and direction. The Bank will refine its guidelines for managing and monitoring regional integration. It will ensure that sector and thematic strategies and frameworks with regional dimensions are aligned with the Strategy and that the Strategy is reflected in the business plans of ONRI and other departments.

Operations will be designed and implemented by regional and sector departments, with ECON, OSHD and ONRI involved in technical assistance and capacity building (as well as knowledge management and knowledge-based advocacy). All departments will be involved in dialogue through their activities, but ERCO, ONRI and the field offices will be the most involved in strategic communication with stakeholders. The Africa Legal Facility will provide capacity building and advisory legal support to regional infrastructure and extractive industry projects.

ONRI will provide leadership as regional integration becomes mainstreamed across the Bank, and its role in regional operations will expand beyond setting priorities and arbitrating among sectors. It will coordinate and sequence sector department inputs, while leading the preparation of RISPs with regional and sector departments. It will also ensure that regional dimensions are defined at entry in national projects. An appropriate mechanism will be put in place to facilitate this.

The Bank will deploy its full range of financing and technical assistance instruments to support the Regional Integration Policy and Strategy for 2014-23. RISPs and CSPs are the main programming instruments for regional and country operations. The Bank will aim for even greater alignment between CSPs and RISPs for regional operations. ONRI will lead the design of a new generation of RISPs after 2015 with sector and regional departments. It will also work with operations departments to develop guidelines for the RISPs to ensure that lessons from the midterm reviews of the current RISPs will inform future RISPs.

The Boards are requested to approve the Bank's Regional Integration Policy and Strategy for 2014–2023.

I. INTRODUCTION

1. Regional integration is imperative for Africa. Its 54 states need “to create larger, more attractive markets, to link landlocked countries, including fragile states, to international markets (so as to participate in and share the benefits of an increasingly connected global marketplace) and to support intra-African trade” (AfDB 2013a). The continent’s growing middle class and its youthful population could become a key source of demand for producers of goods and services as expansion in African retail and financial services has demonstrated. With the appropriate skills, infrastructure and business environment Africa could enhance its attractiveness to investment leading to inclusive growth through better opportunities for all.

Background and Rationale

2. The African Development Bank is well positioned to foster Africa’s integration. Since its establishment, it has been at the forefront of providing advisory, technical and financial support to its regional member countries (RMCs). It approved the Economic Cooperation and Regional Integration Policy in 2000, established a department responsible for regional integration (2006) and developed the Regional Integration Strategy (RIS) for 2009–2012, extended to 2013. In 2011, it prepared a series of Regional Integration Strategy Papers (RISPs) to operationalize the RIS. Recently, the Bank’s Ten Year Strategy for 2013–2022 (TYS) reaffirmed its mandate in promoting regional integration in Africa by identifying regional integration as one of the five core operational priorities over the next decade.

3. African countries are implementing outward-oriented policies to enhance regional and global integration of their economies and improve domestic economic competitiveness. The New Partnership for Africa’s Development (NEPAD), along with other continental and national initiatives, provides a framework for the global and regional integration as well as national level alignment with the regional initiatives. At the continental level, the Heads of State have adopted programs to foster aspects of regional integration. The Continental Free Trade Area fast-tracks consolidation of the regional free trade areas. The Comprehensive African Agricultural Development Program aims to improve agricultural productivity and trade. The Program for Infrastructure Development for Africa provides a framework for infrastructure development. And the Boosting Intra-African Trade agenda identifies programs that can increase intra-African trade. The Heads of State have expressly requested the Bank, the United Nations Economic Commission for Africa (UNECA) and other relevant development partners to help operationalize them. Together the programs provide good guidance on the continental regional integration agenda. The regional economic communities (RECs)—the building blocks of regional integration in Africa—are also adopting new strategies to reflect the continental programs and to respond to region-specific challenges (Annex 4), and they are looking to the Bank for continued financial and technical assistance. At the global level, many initiatives are being adopted to foster greater global integration of developing countries, and development partners are being called on to support their implementation.¹

4. The Bank Group’s new Regional Integration Policy and Strategy for 2014–2023 (RIPoS) will help operationalize the YYS and guide Bank support to RMCs and regional bodies for economic integration. It will also provide guidance for formulating the RISPs. Its timeline closely follows that of the YYS to build synergies with other Bank sector strategies. By their nature, regional integration interventions pursue long-term goals and take a minimum of 5–10 years to implement. The partial results of ongoing midterm reviews of some of the RISPs confirm the need for a longer framework period for regional operations. The RIPoS will be complemented by a new set of five-year RISPs to be formulated during 2015–16.

Preparation

5. The RIPoS has been developed through a consultative process that drew inputs from prominent think tanks, academics and researchers. It also incorporates the recommendations of the Operations Evaluation (IDEV) report, assessing the effectiveness of regional integration operations and taking into consideration other Bank sector strategies developed since the last RIS. A broad spectrum of economic and sector work and literature was reviewed and analyzed for guidance. The Bank also posted an earlier draft on its website to facilitate public consultations electronically. Finally, the preparation process benefited from inputs from COSP and internal reviews as well as external brainstorming meetings with national authorities at the Conference of African Ministers of Regional Integration held in Mauritius in

¹ Such as the WTO Trade Facilitation Agreement adopted in Bali in December 2013.

April 2013, continental organizations, RECs, RMCs and private sector bodies, and contributions from other multilateral development banks (MDBs). Following Board approval, the Bank will organize dissemination seminars Bank-wide as well as externally to familiarize RMCs, RECs and other relevant stakeholders with the RIPOS.

II. AFRICA'S REGIONAL INTEGRATION PROGRESS, CHALLENGES AND OPPORTUNITIES

Progress

6. For several decades, African leaders have articulated an ambitious vision of a unified vibrant economy and encapsulated this vision in a series of continental documents and treaties, including the Lagos Plan of Action, the Abuja Treaty, the New Partnership for Africa's Development (NEPAD) and Agenda 2063. Yet, several assessments of the continent's regional integration efforts have concluded that, while there has been some progress, achievements have not matched ambitions. In particular, intra-African merchandise exports, about \$57 billion² at the end of the last decade, were only about 16.4% of total African exports, up from 11% at the beginning of the decade. This share is well below intraregional trade in other parts of the world. Manufactures are more important in intra-African exports (40% share) than in Africa's total (global) exports (18%). Within Africa, intra-REC exports tend to be more diversified than exports to other African countries. Further, intra-REC exports are more likely to consist of processed goods than the primary commodities that dominate exports to non-RECs.³ While imports have also grown overall, reflecting the increasing importance of Africa as a market (AfDB 2011b), imports from outside Africa are larger and have been growing slightly faster (14.0% a year) than intra-African imports (13.7%). In short, African suppliers have not been able to fully exploit growth in domestic demand.

7. Financial market integration has also made some progress, especially through the two monetary unions the Communauté Financière Africaine in West Africa and Central Africa and the Common Monetary Area (CMA) in Southern Africa. The spread of regional banks, especially from South Africa and Nigeria, and the growing ease of regional financial dealings also stand out. Coupled with the gradual improvement of cross-border transport and information and communications technology (ICT) that have improved payments systems, cross-border trade has become easier.

8. The African Union has formulated a *Minimum Integration Programme (MIP, 2009)*, which sets out the overall priorities and establishes monitoring and evaluation processes. Within that broad framework of the MIP, each REC determines its own pace and sequence of activities, and some RECs have made progress to deepen overall regional integration and rationalize regional groupings. The most ambitious initiative is the COMESA-EAC-SADC Tripartite Free Trade Agreement launched in 2008. The 26 Tripartite countries account for 58% of Africa's total GDP and have a market of 600 million people- about half of Africa's total population. The potential for boosting mutual prosperity through this initiative is high. Other promising initiatives are in Central Africa (between CEMAC and ECCAS) and West Africa (between ECOWAS and the WAEMU). Annex 4 presents the RECs and the status of their programs.

9. Continuing success will depend on how well Africa builds on the commitments stated in subregional and continental agreements and protocols, including the BIAT, PIDA, CFTA and Agenda 2063. These flagship programs are implemented alongside global initiatives to support outward-oriented policies in African countries and enhance their integration into the global economy. Regional and global integration policies are complementary and should be pursued in tandem.

Challenges

10. Globally, a key challenge is adding value to African products, given the concentration of largely unprocessed commodities in African exports. Moreover, the share of African countries in agricultural commodity exports has declined, as Asia and Latin America increased their shares. Weak inflows of foreign direct investment (FDI) and limited

² Overall, intra-African trade, defined as the sum of intra-African exports and imports, was valued at \$125 billion in 2011, expanding to \$148 billion in 2013 (AfDB 2012a).

³ However, there are significant regional differences. Intra-REC exports are negligible in the AMU and ECCAS, but more important in COMESA, ECOWAS and SADC, where the share of intra-REC exports in total exports exceeds 20% in 15 out of 37 countries. Except for SADC, the fastest growing exports are processed goods.

development of regional production networks have constrained manufacturing capacity and subsequent participation in global value chains (GVCs), in contrast to other developing regions. While there have been some gains in infrastructure development there are still missing links in regional transport corridors, unreliable and costly energy supply and relatively low penetration of ICTs. Gains in hard infrastructure must now be enhanced by improving soft infrastructure and related facilitation instruments to improve Africa's competitiveness. Ubiquitous soft infrastructure constraints hamper regional integration, reduce the use of physical infrastructure and discourage investment and trade. Similarly, obstacles to movements of people across borders, especially skilled labor, must be removed, as they also exacerbate skill deficits while unduly restricting trade. Africans need visas to get into at least two third of other Africa countries while North Americans and Europeans enjoy easier access into Africa. However, new evidence demonstrates that countries that have undertaken reforms in this area are already reaping benefits- Seychelles, an early visa reformer has seen a 7% increase in international tourist arrivals and the past five years (AfDB, 2014c). Other regions are also following suit- ECOWAS is developing a common migration policy and Rwanda, Uganda and Kenya have adopted a common tourist visa (AfDB 2014c). In recent years, maritime and highway piracy have affected the accessibility and operations of some ports and transit corridors. And political instability and civil strife in some countries, at times with regional spillovers, hinder regional integration.

11. Many RECs are in "mixed" neighborhoods, with fragile states grappling with challenges of reconstruction and transformation, alongside island economies and middle income countries, which also require innovative instruments to support their participation in regional programs. Yet the operational structures of many RECs hinder their capacity to design, coordinate and monitor the integration process in a way that addresses different country challenges. Strong political support for regional integration has to be translated into action by ratifying protocols and affording sufficient attention to regional integration in national development plans. This gap illustrates national capacity and budgetary constraints and the resulting tension in supporting national or regional programs, as well as national concerns about uneven gains and losses. Further down the line, project issues include ownership, legal safeguards, procurement, financial management, monitoring and evaluation, and differences in environmental requirements across countries. Finally, development partner priorities are not always aligned with the African integration agenda.

Opportunities

12. Global solidarity and goodwill, which underpin resource flows to the continent and have resulted in debt cancellation for some countries, continue to buttress the continent's growth. Similarly, global initiatives such as the World Trade Organization's Aid for Trade and the recently adopted Trade Facilitation Agreement open opportunities for support. Global technological advances, especially in ICT and agriculture, can help Africa leverage productivity gains and leapfrog competitors in other parts of the world.

13. New resource discoveries, such as oil, gas and coal in Eastern and Western Africa, present good opportunities for investment. Technology-driven opportunities in agriculture can support regional value chains, attract FDI and boost output, as seen in the rising importance of Chinese and Indian investments in Africa. Increasing the diversity of investment sources offers chances to develop the continent's natural resources, infrastructure and value chains. Moreover, Africa's current demographics are set to make the continent home to the world's youngest population by 2040, which, allied with pertinent skills and an enabling business environment, presents a potential youth dividend. Further an expanding middle class, now put at 355 million, raises Africa's profile both as a market and destination for investment. The slicing of the value chain provides another opportunity for Africa countries to increase cross-border trade in intermediate goods and latch on to global and regional value chains. Rising wages in China is projected to foment the shedding 85 million jobs in labour intensive industries, opening to Africa to woo some of that investment.

14. But African countries cannot take advantage of these opportunities as balkanized states. Only regional integration will help create larger markets that are attractive to the investment and trade critical for generating sustained growth, creating jobs and making growth inclusive. Cooperation arrangements through the RECs are expected to foster Africa's integration. And recent infrastructure and trade-related initiatives and various regional infrastructure master plans provide an added impetus for a more coherent approach to integration. At the national level, macroeconomic stability and robust growth, partly reflecting economic and governance reforms, have enhanced the potential to increase trade and attract foreign investment.

III. LESSONS FROM BANK GROUP SUPPORT TO REGIONAL INTEGRATION

15. An evaluation of the implementation of the RIS has not been undertaken, but successive Annual Development Effectiveness Review (ADER) reports indicate that the Bank achieved some success in financing regional infrastructure projects during the period included in the RIS (2000–13).⁴ Investment in regional operations constituted 14% of total Bank Group lending between 2008 and 2011. The Bank's investments in multinational or regional operations were concentrated in infrastructure, particularly transport (40.3% of ROs), energy (7.4%), water (3.6%) and ICT (2.7%), as well as financial intermediation (33%). Since 2009, the Bank has financed more than 70 multinational operations for \$3.8 billion, resulting in the construction of 467 kilometers of cross-border roads and the building and rehabilitation of 776 kilometers of cross-border transmission lines. It has also supported logistics services and trade facilitation along transport corridors. These interventions contributed to a sharp increase in intra-African trade, which more than doubled from \$47 billion in 2005 to \$108 billion in 2011. Similarly, Africa's share of global trade climbed from 2.5% in 2005 to 3.1% in 2011.

16. While not linking performance directly to the adoption of the Regional Integration Strategy, an OPEV (now IDEV) evaluation of multinational operations found that between 2006 and 2010 performance regarding quality at entry was mixed. On the positive side, there has been increased alignment on national and regional priorities, greater attention to implementation and governance arrangements (capacity of the implementing agency, roles and responsibilities of key stakeholders, etc.), and increased integration of regional integration agenda into Country Strategy Papers (CSPs). Despite the encouraging quality at entry results, the evaluation found weaknesses in Bank performance on regional operations between 2000 and 2010, particularly a lack of clear definition of multinational operations, which were often treated the same as regional operations. It cited a lack of strategic focus in addressing soft infrastructure impediments and in supporting regional public goods. It also found weak articulation of how private sector operations complemented the Bank's public sector operations in supporting regional integration. At an operational level, it assessed Bank support to multinational operations as only moderately effective for several reasons. There was limited engagement of field offices in policy dialogue (which could lead to a better alignment of regional integration agenda with national priorities). There was a mismatch between the ambitious mandate of ONRI and its resources. There was a lack of clarity in the department's role in relation to those of the regional and sectoral departments and field offices. Also lacking: a clear results framework and consistent cost-benefit and stakeholder analysis.

17. The mid-term reviews of current RISPs also indicate the importance of addressing soft infrastructure issues, strengthening the results measurement framework, strengthening engagement by the Bank in national level dialogue through its field offices to enhance political will and ownership; the need for development partners to identify the complementarity of their regional operations, and increase their coordination; and enhanced engagement with the RECs in identifying and prioritizing the support that they would need from development partners. The reviews also indicated the importance of ensuring coherence between regional and national initiatives.

Measures to Improve Bank Regional Operations

18. Since the evaluation, the Bank has moved to address the issues raised and to strengthen its regional operations, including:

- *Stepping up support for soft infrastructure.* The Bank has improved its soft infrastructure support, providing capacity building to support the NEPAD Planning and Coordination Agency (NPCA) and the Tripartite process. It developed a system of indicators for measuring regional integration. It also developed a framework for transport and trade facilitation and knowledge products for value chain development, application of standards, cross-border mobile banking, international investment flows and regional financial integration. With seed funding from the government of Canada, the Bank established the Africa Trade Fund to support capacity building. The experience of other development partners, however, is that while soft infrastructure investments require fewer resources, they have also proved harder to implement, and countries may want to proceed at their own pace. Therefore, the Bank will also support the RECs not only to monitor but also to help RMCs implement regional programs, using scorecards and involving private sector associations and other regional bodies.

⁴ Reviews of Bank experience in supporting regional integration have generated valuable lessons (AfDB 2012a,b,c).

- *Clarifying the scope of support to regional operations and regional public goods.* The Bank has refined its classification and selection criteria for regional operations (AfDB 2014a), taking into account distinctions among multinational, regional and national operations with important regional dimensions and impacts.
- *Improving the programming of regional operations.* Ensuring synergy between RISPs and Country Strategy Papers (CSPs) is vital, as regional operations are implemented nationally and must be included in CSPs to receive financial resources from national allocations. The Bank thus has to ensure that a regional project priority also appears in national priority development plans and in the Bank's CSP to facilitate its funding. The Bank will develop guidelines for the design and implementation of RISPs.
- *Leveraging knowledge management.* Recognizing the importance in designing and implementing ROs, the Bank is developing a system of monitoring regional integration indicators to measure progress and operational effectiveness and prioritize activities. It will increase its economic and sector work in regional integration and help draw lessons and identify best practices. It will also scale up, with partners, knowledge-based advocacy and dialogue to disseminate best practices.
- *Increasing collaboration with other development partners.* The Bank is strategically leveraging the experience of and partnerships with other regional players (UNECA, African Union, NPCA and the RECs), other MDBs and international organizations and bilateral agencies (Annex 4).
- *Facilitating private sector participation.* Private sector participation can enhance public ownership and acceptability of regional integration programs.⁵ Private firms also drive trade and undertake investments in infrastructure and industry to support trade. The Bank appreciates that PSP is key in formulating policy, financing infrastructure and enhancing trade. In regional operations PSP would include project financing as businesses or in partnership with or on behalf of the public sector—and providing ideas and legal and expert views to inform public policymaking and project implementation. The Bank's revised private sector strategy aims to facilitate PSP in executing regional integration programs, by providing business and trade finance, supporting PPPs, building the capacity of business membership organizations and disseminating best practices. The Bank will also leverage its financial sector and other sector strategies to enhance and facilitate private sector participation in promoting regional programs (see paragraph 51 for details).
- *Scaling up project preparation, especially for infrastructure.* Many regional infrastructure projects require feasibility studies—technical, financial and environmental—before financial closure. Project preparation provides a sound analysis of the rationale, as well as the political economy and costs and benefits. The Program for Infrastructure Development in Africa (PIDA) makes the business case for scaling up funding for project preparation to meet the increasing demand for the PIDA Priority Action Plan. The Bank supports the call of African Heads of State and Government enshrined in the DAA to all countries to contribute through their national budgets to the financing needs of NEPAD's Infrastructure Project Preparation Facility, rather than over-depending on overseas donors.

Key Success Factors

19. The IDEV evaluation and the experience of other development partners indicate that key factors for implementing regional operations include strategic alignment and design in a regional context; regional and country commitment and ownership; strong leadership by national and regional champions; strong implementation and governance arrangements; appropriate financing instruments; and private sector involvement. Those factors also include adequate organizational and institutional capacity—not only of national and regional organizations but also of development partners including the Bank (AfDB 2009b). The Bank will ensure that these factors are in place for the regional operations it finances to enhance their successful implementation and outcomes.

⁵ For the public authorities, the benefits of PSP include provision of information and expertise to inform decision-making; increased trust and credibility; mutual learning and common approaches; better implementation, reflecting democratic legitimacy and acceptance; and facilitation of information flows to the public. For the private sector, the incentives for PSP include the opportunity to influence decisions at the national and regional levels in a pro-business way, limiting policy uncertainty; improving and understanding of regional policy outcomes; increasing access to public resources through PPP mechanisms or private sector development funding.

IV. REGIONAL INTEGRATION POLICY

Vision, Goal and Objectives

20. The vision of the Bank Group, as expressed in the TYS (2013-2023), is a stable, integrated and prospering continent of competitive, diversified and sustainably growing economies participating fully in global trade and investment. The goal of the Bank Group's RPOs is to help realize that vision. The objective of this policy is to foster regional and ultimately continental economic integration through increased effectiveness of Bank Group support to RMCs, the private sector and sub-regional and regional organizations.

Guiding Principles

21. In implementing the Policy, the Bank Group, Senior Management and staff will be guided by seven key principles:

- *Principle 1: Ownership and Enhanced Participation.* Bank support for regional integration initiatives will be conditional upon commitment and ownership at continental, regional and national levels to both the process and objectives of regional integration. ADB Group interventions will also seek to empower beneficiaries, through advocacy, policy dialogue and capacity building support, to participate in the design of projects and to take the lead in managing the integration process.
- *Principle 2: Open regionalism.* The Bank will support regional and global integration, which as complements need to be pursued in parallel. The former will enhance intraregional and intra-continental trade and investment and help to open up Africa's landlocked countries, and the latter, Africa's participation in global markets that will enhance market access, scale up demand to match a growing supply capacity and provide access to technology and efficient intermediate goods suppliers, an important element in improving economic competitiveness.
- *Principle 3: Progressive integration.* RMCs may follow varying timeframes for meeting integration objectives, reflecting the individual circumstances of each country or grouping, consistent with regional agreements continent-wide. This approach allows flexibility, and the Bank will seek innovative solutions to meet different national and regional needs.
- *Principle 4: Subsidiarity.* The Bank will adhere to the subsidiarity principle—the distribution of powers and responsibilities over several layers (national to regional) within a regional integration scheme, according to the comparative advantage of each participating entity. The Bank will support initiatives fully owned by RMCs and sub-regional and regional organizations, ensuring that these initiatives are appropriately designed and implemented with accountability for results. Subsidiarity will encourage regional integration initiatives to be fully embedded in the national development agenda of RMCs, increasing credibility and irreversibility.
- *Principle 5: Fair and transformative trade.* Cognizant of the possible imbalances and benefits that may arise from regional and economic integration, the Bank will ensure appropriate mechanisms to enhance the benefits to RMCs and to address potential risks of inequalities arising from trade. It will also promote fair-trade opportunities to help African producers, especially small and medium enterprises (SMEs).
- *Principle 6: Selectivity.* With demand for regional programs far exceeding resources, the Bank will be highly selective in prioritizing operations, seeking to optimize resource use by focusing on its comparative advantages—the main ones being its African character and central place in Africa's institutional architecture for development and its positive track record in financing and implementing infrastructure projects. The Bank will also enhance its partnerships with key stakeholders to ensure the alignment and complementarity of interventions.
- *Principle 7: Regional cooperation.* The Bank will support cooperation on regional projects between two or more countries as a stepping stone toward integration. Such support will not discriminate against initiatives that may not have been identified in continental or regional blueprints. It also need not be located wholly in one REC, as some projects like transport corridors, power distribution system and under-sea internet cables often transcend multiple RECs and help enhance inter-REC integration.

Focus Areas of the Policy

22. The Bank Group's policy on regional integration is to create larger, more attractive markets, link landlocked countries to international markets and support intra-African Trade to foster the Continent's development. With infrastructure being the most binding constraint to production, trade capacity and Africa's overall development, the Bank will take a regionally integrated approach to infrastructure development, encompassing both "hard" and 'soft' infrastructure.

23. At the regional level, African countries are pursuing political and economic integration. However, as a development finance institution, the Bank policy focuses on promoting intra-African economic integration, which the continent is pursuing in several sectors and through various initiatives that are relevant to supporting the objective of poverty reduction in African countries, namely: (i) regional infrastructure, (ii) intra-African trade (iii) regional investment policies and frameworks and business environment (iv) enhanced capacity of regional institutions to effectively support regional and global integration and market access (v) increased ability of RMCs to effectively implement integration initiatives and exploit market access opportunities (vi) support to regional and global value chains development in agriculture, services, manufacturing and mineral beneficiation (Annex 1). These will be implemented in line with the Bank's TYS towards achieving the overall strategic objectives of inclusive growth and transition to green growth.

24. The Bank will not be involved in political integration, peace-keeping activities or combating maritime piracy even if the Bank acknowledges that these may have direct and contagion effects on regional integration. Instead the Bank will encourage the more appropriate regional, continental and global organizations such as the African Union Commission to address such issues.

25. The Bank's Policy also aims to support Continental initiatives to promote intra-African economic integration such as the Abuja Treaty, NEPAD document, BIAT, PIDA and AIDA as well as REC strategic plans. These strategies recognize that for Africa to develop, it must trade more with itself and globally; it must produce more; and it must build trade-supporting infrastructure. The Bank's policy acknowledges that all countries cannot integrate at the same pace and that although regional integration will foster the Continent's overall economic competitiveness and convergence in the long term, it entails winners and losers in the short term. This policy therefore adopts the approach enunciated in the MIP adopted by the AU to encourage regional groupings to implement continental regional integration programs (including the Abuja Treaty) at their own pace⁶. In this regard, while recognizing the importance of the RECs in bringing together countries to address common development challenges and deepen economic and political integration, the Bank will support any group of countries to determine their own pace of integration.

26. Finally, it is the Bank's policy to collaborate with the diverse array of multilateral and regional institutions that are also promoting greater political and economic integration among African countries and helping to tackle shared resource management issues (see Annex 4). Strengthening the capacity of the African institutions is critical to accelerating the integration agenda.

Scope

27. The Bank Group's Regional Integration Policy focuses on the economic integration- supporting cooperation arrangements with the global partners and among African countries and regions that seek to enhance economic development in the continent. The Bank's regional integration policy is, therefore, consistent with the NEPAD framework, which seeks to use economic integration, with its multi-dimensions (global, regional and alignment at country-level), as a tool for economic development (Annex 9).

⁶ The MIP also encourages countries to implement the stages of the Abuja Treaty at their own pace according to their economic circumstances.

Implementation

28. The new policy⁷ will be implemented through RISPs. The Bank Group will employ its full range of financing, policy dialogue technical assistance instruments, in compliance with its operational policies, guidelines, processes and procedures.

Eligibility and Priority Criteria

Regional Integration Programs

29. Even though regional operations encompass single or multi-country operations with cross-border benefits, access to incentives is subject to eligibility and priority criteria that are subject to revision from time to time and approved by the Board (box 1). The subcategory of RPGs, defined as goods or services whose benefits are shared by a group of countries in the same region in a non-rival and non-excludable way, would include projects that satisfy three dimensions: public, regional and Bank (the third is open to review, again subject to Board-approved priority criteria). These criteria include alignment with the Bank's corporate priorities, the region's RISPs and the priorities of the AU and the RECs—including ownership by the region's countries to confirm allocations from their performance-based allocations, and some policy components. Priorities for RPGs are based on the RPG definition (see box 1), plus the possibilities that Bank funding will catalyze upstream benefits and that project implementation will produce development effects (AfDB 2014a).

⁷ These provisions supersede those in the Bank Group's Economic Cooperation and Regional Integration Policy of 2000.

Box 1: Eligibility and ineligibility for RO incentive mechanisms

Definition of pure RPGs

“Non-rival” means that one country’s consumption does not subtract from what’s available to other countries; “non-excludable” means that no country in the region can be excluded from benefiting, except at a prohibitive cost.

RPG classification

The Bank classifies an RPG if it satisfies the three conditions:

- *Public dimension:* the good is of broad public interest and benefit.
- *Regional dimension:* the public good can only be effectively produced if every country involved participates and supports, and the development impact to be achieved through countries’ cooperation is demonstrably superior to what each country could have achieved individually.
- *Bank role:* financing targets the initial stage of the processes for generating the public good, and aims at correcting disincentives that prevent the RPG from emerging or progressing toward the stage of production, such as lack of coordination, aversion to risk and free riding.

Eligible operations

Integration operations

These are projects in two or more countries with benefits superior to individual projects. These extra benefits notably result from including policy dimensions agreed and implemented with the participating countries or regional institutions.

Above a certain threshold²—that is, strictly above marginal development outcomes—these projects could benefit from an incentive mechanism.

Single country operations with cross-border benefits

These define single-country projects with regional impact whose benefits are shared by neighboring countries through positive cross-border effects, particularly if they also include policy dimensions.

Above a certain threshold—that is, strictly above marginal development outcomes—these projects could benefit from an incentive mechanism. However, the ADF rule of two countries involved remains⁸. While one could define an RO as a single-country operation with cross-border benefits, projects must involve two countries to access RO incentives.

Operations not eligible for incentives

National operations

These projects, which constitute the bulk of the Bank’s interventions, are ineligible.

Multi-country operations

These projects take place simultaneously in several countries, in a specific region or otherwise. When these projects offer limited regional integration benefits (not exceeding a threshold of marginal overall development outcome), they are ineligible.

1. AfDB 2008a.

2. Subject to revision and determined by the Board.

Source: Bank Group Regional Operations Definition and Categorization, January 2014.

⁸ An exception may be granted in some specific cases (for instance, projects in some island countries)

V. REGIONAL INTEGRATION STRATEGY, 2014–2023

Strategic Position

30. As with all other areas of its work, the Bank will seek to be the partner of choice on carefully selected aspects of regional integration. With other development partners helping RMCs to integrate regionally, the Bank must carefully determine the way it serves clients in the RMCs. At the core is attracting, satisfying and keeping those clients.

31. As an African organization serving Africans, the Bank Group is well positioned to foster the continent's economic integration. But fiscal constraints among donor countries suggest that official development assistance (ODA) may stagnate in the coming years, so the Bank will seek new ways of mobilizing resources, especially by leveraging its own resources through collaboration, harmonization and information-sharing with other development actors. Similarly the Bank will be at the forefront devising innovative infrastructure financing approaches that look purposefully and decisively inwards to raise additional financial resources, as has been the case with Africa⁵⁰.

Strategic Pillars and Operational Priorities

32. The overall strategic position for regional integration is to “create larger, more attractive markets, link landlocked countries to international markets and support intra-African trade” (AfDB 2013a). Thus, the Bank's strategy is anchored on two mutually reinforcing pillars: supporting regional infrastructure development, and enhancing industrialization and trade. Implementation will be aided by a cross-cutting pillar: strengthening country and regional mechanisms and institutional capacities (Annex 2). Mainstreamed in strategy implementation and not organized as separate pillars are promoting economic inclusiveness, including that of fragile states, small and micro enterprises, and women and youth, green growth, protecting the environment, and fostering knowledge management.

33. In selecting the first two pillars, the Bank considered the challenges and opportunities of regional integration and its experiences and comparative advantage, especially in executing the RIS and other thematic strategies.⁹ It also considered its NEPAD mandate on infrastructure development and its corporate strategy and orientation, as defined in the TYS (Annex 1 sketches the strategic alignment between the RPoS and the TYS). The Bank's activities will reflect its role as catalytic financier, strategic partner and knowledge builder (Annex 2), while focusing on selected thematic issues.

Pillar I: Supporting Regional Infrastructure Development

34. The Bank views regional infrastructure development as a linchpin for Africa's economic integration and competitiveness, crucial in supporting regional and global trade, and “unlocking” landlocked countries. Adequate infrastructure will also produce economies of scale and sharpen competitiveness in African countries. Regional infrastructure will also support RMC's economic growth and poverty reduction agenda by facilitating increased intra-regional trade and exports from the continent, enlarging markets; promoting economic diversification; and reducing transport, energy, and communications costs. However, to foster inclusiveness, cross-border infrastructure should link to national level infrastructure assets, which trickle to district and community levels and provide access to productive centers and markets in rural areas. Similarly, the Bank will systematically consult local populations from villages within reach of the corridor, on additional investments that can add value to the project and provide better distribution of the benefits (e.g. market stalls for traders, schools and water supply systems). Cross-border infrastructure is also especially important for Africa's landlocked countries, which are disadvantaged by their geographical isolation.

Hard and Soft Regional Infrastructure Development

35. Bank support to regional infrastructure development is to be guided by continental and regional priorities, especially the Program for Infrastructure Development in Africa's Priority Action Plan, and will focus on design, implementation and maintenance activities (table 1):

⁹ These include strategies for private sector development, governance, knowledge management and development, agriculture and rural development, development of various infrastructures development, urban development, climate change, Human Capital Strategy for Africa and fragile states.

- *Improving access to clean energy and reliable energy supply.* Inadequate, costly and unreliable energy supply is Africa's binding infrastructure constraint. Only 38% of the population has access to electricity. The Bank will invest in energy infrastructure in order to unleash Africa's potential to produce value-added products and engage competitively in regional and global trade. This would also generate employment, especially for Africa's burgeoning youth population. The Bank will therefore encourage the regional development and cross-border trade of clean energy by investing in cross-border transmission lines and tackling soft issues such as capacity building and the policy and regulatory frameworks for utilities, regulators and regional power pools. In supporting energy investments, the Bank will encourage greener ways of exploiting the continent's energy endowments and connecting gas pipelines across countries.
- *Developing ICT infrastructure and connectivity.* Development of ICT infrastructure (such as land fiber-optic infrastructure, connections to submarine cables, and installation of Internet exchange) will promote spatial, social and financial inclusion.
- *Developing corridors.* These will improve intra-African connectivity in intra-African trade, spatial inclusiveness and the movement of people. The Bank will support port expansion to boost trade and promote multi-modal transport which includes, not only road transport, but also railways (including high speed railways) and water transport to provide affordable means of movement of people and bulk goods. The Bank will also support the development of Spatial Development Initiatives and Regional Export Processing Zones being developed in some RECs to promote industrialization and trade.
- *Improving logistics and infrastructure hubs.* Some cities, particularly large economic centers and coastal cities, are critical in transit, particularly by connecting landlocked capitals to seaports. Yet many cities face traffic congestion and power crises. The Bank will therefore support regional planning and development of these hubs, including power pools, airport hubs and bridges and bypasses.
- *Supporting trans-boundary water resource management.* Such management will support continental growth while helping countries implement disaster-prevention programs.
- *Financing project preparation.* Accelerating the rollout of infrastructure requires a sharper focus on project preparation and development, as well as specialized financial tools to address market challenges. The Bank will support and finance detailed cost-benefit analyses or sustainability assessments of regional projects in PIDA.
- *Bridging hard and soft infrastructure gaps.* The Bank will emphasize the hard and soft infrastructure nexus. Soft investments require fewer resources, but they can make regional infrastructure more efficient—thus enhancing integration and development outcomes. This is particularly true in power, where pervasive capacity gaps and soft infrastructure issues appear to constrain economic growth. RMCs will be encouraged to tackle maritime and highway piracy and the general security of infrastructure assets.
- *Maintenance of Infrastructure:* Maintenance helps to preserve asset quality and usability. The Bank will, therefore, finance investments to enhance maintenance of regional infrastructure assets and provide training on infrastructure maintenance.

36. The Bank will support the mobilization of resources for project preparation and implementation and will encourage the establishment of Special Purpose Vehicles, where necessary, for the implementation of regional infrastructure programs. The Bank will promote public-private partnerships (PPPs) in infrastructure development—from planning, design, preparation and construction to operations, management and monitoring. They will help ease financial burdens of governments in regional infrastructure, offer expertise and ensure that infrastructure functions effectively. The Bank will in parallel encourage countries to adopt frameworks or international principles¹⁰ to guide PSP in developing infrastructure. It will also monitor implementation of projects it supports and share best practices.

¹⁰ These help clarify goals, strategies and capacities, ensure proper partnership framework, safeguard integrity and establish accountability and responsible business conduct.

Table 1: Bridging hard and soft infrastructure gaps

	<i>Hard</i>	<i>Soft</i>
Transport	<p>Close missing transport links in major regional highways.</p> <p>Upgrade current infrastructure and expand coverage of national transport routes, connecting them to the main production, consumption and trade hubs.</p> <p>Promote hub ports and corridors that open landlocked countries to international trade.</p> <p>Promote railways and water transport to provide cheap sources for bulk transport.</p> <p>Modernizing current logistics facilities.</p>	<p>Address transport-facilitation issues and support reforms in transport regulations.</p> <p>Free up airspace (implementing the Yamoussoukro Agreement).</p> <p>Offer trade facilitation and private sector services.</p> <p>Improve transit and border-crossing infrastructure and services.</p> <p>Promote policy dialogue on transport; address sustainable development issues in transport development.</p> <p>Resolve nontariff barriers (including SPS issues affecting agricultural trade along major corridors).</p> <p>Support development of market structures in air cargo and regional freight and logistics services</p>
Energy	<p>Support major hydroelectric projects.</p> <p>Develop regional gas pipelines.</p> <p>Promote power pool interconnections to access low-cost energy, fostering industrial zones and covering, particularly, underserved rural communities.</p>	<p>Support policy dialogue on energy matters to reinforce energy security.</p> <p>Promote reform and regional harmonization of energy regulations and energy trading.</p> <p>Strengthen partnerships among national and regional power bodies.</p> <p>Build capacity of energy agencies.</p> <p>Address sustainable development issues in energy development.</p>
ICT	<p>Finance land fiber-optic infrastructure, connections to submarine cables, installation of Internet exchange points in countries without them, delivery of mobile and internet services to underserved areas, and other ICT infrastructure.</p>	<p>Help modernize and harmonize ICT policies.</p> <p>Strengthen telecoms policies and regulation for more PPPs.</p>
Water	<p>Support development of multipurpose dams, trans-boundary river resources and other river basin programs for flood control, irrigation, transport, drought prevention and industrial water supply.</p>	<p>Build capacity of Africa's lake and river basin organizations to develop hydraulic infrastructure.</p> <p>Address sustainable development issues in trans-boundary water management.</p> <p>Adopt measures for environmental and climatic resilience of ecosystems and infrastructure.</p>

Regional Public Goods

37. RPGs have two interrelated characteristics—significant trans-boundary externalities and “non-excludable” and “non-rival” elements. So coordinated interventions are appropriate to address market failures and the free-riding of RPGs. The Bank’s incentive mechanism for RPG financing (see box 1) is designed to support coordination among neighboring countries in developing RPGs to garner positive externalities.

38. Although several RPG development programs require joint actions in areas where the Bank has a comparative advantage, it will focus on RPGs that satisfy the Bank’s classification (see box 1) and are in line with objectives of the TYS (inclusive growth and the transition to green growth). Even so, the Bank will apply the criteria for incentive financing approved by the Board in 2014 to enhance selectivity and create positive spillovers.

Pillar II: Enhancing Industrialization and Trade

39. The concentration of African exports in unprocessed commodities and their exchange for consumer goods hinder the linkage effects of trade, and most African countries recognize the need to promote industrial development to move toward adding value to exports and diversifying products and destinations to enhance both regional and global integration. Indeed, the African Union has drawn up the Accelerated Industrial Development for Africa (AIDA) as a framework for industrialization and some RECs, including EAC, ECOWAS and the T-FTA, already have regional industrial development policies. Similarly the 34th Summit of SADC Heads of Government held at Victoria Fall in August 2014 directed that industrialization should take center stage in SADC’s regional integration

agenda. To this end the region plans to develop a regional strategy and roadmap for industrialization. Moreover, the Bank's Annual Development Effective Review (2012) acknowledged that 'a high priority within the regional integration agenda is strengthening regional industrial policy to promote economic diversification and increased productivity' and that 'in a globalized and inter-connected world, there is an urgent need for structural change in African economies to make them internationally competitive' (AfDB, 2012a, page 46). In this regard, the Bank's TYS acknowledges the need to support Africa's transformation agenda, including 'the development of industries that increase the impact of the existing sources of comparative advantage and enhance Africa's global competitive position' (AfDB, 2013a page 6).

40. Trade will provide an opportunity for African countries to specialize, reap economies of scale and industrialize faster, while commodity-driven industrialization will help them lift trade and attract more FDI. It will also stimulate job creation and skills improvement, reducing poverty and expanding the middle class. Industrialization will also facilitate technology transfer in agriculture and agribusiness, while inserting enterprises into global value chains.

41. Against this backdrop, the Bank is committed to working with RECs and their member countries to identify and build up regional value chains in agriculture, manufacturing and the service sectors. In particular, the Bank will strengthen industrial and trade development, notably Africa's soft infrastructure and its enabling environment for business as well as investment frameworks. The focus will be on industrialization, attracting investment, export diversification and market development, on trade policy and facilitation, and on trade finance.

Industrialization, Export Diversification and Market Development

42. As most African countries have a comparative advantage in commodities, many RMC industrial policies recognize the need to improve agricultural trade while promoting resource-based industrialization and developing GVCs.¹¹

43. *Improving agricultural trade.* Agriculture remains the dominant sector in many African countries, with great potential to promote economic growth, increase food sufficiency, support industrialization (especially agro-processing) and reduce poverty. So, even as countries push for industrialization, they still need to improve the value of their agricultural exports, yet this is held back by inappropriate national policies and regulations, poor infrastructure and weak capacity to tackle sanitary and phytosanitary (SPS) risks and meet SPS standards. The Bank will therefore provide support to RMCs to reduce barriers to agricultural trade which will contribute towards improving nutrition and food security at national and continental levels, boost agro-processing and build capacity to address SPS challenges and to meet standards and norms in international markets. The RPOs will leverage the support that the Bank is already providing through its agricultural operations and the Africa Trade Fund. It will also support the launch of national and regional agricultural commodity exchanges.

44. *Production networks to enhance industrialization.* Increasingly, industrial production in the global economy is organized around GVCs, which today account for two-thirds of global trade.¹² Successful GVC insertion thus permits a country to seize the benefits of trade and accelerate industrialization while generating private profits and fiscal revenues. Other GVC benefits for countries include inclusive growth, job creation, poverty reduction and technology transfer and, in post-conflict countries, tighter social cohesion.

45. Yet African countries have consistently failed to join high value-added industrial GVCs, due to such constraints as poor physical and soft infrastructure, low productive capacity and an unattractive business environment, as well as limited access to finance and weak public-private sector coordination. In the light of these cross-cutting constraints, the Bank will mainstream the GVC framework in its operations, cutting across several departments. For boosting regional trade, Bank support will have three main components: upgrading African value chains to improve efficiency and competitiveness; enhancing the linkages to lead firms by improving compliance with lead firms' requirements and standards and regulations; and providing technical assistance and skills development, mainly for such compliance. Thus RPOs interventions will focus on building capacity of SMEs to participate in GVCs and improving competitiveness of the business environment, including addressing regulatory frameworks and harmonization, tackling trade facilitation bottlenecks and investing in trade-enhancing regional infrastructure, both

¹¹ This section draws on earlier ONRI work.

¹² See IMF (2013) and Gereffi and Fernandez-Stark (2011).

hard and soft. The Bank will also promote GVCs in the infrastructure (IT, transportation), social (education and health) and agricultural (food security, cash crop exports and agro-processing) sectors. The Bank will also continue partnering with national financial institutions to support the financing of regional and global value chains.

46. *Service exports.* In Africa, services account for a significant part of GDP for many countries, with huge potential for further growth as countries move into the middle income bracket. Services are also crucial in stimulating product exports, maintaining merchandise exports, and providing employment and incomes, especially for women and youth. The Bank will provide leverage its GVC activities to support service exports and provide catalytic financing and technical assistance to develop service exports in Africa, including banking, finance, insurance, ICTs, and transport.

47. *Facilitating movement of people.* The Bank will work with RMCs to enable the free movement of people, beginning with skilled labor (which contributes towards enhanced competitiveness), business persons and those travelling for educational and health purposes. It will provide technical assistance to develop legal frameworks and mutual recognition of educational and other professional qualifications, as well as capacity building, knowledge work and advisory services (Annex 5b). In this regard, the Bank will leverage its Human Capital Strategy for Africa (2014-2018) to support regional knowledge networks and centers of excellence to foster harmonization and portability of skills.

48. *Attracting regional and international investment.* As part of its effort to boost industrialization, the Bank will support measures to boost regional and international investment—which, apart from financing industrialization, regional infrastructure¹³ and other regional programs, also channels technology transfers. During the last decade, capital inflows to Africa have surged and intra-African investment is building fast,¹⁴ especially into mining, finance, telecommunications and resource-based manufacturing. The bulk of FDI, especially intra-African FDI, goes to finance mergers and acquisitions.¹⁵

49. Despite the benefits and recent trends, Africa's share of international capital inflows is still very small and concentrated in a few resource-rich countries, with about a third of African countries not benefiting. The Bank will therefore leverage its strategies for regional integration, private sector development and financial sector development to support regional and national mechanisms and programs to attract foreign investors, particularly into regional infrastructure, manufacturing industries and other trade-development investments. The Bank will leverage the services of the Africa Legal Facility to provide capacity building and advisory legal support to extractive industry projects and infrastructure projects particularly PPPs. It will also support building capacity to implement current regional investment agreements and ensure their alignment with bilateral investment agreements among RMCs. It will support the harmonization of financial governance and standards by leveraging partnership with the Bretton Woods Institutions and the African Peer Review Mechanism. To develop regional financial markets, it will support programs to link national capital markets and develop regional capital markets in step with the roadmap for broader regional integration and development of domestic financial sector (Annex 9). Box 2 shows key initiatives supported by the Bank in the past. The Bank will also mobilize domestic resources, in addition to the regional and infrastructure-focused Africa 50 Fund. Further, the Bank will support the African Financial Markets Initiative and support the strengthening of national payments system to meet international standards and harmonize them regionally.

¹³ The infrastructure deficit, estimated at US\$48 billion a year, needs resources well beyond the funds available to local governments, the donor community or any other single source of funding.

¹⁴ According to the fifth *Assessing Regional Integration in Africa* (ARIA V), 2012, net private capital flows to Sub-Saharan Africa increased more than sixfold from an average of \$3.4 billion in 2000–02 to \$21.7 billion in 2010, with inflows growing much faster than outflows. In fact, private capital inflows increased fivefold between 2000 and 2007, overtaking official development assistance flows in 2006. Debt-creating flows (bank and other private capital) declined in favor of rising portfolio equity and FDI.

¹⁵ ARIA V provides details on patterns of foreign investment flows to Africa

Box 2 Key Regional Initiatives Supported by the Bank

- Assessment of Regional Integration in Africa (with UNECA, AU)
- Macroeconomic convergence (COMESA, ECOWAS, WAMZ, ECCAS, and EAC)
- Enhancing banking and financial standards, focusing on the APRM
- Building capacities for regional payment systems (ECOWAS, COMESA, ECCAS, and EAC)
- Implementing the African Financial Markets Initiative (with MFWFA and AACB)
- Building capacity for cross-border and regional regulation of financial institutions (with other development partners)
- EAC-COMESA-SADC Tripartite Free Trade Area process

Trade Policy and Trade Facilitation

50. Outward-oriented trade strategies are necessary for small economies to grow sustainably. But trade costs, a major determinant of trade competitiveness, are determined by trade policies and targeted interventions to ease trade. The Bank will support trade capacity building for RMCs, particularly low income countries and fragile states. It will also provide capacity building and advisory services to enable the private sector to access markets regionally and internationally. And it will strengthen partnerships with the AU, the RECs and international bodies such as the WCO and WTO.

51. Major factors in Africa's inability to benefit from freer trade are the excessive transaction costs and delays along the cross-border trade chain (Annex 6).¹⁶ Trade facilitation requires reforming rules and processes and addressing infrastructure weaknesses (among other inefficiencies). The Bank will support trade facilitation measures, including before and after the border issues, one-stop border posts, coordinated border management and customs reform and modernization. It will tackle nontariff measures along transport corridors and advocate for reforms within RECs and RMCs. It will also develop a Transport and Trade Facilitation Framework and conduct related assessments to guide the design of transport infrastructure projects to facilitate trade.¹⁷ And it will provide catalytic financing, technical assistance and training to address priorities identified by the WTO Trade Facilitation Agreement (concluded at Bali in December 2013) as well as the RECs, the RMCs and the Boosting Intra-African Trade Initiative in trade and transport facilitation. The link between trade facilitation and inclusive growth is shown in **Figure 1**.

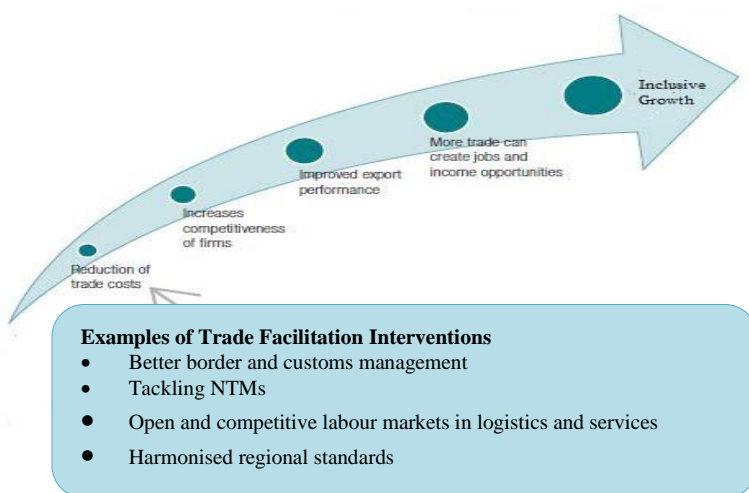
Trade Finance Capacity

52. Trade finance has a huge bearing on the trade supply chain, the ultimate volumes of trade and the participation of smaller traders in cross-border trade. In Africa it is dominated by a few international commercial banks, which typically cater to larger firms. Many national financial institutions, hamstrung by gaps in technical capacity, are virtually excluded from trade finance credit lines. Alongside transactional support, the Bank will boost the ability of indigenous financial institutions and development finance institutions to participate in trade finance and to intervene in SME markets. The Bank will also provide capacity building primarily for SMEs and their aggregators. And it will ensure that traditionally disadvantaged sectors—such as agricultural businesses, micro, small, and medium enterprises, and women-owned businesses—have equal access to trade finance. For example, it will use gender baselines for financing choices, facilitating information dissemination about African trade finance transactions in collaboration with relevant strategic partners.

¹⁶ Details of trade facilitation issues in Africa are presented in the fourth *Assessing Regional Integration in Africa* (ARIA IV).

¹⁷ Such a framework is imperative in view of the Bank's policy to earmark 10% of project costs financed under the RO Envelope for soft issues. It will also enhance cross-departmental coordination within the Bank.

Figure 1: How Trade Facilitation can contribute to Inclusive Growth¹⁸



Cross-cutting Pillar: Strengthening Regional and Country Mechanisms and Institutional Capacities

53. National and regional capacities to assess regional integration priorities and constraints, and to formulate strategies to address them and prepare projects, tend to be weak. The Bank will identify country and regional specific constraints and design focused interventions to exploit opportunities in sub-regions, including supporting countries that are better prepared to advance on their programs (variable geometry approach) and help pull other countries to make progress. Countries also need to strengthen their capacity for policy and regulatory reforms and to “domesticate” new technologies, especially fragile states. Therefore, the Bank will assess capacity needs and provide institutional, program and capacity building support to national and regional mechanisms and organizations to enhance delivery of the first two pillars.

Support to countries

54. The Bank will continue to encourage mainstreaming of regional programs in national development plans and provide targeted assistance to different categories of countries in accordance with their special circumstances, including:

- *Middle income countries.* MICs can serve as catalysts for regional integration. In line with the Bank’s Middle Income Countries Strategy, it will identify opportunities to exploit the strengths of the MICs as growth poles and experience sharing. It will enhance the dialogue with some countries to strengthen their interest in regional integration. It will also help them prepare projects using the MIC Trust Fund, the NEPAD Infrastructure Project Preparation Facility and the Africa 50 Fund. And it will promote other financing sources identified in the Dakar Agenda for Action on Infrastructure Financing. The Bank will play a catalytic role by mobilizing resources to support regional operations, especially from donors that can provide financing on concessionary terms.
- *Island countries.* The key challenges here include structural constraints of insularity, deficiencies in regional infrastructure, political fragility in some, vulnerability to natural disasters and climate change, and a limited mandate of their RECs. Financial integration (or linkages with the continent) and some infrastructure projects—such as airports, harbors and certain key hinterland roads—have regional dimensions, especially for trade. These areas will thus be targeted in the CSPs and RISPs. The Bank will examine how some of the conditions of existing instruments—such as the ADF window and the IPPF, which require the involvement of at least two countries to qualify for incentive financing—could be adapted to support programs in island countries.
- *Countries Affected by Fragility.* Fragility is characterized by weak institutions and governance structures, and a fundamental lack of state capacity to fulfill core state functions, including the implementation of regional integration programs. Fragility has regional dimensions as a crisis in one country can spread, although regional mechanisms can also be used to resolve conflict. Tackling such issues involves supporting regional cooperation, state-building and

¹⁸ Adapted from World Bank (2012)

institution-building with an array of instruments, as recommended by the High-Level Panel on Fragile States (AfDB 2014b; see Annex 5c). The Bank will scale up capacity-building support and other assistance through grants and technical assistance to reduce fragility in RMCs and facilitate the participation of countries affected by fragility in regional integration initiatives. It will also explore initiatives to bolster regional integration and tackle fragility in such regions as the Mano River, the Sahel, the Horn of Africa and the Great Lakes. Regional Integration Strategy Papers will consider the regional dimension of fragility and how to address them, working with and through regional institutions. All programs and projects in fragile situations will apply a fragility-lens throughout the project cycle, leveraging the Bank's Strategy on "Addressing Fragility and Building Resilience" (2014-2019).

Human and Institutional Capacity Building

55. The Bank will adopt a holistic approach to capacity development, including for the rationalization of the RECs.¹⁹ It will provide technical assistance for REC secretariats, RMC line ministries, regulators and other agencies as well as specialized institutions such as power pools, basin organizations, and customs agencies to strengthen their capacity to design, implement and/or monitor implementation of regional operations in accordance with the principle of subsidiarity. Beyond the public sector, it will work with key private sector institutions and business associations to generate results in policy convergence and alignments of national policies to regional policies and vice versa. It will step up support to national and regional institutions and centers of excellence to enhance their role in overcoming barriers to trade and labour mobility. It will also provide training—through workshops, selected sponsorship for courses and learning-by-doing programs—to improve the skills of staff in national and regional integration-related bodies, tying capacity development to the implementation of regional initiatives.

56. ***Mainstreamed Activities*** The Bank will employ its full range of financing, policy dialogue, and technical assistance instruments to mainstream the support for transition to green growth, inclusive growth and private sector participation in its regional integration activities.

- *Building capacity to better manage natural resources and address environmental issues.* In regional infrastructure development, the Bank will promote clean energy, energy security and ensure sustainable environmental practices in infrastructure development. The Bank will also encourage countries to participate in the implementation of regional public goods aimed at making efficient and sustainable use of trans-boundary water resources and combatting the spread of environmental and health risks. In addition, the Bank will leverage the services of the Africa Legal Facility to build capacity and provide advisory legal support to extractive industry projects, noting that some resource deposits transcend national boundaries). Industrial development and trade activities also raise environmental issues, which many countries and regional organizations cannot address for lack of capacity. The Bank will thus leverage the expertise of specialized organizations such as the WTO, ITC, UN and relevant think tanks to support RMCs in building local capacity and know-how. That will help RMCs manage the pressures on the local environment arising from domestic product development, improve biodiversity and respond to the environmental standards of international trade (Annex 5).
- *Focusing on women and youth regional integration activities.* The Bank will encourage investments in infrastructure that unlocks the potential of the private sector, championing gender equality and community participation. The Bank will pay special attention in its interventions to activities dominated by women. This would include focus on promoting entrepreneurship development through agro-industry, facilitating access to local, national and regional markets through roads infrastructure development, promoting wide-scale and affordable access to energy, increased access to information and communication technology (ICT), increased access to health services and export development activities. In particular, as women play a major role in micro-enterprise trading (including informal cross-border trade) and in processing agricultural goods, these interventions will help organize their participation in these activities. Effects of inefficient transit and border-crossing procedures and the absence of facilities to cater to the unique needs of women have resulted in disproportionately large consequences for women traders' due to low literacy rates and poor access to information on cross-border trade regulations. The Bank will support such trade-related activities as building market structures, building

¹⁹ The capacity programs should benefit from the ongoing capacity building needs assessment by the NEPAD Agency.

capacity at women's trade-related associations, raising financial literacy and providing information on trading opportunities, trade policies and procedures, and customs regulatory information with a gender perspective. The Bank will leverage its new financial sector strategy to support reforms that strengthen microfinance institutions, while also promoting the access of small producers, particularly women, to credit from formal institutions. It will also exploit its new governance strategy to encourage legislation and other governance reforms that remove discrimination against women, especially in property rights. In addition, as proposed by the High Level Panel on Fragility, the Bank will tackle youth unemployment through regional infrastructure development and trade and industrialization-related capacity building (Annex 5c). Women and youth also stand to benefit from programs targeted at SMEs.

- *Enhancing Private Sector Participation:* The private sector plays many roles in promoting regional integration in Africa, including enhancing ownership and acceptability of regional integration programs; as traders and investors in industrialization, agriculture, infrastructure development, and capacity building as well as providing ideas, legal and expert views to inform public policymaking and project implementation (see paragraph 18). The Bank ensures participation of all stakeholders (including private sector) in dialogues concerning design and implementation of regional programs. The Bank will leverage its sector activities (private sector, infrastructure, financial sector, governance, knowledge and human resources) to enhance and facilitate the participation of private sector, especially SMEs, in promoting and implementing regional integration in Africa. The possible range of Bank interventions to enhance private sector participation is presented in Table 2.

**Table 2:
Facilitating and Supporting Private Sector Participation in Regional Integration Activities**

Bank will support private investments and improvement of key factors affecting country competitiveness					
Productive Capacity	Infrastructure & Services	Business Environment	Trade & Investment Policy	Institutions	Access to Finance
-Human capital -Standards & certification -SMEs -National systems of innovation	-Transportation -ICT -Energy -Water	-Macro-economic stability & public governance -Ease of opening a business & permitting/Licensing -Access to finance	-Market access -Import tariffs -Export-import Procedures -Border transit times -Industry specific policies	-Participation of Business Membership Organizations -Industry maturity & coordination -Public-private coordination -Legal framework for dispute resolution	<i>Catalytic Financing from AfDB</i> -Lines of credit, -Equity participation -Loans -Trade finance -Support to the development of instruments <i>Resource Mobilization from Non-AfDB sources</i> - Bank loans -Capital market -FDI flows

VI. IMPLEMENTATION PLAN

57. Implementation of the strategy will need coherent approaches within and outside the Bank to fully exploit its comparative advantages while leveraging the resources and expertise of other development partners. The Bank understands that regional integration will not just happen. Therefore, it offers support through a number of instruments, but ensures that the risks are properly identified and mitigated, while the expected results for RECs and RMCs are properly measured and monitored.

Internal and External Arrangements

58. The cross-cutting strategy demands coordinated implementation throughout the Bank and with external partners (see **Annexes 4 and 7**). Internal implementation will be through a collaborative inter-complex, intra-complex and decentralized approach, with ONRI providing strategic leadership and direction. The Bank will refine its guidelines for managing and monitoring regional integration, taking into account lessons from the first RIS and the IDEV evaluation. It will ensure that sector and thematic strategies and frameworks are aligned with the RIPOs and that the RIPOs is reflected in the business plans of ONRI and other departments.

59. Operations will be designed and implemented by regional and sector departments, with ECON (EDRE, ESTA and EADI) and ONRI involved in technical assistance and capacity building (as well as knowledge management and knowledge-based advocacy). All departments will be involved in dialogue through their activities, but ERCD, ONRI and the field offices will be the most involved in strategic communication with stakeholders. The Africa Legal Facility will provide capacity building and advisory legal support to regional infrastructure and extractive industry projects. Details of internal arrangements are presented in **Annex 7**.

60. ONRI will provide leadership, crucial as regional integration becomes mainstreamed across the Bank. Both the IDEV evaluation and some of the midterm reviews of the RISPs have highlighted this need. ONRI's role in regional operations will expand from setting priorities and arbitrating among sector operations into a more active operational role. ONRI will coordinate and sequence sector department inputs, while leading the preparation of RISPs with regional and sector departments. It will also draft guidelines and checklists to ensure that regional dimensions are defined at entry in national projects. ONRI will coordinate with regional and sector departments as well as ECON to draw up a budgeted Action Plan for implementation of RIPOs within six months of the RIPOs approval by the Board (see **Annex 7**).

61. ONRI will also interface for the Bank's dialogue with external stakeholders. Such policy dialogue is key to shaping the Bank's interventions and presence as a key player in regional integration. To foster high-level engagement, ONRI will create a platform that will meet on a yearly basis to engage with REC CEOs, and other high-level personalities to share experiences, discuss progress in regional integration and disseminate key knowledge products (such as the regional integration analytical Report and index that will be generated annually through the System of Indicators for Monitoring Regional Integration). The Bank will also leverage existing forums such as the Bank's Annual Meetings and AU summits for high-level engagement, and also at the technical level. The Annual Meetings will also provide the opportunity to engage with Ministers of Finance, while AU Summits will avail the opportunity to engage with RMCs as and RECs. Regional resource centers and field offices will continue their role in programming, coordinating and monitoring regional operations, with their capacity strengthened. ONRI will also deploy regional integration experts in field offices with REC Secretariats (with competencies in infrastructure, strategy, and policy).

62. The Bank will use multiple communication channels to disseminate knowledge of regional integration, popularize the RIPOs and advise stakeholders—including Bank staff and the public—of key activities and their benefits. Strategic partnerships—including those for mobilizing resources, co-financing, knowledge development and dissemination, advocacy and dialogue—will generate clear outcomes, actions and concrete results. As a departure from past practice, dialogue will go beyond RECs and RMCs to include private sector, academia, think-tanks, and civil society (including the media). In selecting them, the Bank will consider its existing formal partnerships (see **Annex 7**).

Incentive Mechanisms for Developing Integration Programs

63. Learning from experience, the Bank looks into potential institutional, operational and financial-incentive mechanisms to improve the delivery of its regional integration mandate. It will continue to review its approach to programming and implementation, to factor in the specifics (complexity and duration) of such operations. It will do this in relation to the frameworks for their identification and planning and in relation to Bank guidelines (process and time allowed for each step of the project cycle) to guide staff during their development and implementation. It will also develop staff performance metrics to factor in the extra efforts and challenges that staff encounter managing such regional operations, due, for example, to complexity, delivery risks, or duration.

64. The Bank has already introduced financial incentives to encourage its ADF-eligible RMCs to implement regional integration programs by providing them special access to supplementary resources from the ADF's regional

operations window. The remaining challenge is how best to create greater incentives, particularly for the MICs, fragile states and island countries.

Resource Implications

65. Since the first RIS, the Bank has garnered internal expertise and capacity in mission-critical areas of regional infrastructure, private sector development and regional integration and trade policy. This will continue. Yet ONRI's current structure and skills mix do not match its responsibilities for leadership in regional operations and its desired field presence for dialogue, advocacy and high-level engagement. The department's current staff level is very low compared to other sector departments or Regional Integration Departments in comparator institutions such as the Inter-American Development Bank and the Asian Development Bank. In particular, the complexity of regional operations and leadership required of ONRI in emerging Bank operational areas such as regional industrial development and value chains will involve buttressing of the existing skills mix. Moreover, the need for enhanced dialogue, advocacy and proximity to the client, will require greater field presence. Therefore, ONRI's structure, resources and staff strength and skills will be reviewed and upgraded as necessary, though the Bank will address the budget implications within the constraints of ongoing cost rationalization. Where relevant, the Bank will also bring in specialized expertise through technical assistance and secondments. The Action Plan to be drawn by ONRI within six months of RipoS' approval, will spell out more specific human resource and budget implications and their implementation over time.

Bank Instruments

66. The Bank will deploy the full range of instruments at its disposal to support the regional integration strategy, including programming financing and other instruments. RISPs and CSPs are the main programming instruments for regional and country operations.²⁰ While the Bank's financing model is based on country programming, the RISPs reflect REC priorities regarding implementation of the MIP and other continental regional integration plans such as the Abuja Treaty. Therefore, the Bank will aim for improved alignment between CSPs and RISPs for regional operations. ONRI will lead the design of a new generation of RISPs after 2015 in collaboration with sector and regional departments. It will also work with operations departments to develop guidelines for the RISPs to ensure that lessons from the midterm reviews of the current RISPs will inform future RISPs. ONRI will draw up a checklist to ensure that regional dimensions are addressed in national projects

67. Support for the implementation of regional projects will come from the Bank's financing instruments, resources and windows, from its advocacy, policy dialogue, and knowledge products, and from the Africa 50 Fund, co-financing and trust funds (Annex 8). The Bank will promote and leverage other sources of infrastructure financing, as recommended by the Dakar Agenda for Infrastructure Financing, including Africa-owned private equity funds, infrastructure and diaspora bonds, regional stock exchanges, securitized remittances and current sovereign-backed pension funds.

68. The Bank will also use its convening power and field presence to enhance dialogue and provide advisory services to RMCs and regional groupings on the design and implementation of regional integration programs. The Bank is already leveraging its knowledge activities to design indicators for measuring progress in regional integration and to publish assessments on regional integration. It will also leverage its knowledge management capacity to undertake research on difficult issues and disseminate research results and best practices.

Risks and Mitigation

69. A bolder regional integration strategy entails risks—and concomitant mitigation measures (Annex 3). In Africa, divergent visions and approaches to regional integration among potentially integrating countries and country groups may undermine the Bank's incentives. For RECs, weak organizational and human capacity poses a major risk, so the Bank has incorporated capacity building into the RipoS as a cross-cutting issue.

70. Among countries, integration operations, implemented over the long term, often compete with national investments that may seem to have higher short-term financial and political payoffs. Policymakers still tend to focus on supporting populist import substitution policies at the expense of regional trade-promoting programs. Regional integration can also disadvantage countries with low capabilities as well as peripheral and lagging regions. Regional

²⁰ Four RISPs have been prepared for: Northern Africa covering the AMU countries, Western Africa covering the ECOWAS countries, Central Africa covering the ECCAS countries, and Eastern and Southern Africa covering the COMESA, SADC and EAC countries.

integration programs thus need to generate a minimum scale of benefits so that spillovers are big enough to bring RMCs together. The Bank's interventions take a developmental approach and aim to connect peripheral and lagging regions through measures that induce the structural changes to boost competitiveness in lagging areas. Civil strife remains a risk. Disease outbreaks also pose a major threat to cross-border mobility of people and trade, and undermine business and integration efforts. The Bank will therefore incorporate measures in its integration projects to proactively mitigate against such outbreaks and, when they occur, their transmission across countries.

71. At the project level, there can be a mismatch between complicated and long-term regional integration projects and the time to assess project effectiveness. The Bank will mitigate these risks with better programming. Internally, there is the risk that human and financial resource shortages, inadequate incentives for staff working on ROs and failures to mainstream ROs in Bank work can hamper regional programs. To mitigate them, the Bank will recruit the best talent and provide the most appropriate incentives in line with its People Strategy (2013-2017) which aims to place the AfDB as the employer of choice for those working on Africa's growth and development. ONRI will also carry out actions to sensitize other departments.

Results Framework

Expected Outcomes

72. The strategic outcomes in line with the pillars are more efficient provision of regional infrastructure and RPGs, increased intra-African trade, a larger share of Africa's global trade, improved financial integration, enhanced capacity of regional institutions, and greater ability of African countries to participate in regional and global negotiations (Annex 2).

Results Matrix

73. The RPoS identifies three broad categories of results: Bank results (outputs and operational and organizational effectiveness); Bank-supported results in RECs and RMCs (outcomes in strategic areas); and indicators of regional and continental progress (aligned with overall Bank objectives). A results-based monitoring framework has been developed, including indicators to monitor progress, and will be refined as the RISPs are developed. The framework identifies the strategic outcomes to be pursued and the Bank's planned contribution to them. Specific indicators for each pillar will be fine-tuned in the RISPs and in individual projects. The baseline data and targets to measure progress on indicators will be established by relevant departments for their sectors. The hierarchy of objectives, expected results and indicators linked to each pillar are in Annex 3.

Monitoring and Evaluation

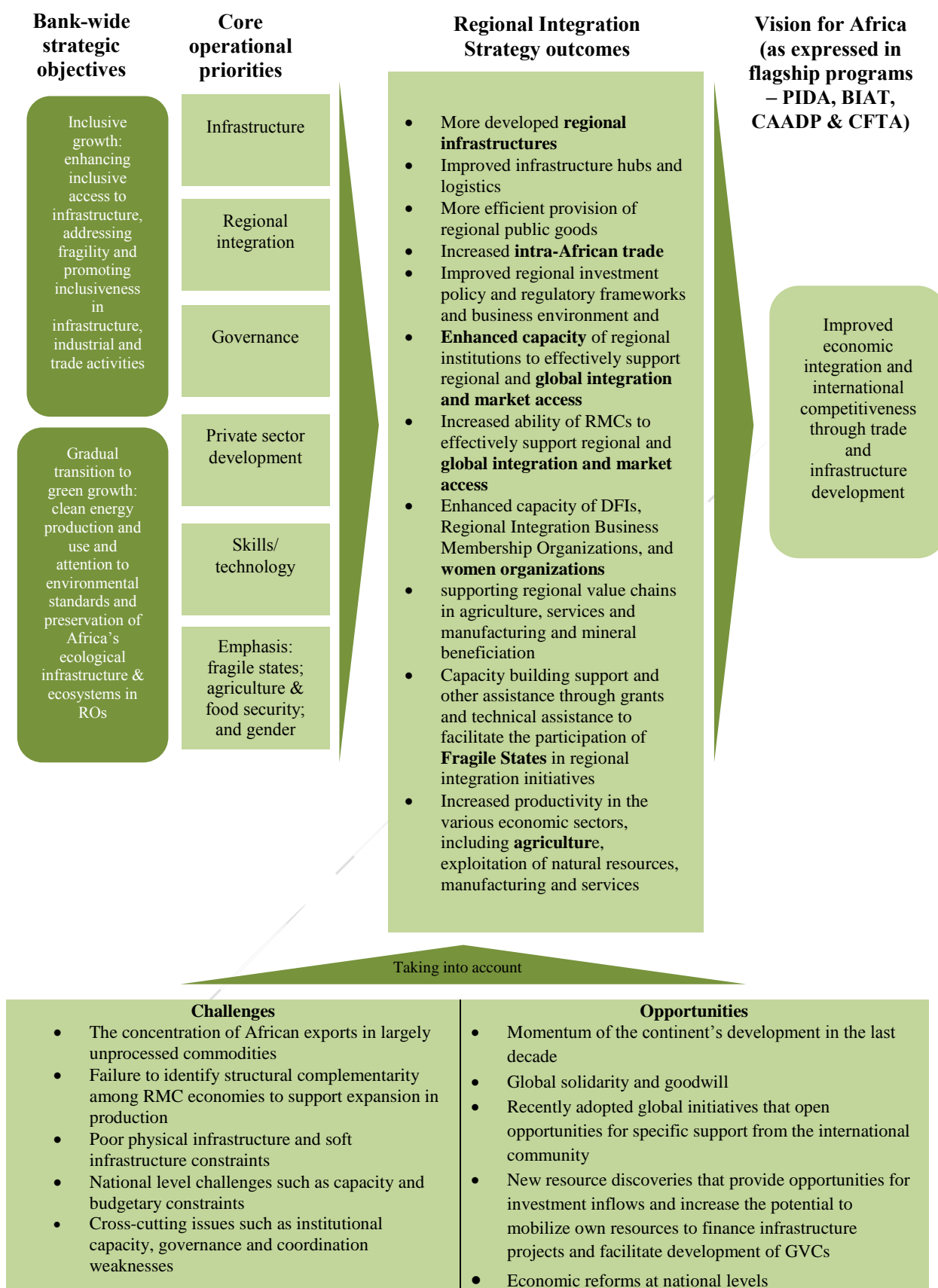
74. Monitoring and evaluation arrangements are as follows:

- For individual initiatives and financing operations, departments will assume responsibility for monitoring progress. For multinational programs, and regional operations and governance, the prescribed monitoring frameworks will apply.
- ONRI will prepare annual progress reports on strategy implementation. It will also rank regional operations to be financed by the Bank by assessing their development impact and strategic alignment. And it will examine RPGs in the light of the agreed eligibility criteria and report to OpsCom.
- IDEV will conduct periodic evaluations of selected Bank-supported initiatives in regional integration and trade to measure their development effectiveness and extract lessons. A midterm evaluation of the implementation of the strategy will be completed in 2019.
- For systematic and ongoing monitoring, the Bank will implement the System of Indicators for Measuring Regional Integration in Africa, which employs a robust results-based approach. It will track inputs, outputs, outcomes and impacts using carefully selected indicators. The indicators will not only provide a sense of whether expected results are being achieved but also identify gaps and areas for policy intervention.

VII. RECOMMENDATION

75. The Boards are requested to approve the Bank's Regional Integration Policy and Strategy for 2014–2023.

Annex 1: From the Ten Year Strategy to the Regional Integration Policy and Strategy



Annex 2: Schematic Summary of the Bank Group's Regional Integration Strategy Sector Strategy

Goal: Sustainable and inclusive economic growth in Regional Member Countries (RMCs)

Purpose: Improved economic integration and international competitiveness of RMCs

PILLARS	Pillar I: Supporting Regional Infrastructure Development	Pillar II: Enhancing Trade and Industrial Development	Cross-cutting Pillar: Strengthening Regional and Country Mechanisms and Institutional Capacity
EXPECTED OUTCOMES	<ul style="list-style-type: none"> More developed regional infrastructures Improved infrastructure hubs and logistics More efficient provision of regional public goods 	<ul style="list-style-type: none"> Improved trade and transport facilitation in RMCs and RECs Increased ability of African enterprises to access regional and global markets, with a focus on agricultural producers Improved business environment and investment policy and regulatory frameworks in African countries 	<ul style="list-style-type: none"> Governance as well as human and institutional capacity of relevant regional organizations strengthened Implementation of regional integration programs mainstreamed in RMC programs and capacity building prioritized
OUTPUT	<ul style="list-style-type: none"> Programs to implement more efficient trade infrastructure (such as customs facilities) at gateways and OSBPs along sustainable integration (transport and trade) corridors Programs to scale up official and private financing and implementation of regional and transformative infrastructure, including transport and logistics hubs Investments in regional public goods (centers of excellence, regional food security, management of environment, trans-boundary and shared natural resources) 	<ul style="list-style-type: none"> Harmonized and simplified customs and transit procedures, documentation and regulations Investment and capacity building programs implemented to enable Africa's agricultural and industrial producers to meet international standards and effectively participate in regional and global value chains Increased availability of infrastructure, services and information to support improved access to regional and global markets Programs to strengthen regional financial markets and financial infrastructure implemented (capital markets, payment systems, trade finance, fiscal surveillance) 	<ul style="list-style-type: none"> Strengthened African platform and voice in global trade agenda setting Improved coordination among RECs, RMCs and private sector organizations with regard to regional infrastructure development Improved coordination among RECs, RMCs and private sector organizations with regard to international trade and factor (capital and labour) movements Investment and capacity building programs implemented to enable fragile and island countries to participate in regional integration and trade Delivery of knowledge forums Improved monitoring of regional integration to measure progress & facilitate effective identification of gaps and policy interventions

BANK ROLE

Financier

Strategic partner

Knowledge broker

ACTIVITIES	<ul style="list-style-type: none"> Expand and upgrade selected trade corridors (including ports and transport networks) Trade facilitation programs (customs modernization, improving regional environments for business, investment, and industrial cooperation) Financing development of logistics and global value chains Regional capital markets development and integration programs Providing financial support to meet special circumstances of RMCs in the implementation of regional programs 	<ul style="list-style-type: none"> Support NEPAD Planning and Coordinating agency in coordinating and monitoring the implementation of PIDA PAP to facilitate harmonized approaches to the development of regional and sub-regional networks of transport, energy and communication Support to harmonizing customs procedures and reducing clearance documentation Building capacity of REC secretariats, power pools, regional central banks, development banks, payments systems, insurance, and capital market institutions and associations Enhancing human and institutional capacity of trade and regional integration institutions in fragile countries 	<ul style="list-style-type: none"> Gather and share best practices on regional infrastructure development Undertake/support analysis on cost-benefits, distribution of benefits and other issues in regional integration Support analyses to underpin trade corridor and transport network development, and partnerships to encourage and facilitate action among Analysis of trade policy reforms, trade facilitation issues and informal trade in Africa Initiate or support analysis of global value chains Develop instruments for measuring progress in regional integration Organize workshops to upgrade skills in trade analysis, implementation of regional infrastructure development, and international investment issues Implement system of indicators for monitoring regional integration
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INPUTS

- Programming tools developed (RISPs and CSPs, RO prioritization framework, Trade Facilitation Framework, Facilitating Trade Finance)
- Technical assistance, capacity building and enhanced partnerships
- Economic and sector work, knowledge products, evidence-based advocacy and dialogue
- Financial resources mobilized and efficiently utilized (ROs envelope utilization, Africa50 Fund, Africa Trade Fund scaled up, co-financing)

Annex 3: Results Measurement Framework

Level 1: WHAT INTEGRATION AND DEVELOPMENT PROGRESS IS AFRICA MAKING?					
Result	Indicator	Baseline	Latest	Data Source	Risks & Mitigation Measures
Enhanced sustainable and inclusive growth.	Gross domestic product (GDP) growth (%)	4.1 (2013)	6 (by MTR)	AfDB, IMF, World Bank, Reports	(R): Exogenous economic shocks
	Population living below the poverty line (%)	41.6 (46.3 for ADF countries) (2013)	25 (30 for ADF, countries)	AfDB, IMF, World Bank, Reports	(M): Promoting economic intra-African trade and economic diversification will help reduce the impact of exogenous shocks
	Population classified as middle class (number, %)	34 % or 350 million (2010)	50% or 650 million by 2020	AfDB, World Bank, UNDP	
	Renewable energy (% total electricity produced)	16 (2012)	tbd	AfDB	
Improved regional infrastructure	logistics performance index (LPI): Quality of trade and transport related infrastructure(1=low, 5=high)	2.31 (2012)	Mid-term review (MTR, 2019)	AfDB, World Bank Logistics Performance Index	Assumption (A): Ownership of the Strategy by all stakeholders and consistent level of donors coordination are effective
Improved regional infrastructure	Improvements on logistics performance index (1=low, 5=high)	2.48 (2012)	MTR (2019)	World Bank Logistics Performance Index	
Improved Investment performance	Growth in FDI inflows	6% per annum by 2023	MTR (2019)	UNCTAD, AfDB	Risk (R): insufficient support for the CFTA, PIDA and BIAT
Enhanced regional trade	Intra-African trade (billion USD)	148 (2013)	MTR (2019)	AfDB (AEO)	
Improved Trade performance	Africa's share of global trade	5% (by 2023)	MTR (2019)	AfDB, WTO	Mitigation Measures (M): Dissemination of the AU integration programs and of the Strategy to build a collaborative framework for all stakeholders
Improved intra-African trade	Share of intra-Africa exports (%)	25%	MTR (2019)	AfDB (AEO)	
Trading costs reduced	Number of RMCs with an "Trading Across Borders" Distance to Frontier score above 50	50 by 2023	MTR (2019)	World Bank Doing Business Report; AfDB	
Enhanced participation in regional and global value chains	Share of trade in value added	6%	MTR (2019)	AfDB, UNCTAD-EORA GVC Database	
Level 2: HOW WELL THE BANK IS CONTRIBUTING TO AFRICA'S INTEGRATION					
Result	Indicator	Baseline	Expected	Data Source	Risks & Mitigation Measures
Pillar 1: Regional Infrastructure					Risks & Mitigation
Result	Indicator	Baseline	Expected	Data Source	Risks & Mitigation Measures
Priority projects in regional roads and cross-border power transmission lines implemented	Transport—Cross-border roads constructed or rehabilitated (km)	129 (2011-2013)	2933 (by MTR)	AfDB	R: Non-prioritization of infrastructure projects by RECs and national governments Lack of appropriate financial instruments for regional projects : Lack of private investments in projects Parallel initiatives by the RECs Lack of countries ownership and capacity to interact
	Energy—Cross-border transmission lines constructed (Km)	465 (2011-2013)	734 (by mid-term review) (expected)	AfDB	
Regional ICT penetration and interconnection developed	Number of countries supported by Bank to connect to a regional fibre-optic backbone	21 (2011)			
"Soft" issues effectively mainstreamed in regional infrastructure projects	Percentage of resources invested in 'soft' issues in infrastructure projects	Soft issues often ignored or included haphazardly	10% of total project investment by midterm review	AfDB	M: Capacity of RECs and RMCs strengthened: Skills developed and resources mobilized to prioritize projects Develop appropriate financial instruments for regional projects: prioritization of regional

					<i>projects; Use of more private investments through PPP</i> <i>Increase coordination under the coordination Mechanism for infrastructure un the AU</i> <i>Strengthen capacity of the RMCs and RECs</i> <i>R: Parallel initiatives by the RECs</i> <i>M: increase coordination under the coordination Mechanism for infrastructure at NPCA</i>
Pillar 2: Enhancing Industrial and Trade Competitiveness					Risks & Mitigation
Result	Indicator	Baseline	Expected Target	Data Source	Risks & Mitigation Measures
Trade facilitation programs implemented	No. of RMCs supported to implement improved trade facilitation programs	n.a.*		AfDB System of Indicators for Monitoring Regional Integration	R) Lack of progress on agreement on harmonization (M) Improve dialogue with RECs enhance support for economic reforms
GVCs and Industrial networks strengthened	Number of RMCs supported to strengthen GVCs and industrial networks	n.a.*		AfDB System of Indicators for Monitoring Regional Integration	
Regional movement of people enhanced	RECs and MRCs supported to develop/implement harmonized frameworks for movement of people, including mutual recognition arrangements	n.a.*		UNCTAD World Investment Report; AfDB System of Indicators for Monitoring Regional Integration	
Regional financial market integration improved and financial infrastructure strengthened	No. of regional financial markets and payments systems projects supported by the Bank	n.a.*		AfDB System of Indicators for Monitoring Regional Integration	
Regional policy frameworks on investment improved	Harmonized investment codes developed or revised by RECs and being implemented by RMCs	n.a.*		AfDB System of Indicators for Monitoring Regional Integration	
Cross-cutting issues (this is not a pillar)					Risks & Mitigation
Result	Indicator	Baseline	Expected Target	Data Source	Risks & Mitigation Measures
Enhanced capacity of RMCs, RECs and Business Membership Organizations BMOs to implement RI programs	Number of professionals in RMCs, RECs and regional organizations (at 30% women) trained in regional operations policy and implementation	n.a.*		AfDB, REC Secretariats	R. bank has limited resources available for multi-national operations. Capacity building at such a limited level very low or non-existent m. ensure that resources are well-placed co-fund

*Data not available- these are either new areas or 'soft' issues previously not tracked, an observation also highlighted in the IDEV Report. Data will be built through the System of Indicators for Monitoring Regional Integration (approved by CODE in 2013) and progress will be tracked annually. The System is expected to be rolled out collaboratively by the Bank and UNECA in 2015

					projects with other donors to maximize impact
Better quality and timely information to inform implementation of regional programs	System of indicator for measuring regional integration in Africa implemented Other knowledge products on RI issues (including PCRs, ARIA, and ONRI & ECON reports) generated and disseminated	No reliable data to track progress especially on 'soft' issues. RI knowledge products not effectively disseminated	System of Indicators for Monitoring RI Launched by 2015 ONRI, ECON producing and effectively disseminating regular knowledge products on RI	AfDB AfDB	
Level 3 and 4: MANAGING IMPLEMENTATION and PROMOTING REGIONAL INTEGRATION					
Result	Indicator	Baseline	Expected Target	Data Source	Risks & Mitigation Measures
Mobilize resources to support capacity building	Amount resources (ADF and Trust Funds) dedicated to integration operations	UA1.044Bn (13 th ADF RO envelop) 2 Trust Funds (IPPF=\$50Mn, AFTRA=CAD15Mn)	\$200 Mn trust funds dedicated to integration operations, 5% increase in ADF allocations to RO by 2023		(R) Bank has limited resources available for multinational operations. Capacity building at such a limited level very low or nonexistent (M) Ensure that resources are well placed co-fund projects with other donors to maximize impact
Improve the mainstreaming of regional integration in sector strategies. CSPs and operation	Guidelines and frameworks developed and guiding the mainstreaming of regional integration in Bank strategies and operations	No guidelines exist on mainstreaming RI	Guidelines developed, disseminated to all Bank units by 2016 and being used to mainstream RI	ONRI Reports 2015	(R): Countries not prioritizing regional projects in their CSPs (M): Bank has in place an incentive framework and will continue adapting it where necessary. Bank to scale-up its advocacy and dialogues on RI (R) Insufficient capacity in FOs on RI issues (M): Bank to disseminate RI Strategy to FOs and develop guidelines and frameworks on mainstreaming RI in country operations.
Enhance Bank's capacity to engage in policy dialogue, advocacy, communication, and effective partnerships on RI	RI staff and focal points appointed in Field Offices of RMCs hosting RECs and at Headquarters and interfacing effectively partners	No RI experts in FOs	8 by mid-term review	AfDB Reports	(R) Delayed process to appoint staff in the bank (M) Expedite the process with CHRM and use consults in the interim

Annex 4: Strategies of Key Partner Institutions and International Organizations

<i>NAME</i>	<i>STRATEGY AND MISSION</i>	<i>POSSIBLE AREAS OF BANK COLLABORATION</i>
African Union	<ul style="list-style-type: none"> • Attain political and economic integration of the continent • Promote the sustainable economic development of African countries • Promote democracy, human rights, peace and security on the continent 	<ul style="list-style-type: none"> • Mobilizing regional champions • Resource mobilization • Co-financing (as with PIDA) • Dialogue and advocacy • Knowledge generation and dissemination
NEPAD Planning and Coordinating Agency	<ul style="list-style-type: none"> • A program of the African Union and a specialized agency • Implement NEPAD programs, including project preparation and monitoring 	<ul style="list-style-type: none"> • Project preparation • Dialogue and advocacy • Capacity building
UN Economic Commission for Africa	<ul style="list-style-type: none"> • Promote the economic and social development of its member states • Foster intra-regional integration • Promote international cooperation for Africa's development 	<ul style="list-style-type: none"> • Knowledge generation and dissemination • Dialogue and advocacy • Capacity building
Joint Secretariat Support Office	<ul style="list-style-type: none"> • Help AfDB, AUC and UNECA develop a common African policy position vis-à-vis the donor community as well as to harmonize their common position vis-à-vis global fora 	<ul style="list-style-type: none"> • Dialogue and advocacy
RECs and other regional organizations	<ul style="list-style-type: none"> • Achievement of economic integration and development • Trade liberalization and facilitation and creation of a conducive environment for investment • Development of ICT, transport infrastructure and consolidation of macroeconomic stability • Creation of Free Trade Area followed by a Customs Union and a Common External Tariff 	<ul style="list-style-type: none"> • Mobilizing regional champions • Dialogue and advocacy • Project prioritization
World Bank	<ul style="list-style-type: none"> • Develop regional infrastructure-coordinated approaches to create regional and sub-regional transport, energy and communication networks • Foster institutional cooperation for economic development—support to RECs to implement and harmonize customs unions and free trade areas and assist with ongoing trade negotiations • Coordinate interventions aimed at creation of regional public goods • Link regional and national planning and develop capacity in RECs 	<ul style="list-style-type: none"> • Co-financing • Dialogue and advocacy • Knowledge generation and dissemination • Technical assistance and capacity building
UN technical and specialized organizations (UNDP, WTO, WCO, ITC, FAO)	<ul style="list-style-type: none"> • Lead specialized UN agencies in setting global agenda, promoting initiatives, generating and disseminating knowledge, and providing technical assistance in specific sectors or thematic areas to foster growth and sustainable development 	<ul style="list-style-type: none"> • Dialogue and advocacy • Knowledge generation and dissemination • Capacity building
European Union and bilateral agencies	<ul style="list-style-type: none"> • Support political, economic and social development • Support creation of larger and more effective markets • Help tackle regional challenges (RPGs) such as AIDS, protection of natural resources and migration • Strategy delivered through political/economic partnerships; financing, dialogues and technical assistance 	<ul style="list-style-type: none"> • Resource mobilization • Co-financing • Technical assistance • Dialogue and advocacy • Knowledge generation and dissemination
Sub-regional financial institutions (DBSA, BOAD, BCEAO, BEAC)	<ul style="list-style-type: none"> • Resource mobilization • Supporting hard and soft asset investment that support broad-based infrastructural and productive capital for sustainable socioeconomic development • Create, mobilize and disseminate knowledge in support of greater development effectiveness, innovation and setting up of an enabling development environment • Specific technical, monetary/financial objectives 	<ul style="list-style-type: none"> • Resource mobilization • Co-financing • Technical assistance • Dialogue and advocacy • Knowledge generation and dissemination

Annex 5: How the Bank will support RMCs to address some specific “soft” issues raised in the Regional Integration Policy and Strategy

Annex 5a Addressing Environmental and Natural Resource Issues in Trade Development

Environmental and natural resource issues in trade are identified and addressed at micro and macro levels.

- ❖ *At micro or individual project levels*, the Bank ensures that its support to product and market development takes the following into consideration:
 - Project design and implementation are in line with treaties regulating trade in hazardous waste, endangered species and limits in the use of ozone-depleting substances; and
 - Adherence to rules and standards on health and sanitary levels (SPS, HACCP), technical barriers to trade (TBT), and preferential treatment of environmental-friendly goods and services (green technologies).
- ❖ *At macro or sector/national levels*, program design and implementation take into consideration the following:
 - **Sustainability of natural resources** that are fundamental to trade as sources of goods and “sinks” for waste and pollution;
 - **Climate change impacts**²² by better forest and agriculture management, and
 - **Support to maintenance of biodiversity** to sustain the diverse trade benefits of the environment²³ such as
 - ✓ Increasing trade and economic development in the production and marketing of African value added plant and tree products;
 - ✓ Conserving African biodiversity through urgent and concerted action for the protection of tropical forests;
 - ✓ Contributing directly to the development of the African Pharmacopeia;
 - ✓ Promoting access and benefit sharing of these rich biological resources;
 - ✓ Mainstreaming gender empowerment and equality; and
 - ✓ Realizing climate change mitigation and adaptation

Source: AfDB 2012d.

Annex 5b: Free Movement of People and Regional Integration

Free movement by people is the hallmark of regional economic integration, facilitating trade and economic growth across the continent. Free movement of people impacts considerable economic benefits of both temporary and long term to the economies in the region. In addition to traditional sectors such as tourism, immigrants increase economic efficiency by filling gaps in low- and high-skilled labor markets and increase economic efficiency by reducing labor shortages. Immigrants also remit considerable amount of money to support livelihoods and investments in their countries. Despite the benefits and commitment by African Union member countries under the *Abuja Treaty* regarding the free movement of persons and the rights of residence and of establishment by their nationals within the Community, progress has been slow on this.

The Bank’s approach to fostering free movement of persons focuses on four aspects, namely,

- (i) *Economic and sector work on migration and remittances*: undertaking empirical analysis to understand and shed light on the impacts of immigration on the labor market, regional trade, impact on tax and welfare systems and net fiscal consequences of immigration such as through remittances on both sending and receiving countries. The economic and sector work will also examine migration policies and entry regimes (visas); and
- (ii) *Leveraging remittances for development*: supporting projects to harness remittances and the African diaspora for productive investment as a source of development finance to encourage inclusive growth at both macro and micro levels. This includes initiatives to reduce the cost of remittance services and develop policies and projects that will facilitate greater economic participation of the diaspora, for example, in infrastructure financing.
- (iii) Supporting mutual recognition of skills
- (iv) Supporting REC and RMC mechanisms to facilitate movement of business people

Source: African Development Bank (ONRI) documents.

²² These include impacts on trade infrastructure and transportation, agriculture production (including cash crops for export), and adaptation, mitigation and reduction of emissions from deforestation.

²³ For example, in the current access to genetic resources and benefit sharing (ABS) negotiations under the Biological Diversity (BD) convention, developing countries will control access to their forests and traditional knowledge in exchange for users like pharmaceutical companies sharing the benefits derived from medicinal tropical plants.

Annex 5c: Tackling Youth Unemployment through Infrastructure Development and Trade- and Industrialization-related Capacity Building

<i>Short Term</i>	<i>Medium Term</i>	<i>Long Term</i>
<ul style="list-style-type: none"> • Demobilization, disarmament and reintegration (DDR) for young men • Labor-intensive reconstruction of infrastructure development projects • Regional and Community development and rehabilitation activities 	<ul style="list-style-type: none"> • Creation of SMEs • Promoting regional microfinance frameworks and provision of national microfinance facilities • Talent development (finance training and ongoing support for young entrepreneurs) 	<ul style="list-style-type: none"> • Tailor national education and training systems with private sector skills and strong emphasis on science and technology • Agriculture modernization programs, local content laws to include youth focus • Promote government-paid apprenticeships in other sectors

Source: Adapted from AfDB (2014b).

Annex 6: Challenges along the Trade and Transit Chain and possible trade facilitation interventions

	<i>Buying Order/Prepare</i>	<i>Shipment</i>	<i>Customs and Clearance</i>	<i>Inland transit/storage</i>	<i>Payment and insurance systems</i>
Challenges	Lack of trade information	Difficulties in meeting international standards Documentation issues (number, standardization and limited possibility of electronic submission and verification)	Nontariff barriers Poor port facilities (quality and congestion) Cumbersome customs and clearance (excessive documentary requirements; limited automation and insignificant use of IT; lack of transparency, predictability and consistency)	Poor warehouse facilities Poor quality of roads and railways Axel weighing systems Numerous checkpoints Poor urban infrastructure network	Inefficient and cumbersome payment and credit arrangements Costly insurance and customs security fees Weak payments systems
			Smuggling		
Cross-cutting challenges	Limited capacity of agencies Corruption (pressure for bribes) Limited trust between private and public sector Inadequate coordination between governmental agencies Lack of funds and competing development demands High cost of doing business				

Source: Compiled from ECA (2009) and Hellqvist (2003).

Based on the above table, possible trade facilitation interventions would include the following:

- *Provision of trade information;*
- *Nontariff barriers:* Support the reduction of nontariff barriers in the RECs and in the proper application of nontariff measures to avoid arbitrary and unnecessary trade restriction;
- *Promoting concerted customs reforms and modernization;*
- *Developing and enforcing transit and transport facilitation;*
- *Arranging improved market access for road freight carriers;*
- *Institutional support to strengthen the coordination and cooperation of African transport corridors;*
- *Strengthening and developing OSBPs;*
- *Developing logistics services;*
- *Improving conditions for cross-border informal trade,* especially by women and the youth;
- *Enhancing trade finance,* both in terms of increasing the ability of banks to provide trade finance (transactional) and building the capacity of SMEs to access trade finance (nontransactional); and
- *Strengthening payments systems* to facilitate intra-regional and international payments and transfer of funds.

Annex 7: Institutional arrangements

1. Internal institutional arrangements to implement the RIS include:

- Aligning the Bank's regional integration operations to strengthen country systems (country departments, in collaboration with ONRI*, ONEC, OITC, OWAS and OFDD), strengthen regional financial integration (OFDD with ONRI* and OSGE) and promote private sector development (OPSM*);
- Sharpening Bank support to institutional development and capacity building in regional integration (ONRI* and EADI), regional financial integration (OFSD* and ONRI), global value chains (ONRI*, OPSM and OSAN) and regional public goods (ONRI, OSAN*, OSHD, ONEC, OITC and OWAS);
- Generating and disseminating knowledge on regional integration issues, concerns and best practices (EDRE* with ONRI) and mainstreaming regional integration concerns and best practices in country and regional strategies (OIVP* with ONRI and country departments), peer-learning (ONRI*) and lessons learning from independent evaluations (IDEV*);
- Mobilizing Bank resources to support regional operations (ONRI*, ONEC, OITC, OWAS, OPSM, OFSD and OSAN);
- Building technical expertise relating to trade development (ONRI* and EDRE), regional infrastructure development (ONRI*, ONEC, OITC, OWAS and OPSM), regional financial integration (OFSD* and ONRI) and regional and national institution strengthening (ONRI*, regional departments and EADI); and
- Increasing internal capacities in regional integration by establishing a cross-departmental network of regional integration experts for technical support and consistency (CHRM, ONRI, ONEC, OITC, OWAS, OFSD, OPSM, OSAN, ECON and IDEV), realigning staff skill-mix and consolidating the Bank's knowledge of regional integration (ECON, ONRI, OFSD, OPSM and ESTA).

* Denotes lead department.

2. External partnerships include:

The regional organizations: The RECs are the building blocks for African integration, and they will be the core partners for the Bank's regional integration activities. The Bank will therefore strengthen its partnership with them. The Bank also recognized the vital role played by other regional bodies and will therefore support specialized REC institutions (such as those focusing on regional investment, standards and so on); regional bodies such as Power Pools and the River Basin Authorities; IGOs;²⁴ and private sector bodies such as regional business councils and development finance institutions. For investments and grants for project preparation, the Bank's assessments will consider such factors as implementation capacity, financial sustainability, fiduciary controls and clear mandate to implement a program/project. The assessment of suitability of the REC or REC institutions as partners in investment program implementation would differ from the eligibility of the program for support, the criteria of which is provided in the RO definition and categorization paper (AfDB 2014a).²⁵ Thus a regional operation does not have to involve all the countries in the REC or regional organization.²⁶ However, the Bank will encourage such a subset of REC member countries, including the IGOs, to align their programs to those of the designated RECs toward strengthening the AU integration agenda. Where capacity is lacking, the Bank will help build the necessary capacity to make the RECs effective partners. The Bank will work with the AUC and UNECA in advocacy and the generation of knowledge products to support Africa's regional integration agenda.

Other MDBs, international organizations and the private sector: With other MDBs, bilateral donors and the private sector, the Bank will leverage its invested resources to attract more financing for regional operations, which require huge investments. Further, where the strategic partners (such as UNCTAD, WTO and WCO) have specialized expertise or specific mandate in given areas of intervention, the Bank

²⁴ IGOs refer to regional trading blocs other than the 8 RECs recognized by the AU, e.g. WAEMU and MRU

²⁵ See Sections 4 and 5 of the paper.

²⁶ In the RO framework paper, the designation of an operation as being regional could involve only two countries.

will leverage the partnership to achieve the objectives of this RipoS. The Bank will also use existing initiatives like the ICA, which is hosted in the AfDB, to start strategic partnerships with G8 and G20 countries and work together with the ICA and the NEPAD Agency to disseminate information on regional projects (PIDA) and facilitate resource mobilization. The Bank will continue to promote more public-private partnerships for regional integration infrastructure. This will require setting up a supranational Special Purpose Vehicle (SPV), which could be registered and domiciled in one of the footprint states, but comprise shareholding from all the participating countries and private investors. The Bank will promote these types of arrangements wherever possible and structure appropriate financing to enable implementation. The Bank will also involve academia and NGOs in a broad consultative process to help gain consensus and ownership by the general public in early stages of regional projects, and will work with the media to create awareness of regional programs and their implementation.

Institutional arrangements for the external partnerships include:

- Serving as the primary interface between the Bank and national, regional and continental institutions mandated with regional integration (ONRI*, field offices and other relevant departments);
- Managing the Bank's advocacy and policy dialogue agenda with external stakeholders (ONRI, OFSD, ONEC, OITC, OWAS, country departments and field offices, and OIVP);
- Leveraging the activities of IPPF, AfTra and ICA (ONRI) and engaging multilateral and bilateral agencies and other members of the donor community on matters of coordination (ICA), knowledge exchange (ECON*) and resource mobilization (FRMB, OPSM and ONRI);
- Discharging the mandate provided by the AU in respect of NEPAD (ONRI*) and APRM (OSGE*);
- Managing trust funds and special purpose initiatives related to regional integration (ONRI and FRMB) and financial sector and private sector dimensions of regional integration (OPSM and OFSD);
- Helping program, coordinate and monitor implementation of regional operations in RMCs (country departments*, field offices, ONRI, ONEC, OITC, OWAS, OFSD, OSGE and OPSM); and
- Improving the visibility of the Bank's regional operations through effective communication (CERD, ONRI, ECON, ONEC, OITC, OWAS, OFSD, OSGE and OPSM).

3. ONRI's internal and external responsibilities

ONRI's internal responsibilities:

- (i) Prioritizing regional operations, including RPGs, to be financed by the Bank and assessing their development impact and strategic alignment;
- (ii) Leading the development of regional programming (RISPs) and review of their implementation;
- (iii) Monitoring alignment of Bank operations as well as complex, departmental and divisional business plans with the strategy and regular reporting on progress;
- (iv) Ensuring that regional dimensions are reflected in the CSPs and in Appraisal Reports of Bank operations;
- (v) Mobilizing Bank resources to support regional integration activities, particularly for project preparation and capacity building; and
- (vi) Providing technical leadership to the design of regional integration and trade programs, including advice to sector departments on their selection and implementation of soft infrastructure interventions.

ONRI's external responsibilities

- (i) Serving as the primary interface between the Bank and other MDBs, international and bilateral agencies as well as continental and regional bodies concerned with regional integration and trade;
- (ii) Discharging the mandate provided by the AU in respect of NEPAD; and
- (iii) Managing trust funds and special purpose initiatives related to regional integration for which the Bank has been contracted.

* Denotes lead department.

Annex 8: Implementation Instruments

Programming instruments

Regional Integration Strategy Papers (RISPs) and Country Strategy Papers (CSPs) remain the main programming instrument for the Bank's regional and country operations.²⁷ The Bank will aim for even greater alignment between CSPs and RISPs for regional operations. The Bank's financing model is based on country programming, while the RISPs reflect REC priorities regarding implementation of the MIP and other continental regional integration plans. As RISPs prioritize the Bank's interventions from the regional integration perspective, it is imperative that such projects and operations get prioritized in the respective country's national plans as well as the Bank's CSPs for the particular countries in order for financing to be prioritized. The Bank will encourage coordinated implementation of regional programs, especially regional public goods, and national programs for synergy. Based on the results of the mid-term reviews of RISP implementation, which have also pointed out the need (i) for more inclusive dialogue at the design stage to enhance country and other stakeholder commitment; (ii) to improve alignment of the RISP and the regional short-term priorities as well as pipelines in the CSPs; (iii) to revisit country coverage, especially for the Tripartite countries (COMESA, EAC and SADC); (iv) to improve inclusiveness in mixed neighborhoods (ensuring consideration of special circumstances of fragile, island, and middle-income countries); (v) for more realistic targets; (vi) for more robust results measurement framework; (vii) to revisit strategy implementation modalities to improve use of Bank private sector window to support the RISP, increased collaboration with DFIs that support regional operations; (viii) for capacity building of implementing agencies; and (ix) for ONRI to lead the design of a new generation of RISPs post-2015 in collaboration with the sector and regional departments. ONRI will also collaborate with the operations departments to develop guidelines for the RISPs to ensure that the lessons learned from the mid-term reviews of the current RISPs will inform the design and implementation of the future RISPs. While the regional and sector departments take the lead in designing and implementing national and regional operations, ONRI will provide a checklist to ensure that, at entry, regional dimensions are addressed in national programs.

Financing instruments

The financing requirement of bankable multinational projects is huge. The available financing mechanisms include the following:

- *ADF country resources*: ADF countries can access financing from the concessional window (using a percentage of their country allocations) to implement regional programs and projects in line with the ADF Regional Operations Framework.
- *The ADF multinational operations window*: The Bank earmarks a fraction of the ADF resources to regional activities, including for infrastructure projects and capacity building.²⁸ The shares have progressively increased, reaching 21 percent under ADF-XII, not including the contribution coming from the allocation of countries. The use of the resources is guided by the *Strategic and Operational Framework for Regional Operations* (AfDB 2008), which was revised in 2014 to reflect lessons from experience.
- *ADB resources*: The Bank uses resources from the ADB window to finance the participation of middle-income countries in regional programs. However, the scale of investment requirements for regional infrastructure in these countries necessitates the Bank to fulfill the role of catalytic financier and mobilize funding from other sources (see under "Co-financing, other financing instruments, and mobilization of other financial resources" below). The Bank will also play an advocacy role to engage stakeholders in these countries.

²⁷ Four RISPs are prepared: Northern Africa, covering the AMU countries, Western Africa, covering the ECOWAS countries, Central Africa, covering the ECCAS countries, and Eastern and Southern Africa, covering the COMESA, SADC and EAC countries.

²⁸ These have previously been called Multinational Operations (or MNOs).

- *Private sector window:* The Bank has an important role to play in mobilizing private sector resources for regional infrastructure, and supporting the involvement of local and regional private sector groupings in regional infrastructure projects. The Bank will support private sector participation in the implementation of regional programs through its current instruments, including loans, lines of credit, guarantees, equity and quasi-equity investments. The Bank will also use public-private partnerships to catalyze private participation in infrastructure delivery (PPI). The Bank has established a trade financing facility
- *Co-financing, other financing instruments, and mobilization of other financial resources:* The implementation of the strategy will require substantially new resources than can possibly be provided through ADF replenishments and the ADB window. Therefore, the Bank will step up co-financing and seek to explore various avenues (including use of trust funds—such as the NEPAD IPPF and AWF, the MIC Trust Fund, the Africa Trade Fund and Africa50—mobilization of financing from the Gulf States and emerging donors such as India, China and Russia as well as from the not-for-profit NGOs, use of instruments such as guarantees, and other credit enhancement mechanisms) to secure other concessional and semi-concessional resources that can also benefit the ADB-only countries to facilitate implementation of the strategy.
- *Africa50 Fund:* A very significant recent development is the establishment of the Africa50 Fund, aimed at mobilizing private financing to meet the infrastructure funding gap in Africa. The Fund, which will focus on high-impact national and regional infrastructure projects, is structured as a developmentally oriented yet commercially operated entity. It will establish two business segments to address bottlenecks in the delivery of infrastructure projects. The first is project development to increase the number of bankable infrastructure projects and speed up project preparation in Africa. Attracting the private sector in project preparation brings a new dimension to public-private partnerships in infrastructure delivery. The second is project finance, focused on delivering the financial instruments (including bridge equity, senior secured loans, refinancing/secondary transactions and credit enhancement and other risk mitigation measures) required to attract additional infrastructure financing to the continent. With a target equity investment of \$10 billion (to attract \$100 billion worth of local and global capital), the Fund will also offer added opportunity to address limited project preparatory and catalytic funding for regional operations in MICs. To ensure reliable access to capital markets while also offering additional operational flexibility, Africa50 will target an investment grade rating of single A.
- *The Dakar Agenda for Action (DDA):* The DDA was adopted on June 15, 2014, and recognizes that Africa must look purposefully within and decisively inwards to raise additional financial resources for stable growth and effective development including infrastructure, by breaking with the past of aid dependency. The DDA prioritizes the financing of 16 priority infrastructure projects as a pilot to accelerate the implementation of PIDA and they invited the private sector to commit more toward financing the 16 priority projects. The DDA also calls for scaling up funding for infrastructure project preparation, especially the IPPF hosted by the Bank; promoting and leveraging other sources of financing, including Africa-owned private equity funds; deepening infrastructure bonds; using diaspora bonds and regional stock exchanges; securing remittances and strengthening the existing sovereign-backed pension funds.
- *Other instruments:* The Bank will also use a range of other instruments, including:
 - ✓ *Advocacy:* As an African “voice” on development issues, the Bank will further the cause of African integration in key international, continental and regional fora. The Bank will leverage its knowledge management capacity to promote knowledge-based advocacy. It will encourage the development of regional advocacy in support of country-specific advocacy issues and vice versa. In particular, it will encourage all RECs to designate regional integration champions (countries or eminent persons) to encourage implementation of regional programs²⁹ and will collaborate with

²⁹ Some RECs such as ECOWAS and ECCAS have already embraced the practice of regional champions to encourage implementation of specific programs.

and support such champions to enhance progress. The Bank will also engage with the media to enhance communications on regional operations and link the communication to the operation's advocacy objectives and priorities, knowledge management and resource mobilization, and will require inputs and support from all stakeholders.

- ✓ *Policy dialogue:* The Bank will actively engage in policy dialogue with key stakeholders to address policy and regulatory constraints, ensure commitment and facilitate and enable regional integration on the continent. The Bank will enhance effectiveness of CSPs and develop RISPs and knowledge products as a means to strengthen such dialogue.
- ✓ *Knowledge products,* including applied research, statistics and data analysis: Knowledge-sharing will be facilitated through partnerships and convening conferences and seminars on pertinent topics related to regional integration and trade.

Annex 9: Regional Financial Integration: A Generic Roadmap

<i>Stage of RFI</i>	<i>Domestic measures</i>	<i>Regional measures</i>	<i>Other Specific Measures regarding Capital Markets Integration</i>
Pre-conditions	Macroeconomic stability Bank soundness		
Stage 1: Preparatory Member countries begin to take steps to modernize their financial systems by implementing parts of international financial standards and initiate exchange of information among themselves regarding the program being made.	Improve national payments systems (RTGS) to reduce payments delays and transfer costs. Strengthen bank supervision and regulatory framework ('partial' compliance with Basle Core Principles (BCPs); Improve accounting standards (IFRS); Improve core elements of legal system (land and corporate registries, property rights, contract enforcement);	Agreement to establish FTA; Regional secretariat to advance and implement regional agenda; Regional committees to delineate areas and modalities of integration process; Bilateral and regional agreements to offer technical assistance to 'less developed' members to upgrade their financial system;	Creation of national stock exchanges Improved Communications among the Stock Exchanges
Stage 2: Harmonization Member countries to modernize their financial system. Steps should be taken to harmonize and link regional financial policies, institutions, and rules and regulations.	Expand payments systems to include electronic fund transfers, security deposit systems, and payment switches; Devise cost-effective systems for small transfers; Further strengthen bank supervision and regulation by 'large' compliance with BCPs, IAIS, & IAS; Remove intra-regional exchange controls; Liberalize foreign capital inflows; Strengthen stock exchange (if it exists) rules and regulations, and implement supervision ((IOSCO) principles; Substantially complete the modernization of the financial systems, making them market-based; Central bank autonomy and reinforced supervisory authority; Remove barriers to entry of regional and foreign banks to	Fully effective FTA; Agreement on relevant convergence criteria (voluntary compliance); Establishment of (advisory) surveillance and monitoring mechanism; Regular meetings between country regulators and supervisors; Harmonization of policies regarding inward capital flows; Linking national payments systems (REPSS< TARGET); Establish private financial sector consultative bodies (association of bankers, accountants, stock exchanges, etc. Regional physical infrastructure development bodies;	Harmonization of regulatory framework Harmonization of trading rules Design of uniform listing requirements Joint stock-brokerage training programs Exchange of information Joint participation in international programs

	improve competition; Develop national credit information systems.		
Stage 3: Cooperative. Members make substantial cooperative moves towards harmonizing and linking their financial sector policies. They also strengthen and make more operative the regional surveillance and monitoring mechanism	Gradually liberalize exchange controls vis-à-vis the rest of the world; Implement regionally agreed comprehensive convergence criteria; Coordination of monetary and exchange rate policies	Agreement to establish customs union; Regional FDI regime; Establishment of comprehensive convergence criteria (mandatory) and its monitoring with MDBs/IFIs support; Full harmonization of regulatory, supervisory, and accounting standards; Single bank licensing, cross-border participation of regulators and supervisors in bank supervision; Development of a centralized credit information system; Development of region-wide securities market infrastructure and regulations;	Dual listing of major companies Standardization of the profession Issue Regional-based corporate instruments Interface of national stock exchanges
Stage 4: Members move to unify their institutions, rules and regulations, as well as financial products.		Fully effective customs union; Unified stock exchange; Adoption of broad legal system (e.g. OHADA treaty in by WAEMU countries); Partial pooling of reserves; Regional bond market	Merger of the Stock Exchanges Emergence of a strong Regional Capital Market
Stage 5: In this stage members yield sovereignty in monetary policy to a regional authority	Exchange local currency for a regional currency; Reserves in common	Regional central bank; Regional common currency;	

Source: African Development Bank (2009a), and Mbaru (2008).

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