AFRICAN DEVELOPMENT BANK GROUP

EASTERN AFRICA REGIONAL INTEGRATION STRATEGY PAPER 2018-2022

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Contents

ANNEXES

ACRONYMS AND ABBREVIATIONS

AEO	Africa Economic Outlook
AFD	French Development Agency
AFTRA	Africa Trade Fund
AGI	African Governance Index
AIDA	Accelerated Industrial Development of Africa
ARIA	Assessing Regional Integration in Africa (report of the AfDB, ECA and AU Commission)
ATI	African Trade Insurance
ARII	African Regional Integration Index
AU	African Union
BDEV	Independent Evaluation Department (of the AfDB)
BIAT	Boosting Intra-African Trade Agenda (of the AU)
CAR	Commitments at Risk
CFTA	Africa Continental Free Trade Area
CPI	Corruption Perception Index
COMESA	Common Market for Eastern and Southern Africa
CPPR	Country Portfolio Performance Review
CCTTFA	Central Corridor Transit Transport Facilitation Agency
DBDM	Development and Business Delivery Model
DfID	United Kingdom Department for International Development
EAC	East African Community
EADB	East African Development Bank
EAPP	Eastern Africa Power Pool
EA-RISP	Eastern Africa Regional Integration Strategy Paper
EASRA	East African Securities Regulatory Authority
ECA	United Nations Economic Commission for Africa
ECCAS	Economic Community of Central African States
ECDMP	European Center for Development Policy Management
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
GVCs	Global Value Chains
IOP	Indicative Operational Program
ICBT	Informal Cross-border Trade
IGAD	Intergovernmental Authority on Development
IGGP	Inclusive Green Growth Partnership
IGOs	Intergovernmental Organizations
IOC	Indian Ocean Community
IRB	Independent Regulatory Body
KfW	German Development Bank
MIC	Middle Income Country
MTR	Mid Term Review
NELSAP	Nile Equatorial Lakes Subsidiary Action Program

NEPAD	New Partnership for Africa's Development
NPV	Net Present Value
NTBs	Non-Tariff Barriers
OECD	Organization for Economic Cooperation and Development
OSBPs	One Stop Border Posts
PACCI	Pan African Chamber of Commerce and Industry
PIDA	Program for Infrastructure Development in Africa
PPP	Public Private Partnership
PSCF	Peace, Security and Cooperation Framework
RBF	Results-Based Framework
RDN	Regional Diagnostic Report
REC	Regional Economic Community
RISF	Regional Integration Strategic Framework (of the AfDB)
RMCs	Regional Member Countries (of the AfDB)
RPG	Regional Public Good
RPIP	Regional Portfolio Improvement Plan
RPPR	Regional Portfolio Performance Review
SADC	Southern African Development Community
SAPP	Southern Africa Power Pool
SPS	Sanitary and Phytosanitary
TFTA	Tripartite Free Trade Area
TMEA	Trade Mark East Africa
TYS	Ten Year Strategy
UNDP	United Nations Development Program
WB	World Bank

Map of Eastern Africa

EXECUTIVE SUMMARY

1. **The Bank Group Regional Integration Strategy Paper for Eastern Africa (EA RISP) 2018-2022 articulates strategic priorities and a corresponding indicative Operational program for the Bank's support to regional economic integration in Eastern Africa.** It has been prepared in the larger context of the Bank's strategic direction and recent regional, continental and global developments. These developments include the adoption, in 2015, of the Sustainable Development Goals (SDGs), the African Union (AU) Agenda 2063, the Tripartite Free Trade Area (TFTA), and the Continental Free Trade Area (CFTA) launched in Kigali, Rwanda in March 2018, to consolidate Africa's market regimes. It also builds on the thrusts and orientation of the previous RISP (2011-2016) whose strategic pillars were Regional Infrastructure and Capacity Building. While implementing the previous RISP, the Bank has left a strong footprint in terms of financing regional integration in the Region. The completion report (CR) of the previous EA RISP notes that the Bank invested UA1.82 billion on regional operations by December 2016, of which UA1.678 billion supported the regional infrastructure pillar.

2. **In 2015, the Bank adopted a new strategic framework focusing on five (5) priorities- the High-5s, to accelerate the implementation of its Ten Year Strategy (TYS, 2013-22).** These are: Light Up and Power Africa, Feed Africa, Industrialize Africa, Integrate Africa, and Improve the Quality of Life for the People of Africa. The Bank Group "Regional Integration Strategic Framework (RISF, 2018-2025)" approved by the Board in March 2018 provides the broader strategic context for the RISP. In this regard, the scope of RISP activities are aligned with the three RISF pillars, namely (i) infrastructure connectivity (iii) trade and investment, and (iii) financial integration. To this end, the EA RISP focuses on two Pillars, namely (i) Regional Infrastructure Development for competitiveness and transformation and (ii) Strengthening the policy and institutional frameworks for market integration, investment and value chains development. However, the RISP will also enhance impact and effectiveness across all the High-5s, taking into account regional specificities. In addition, a new Development and Business Delivery Model (DBDM) with a corresponding revamped organizational structure adopted will enhance delivery effectiveness. The DBDM reinforces mechanisms for better internal coordination and closer proximity to the Bank's clients, with major responsibilities devolved to beefed-up regional hubs. It also entails strong dialogue with RECs and key regional stakeholders under the leadership of the Director Generals.

3. **To adequately capture pertinent developments underpinning the regional context, the EA-RISP (2018-2022) is informed by a comprehensive Regional Diagnostic Note (RDN). The RDN is** based on sectoral analytical notes, recent economic sector works (ESWs) conducted by the Bank and partner institutions, and feedback from a comprehensive consultative process. The consultative exercise involved the RECs, specialized regional institutions, other Development Partners, Academic and Research Institutions, Private sector bodies, as well as early Board engagement. As a result, the RISP responds to priorities set out in key RECs strategies, incorporates stakeholders' comments, and is fully aligned with the Bank's Ten Year Strategy (2013-2022) and the High-5s.

4. **Overall, the pervasive development challenge facing the region is the slow pace of economic transformation, attributable to low levels of industrialization, and tepid growth of the sector.** Manufacturing value added (MVA) (the biggest component of industry value added) is below 15% in the entire region's RMCs. Moreover, MVA growth has lagged behind GDP growth, causing manufacturing sector to shrink as a share of GDP.

5. Consequently, despite being Africa's fastest growing region, Eastern Africa exhibits high poverty rates, rising inequality, and high unemployment especially among the youth. Moreover, the Human Development Index (HDI) is generally low in the region and shows an even spread with most

countries ranging from 0.4 (in Burundi) and (0.42 (in Eritrea) to 0.55 (in Kenya), with Seychelles (0.78) being the only outlier (Human Development Report, 2017).

6. **Growth in intra-regional trade, and the region's share of global trade, have also been constrained by the slow pace of transformation.** In particular, limited product differentiation implies that East African countries do not produce enough of what their neighbors want to import. Although in the East African Community (EAC) sub-region intra-regional trade ranks higher compared to other regions in Africa, the share of intra-regional exports has stagnated at around 20% over the last decade and falls short of regional aspirations to grow intra-regional trade to 25% by 2025, under the Tripartite Free Trade Area (TFTA). In addition, there are substantial variances across the three key RECs in the RISP Region (EAC, COMESA and IGAD). For instance, COMESA ranks 7th out of 8 RECs in the Africa Regional Integration Index, while eastern Africa as a whole lags behind other developing regions outside Africa such as East Asia with intra-regional trade above 35% of total trade. This further underscores the need to accelerate structural transformation towards more value-added products in order to grow intra-regional trade. The Regional Synthesis Report on the Manufacturing Sector in Eastern Africa (based on seven country reports) published by the Bank in 2014 has articulated opportunities for advancing intra-regional trade and regional value addition in the Region. Its findings have informed the preparation of the new RISP and policy dialogue with RMCs.

7. Major impediments to structural transformation in the Region include a weak enabling environment occasioned by the pervasive infrastructure gap, and inadequate regional policy and institutional capacities and frameworks. East Africa's business environment is relatively better than other regions in sub-Saharan Africa, but lags behind other developing regions such Latin America and the Caribbean (LAC), and East Asia. On a scale of 1 to 190 (with 190 being the worst performer), Eastern Africa as a region is ranked 110 in terms of business environment, with a distance to the frontier (DTF) score of 58.13 (World Bank Doing Business Report Regional Profile for East African Community, 2018). By contrast, the corresponding figures for LAC and Asia and the Pacific are 107 and 94 (doing business rankings) and 58.75 and 61.97 (DTF scores) respectively. The Report singles out "trading across borders" and "getting electricity" among the top three most problematic issues to doing business in the Region.

8. In addition, the region's institutions charged with the mandate to drive regional integration including RECs and specialized institutions such as power pools continue to suffer from weak capacity. In addition, seven out of the region's thirteen countries are categorized as fragile[i], and an additional three countries (Ethiopia, Uganda and Kenya) host the largest number of refuge populations in the world. Countries in fragile situations tend to face greater capacity challenges.

9. **Infrastructure development is a major enabler to improve the environment for competitiveness, necessary for structural transformation to occur.** Yet the Region continues to face a huge infrastructure deficit. Latest data (2018) from the Africa Infrastructure Development Index (AIDI) produced by the Bank shows that all Eastern African countries score below 30, except for Seychelles (94.3), on a scale of 1 to 100. Key infrastructure challenges in the Region include power shortages, low electricity connection rates and high effective cost of electricity to manufacturing enterprises averaging four times higher than the global average. The Bank's African Economic Outlook (2018) reports that East Africa has the lowest electricity access rates in Africa (26%). Access rates range from as low as 1% in South Sudan to 99.55% in Seychelles. In most countries 50% of the population is without electricity, with Kenya (65%), Comoros (74%) and Seychelles (99.5%) being the few exceptions. The regional power market is also underdeveloped- currently the EAPP is not yet operational and energy trade in the Region is conducted through bilateral power purchasing agreements between RMCs. By contrast, in Southern Africa 7.5% of power generated is traded under the regional power pool. In the transport sector, missing links on transport corridors continue to impede the efficient

cross-border movement of goods and people in a region where five of thirteen countries are landlocked. Moreover, multi-modal transport networks involving inland waterways and railways are yet to be fully exploited.

10. **In response to the region's overarching development challenges, the objective of the Eastern Africa RISP 2018-2022 is to accelerate structural transformation, grow trade and promote financial sector integration and inclusion, with the main aim of generating sustainable wage jobs, especially for the youth and women.** To this end, the RISP focuses on two Pillars, namely (i) Regional Infrastructure Development for competitiveness and transformation and (ii) Strengthening the policy and institutional frameworks for market integration, investment and value chains development. Prioritization of these Pillars reflects, among others, the need for selectivity, adherence to the Bank's corporate level RISF and High-5s, alignment with relevant Regional and Continental strategies, lessons learned from the previous RISP implementation and BDEV's evaluation, as well other knowledge works in the Bank. The interventions under each pillar are elaborated in the Section 4 of this Report. These will be operationalized via the indicative operational program (IOP) articulated in Table 2 of **Annex 2**.

11. The new EA RISP 2018-22 entails several important innovations that distinguish it from the previous one. **It is underpinned by comprehensive analytical work, including a comprehensive RDN (RDN key messages are summarized in** Annex 3, **while full RDN is posted online in an intranet link (**Regional Diagnostic Note - Revised Final - 27.04.2017 (002).pdf **).** It also draws on feedback from early Board engagement and consultations conducted both at regional levels (with the RECs in the region) and at national levels (through the Country Economists). Collectively, these processes have informed the key innovations of the RISP. Firstly, the RISP takes into account the region's diversity and unique challenges and needs of island states, landlocked and fragile countries. Secondly, the RISP embraces a spatial approach, taking into account the geographical location of current and potential future sources of transformative growth and demand (markets). Thirdly, the RISP entails complementarity with the CSPs of the countries of the Region, both at strategic and operational levels. Fourthly, the RISP will ensure enhanced participation of the private sector by putting in place an enabling environment for innovative and job-creating private sector activity to flourish, but also directly promoting businesses engaging in transformative economic activities in the Region, including through Public-Private Partnerships (PPPs). Accordingly, partnerships with private sector and other Development Partners will be enhanced, e.g. through the African Investment Forum established by the Bank. Fifthly, the RISP embraces the Theory of Change by adopting the Bank's new results tool, which comprises an Alignment Matrix to demonstrate relevance of RISP priorities to those of its clients and to other Bank strategies and a Performance Matrix to monitor and track performance of the Bank's actions on a range of performance criteria. Sixth, it adopts a rolling Indicative Operational Program (IOP) to ensure relevance, reduce implementation delays, and improve coordination and follow up of the Operational program. Lastly, the under the new RISP the Bank will reinforce evidence-based dialogue and policy advice to strengthen its positioning as a knowledge-based institution in the region.

1. INTRODUCTION

1.1. **The Eastern Africa (EA) Regional Integration Strategy Paper (RISP) 2018-2022 coincides with the reaffirmation by Africa's leaders on the need to step up the Continent's economic integration and structural transformation through several key initiatives**. These include African Union Agenda 2063 and the Continental Free Trade Area (CFTA), launched in Kigali, Rwanda in March 2018. These build on existing initiatives for growth and sustainable development, including the Program for Infrastructure Development in Africa (PIDA), Boosting intra-Africa trade (BIAT) and Accelerated Industrial Development for Africa (AIDA). The RISP is strongly aligned to the BIAT goal to boost intra-trade to 25% by 2025 and the CFTA aspirational target of realizing 50% intra-African trade by 2045 from circa 14% currently. The RISP will also support the global Sustainable Development Goals (SDGs).[ii] Simultaneously, the Bank has re-focused its strategic vision on the High-5 priorities to transform Africa[iii].

1.2. **The EA-RISP 2018-2022 covers 13 countries[iv] with a combined market size of more than 326 million consumers in a region with the highest economic growth rates in Africa.** These countries fall under three key RECs, namely COMESA (11 countries), IGAD (8) and EAC (6). However, overlapping membership remains a salient feature and all countries in the region, except Somalia, are party to other RECs (**Annex 4)**. If adequately integrated, the potential for trade in goods (inputs, agricultural goods and manufactures), services (e.g. logistics, power, construction, tourism, ICT, financial and professional services), and factors (e.g. intra-regional investment and talent) is large. The RISP interventions are therefore geared at harnessing these opportunities help EA countries to capture a greater share of the region's growing market by expanding intra-regional trade and to better prepare themselves to step up to the global stage and climb up the value chains. Towards this end, the EA-RISP takes into account the priorities set out in key RECs' strategies, which operationalize continental goals taking into account regional specificities and priorities of their member states.

1.3. **The Bank has left a strong footprint in terms of financing regional integration over the last few years.** Under the previous RISP (2011-2016), the Bank invested UA1.824 billion by December 2016 on 39 projects (UA1.7b on regional infrastructure and UA146m on capacity building), resulting in notable outcomes (**Annex 11)**. In this regard, the new RISP builds on achievements and lessons learnt under the previous one, but takes into account the evolving changes in the global and regional context as well as within the Bank to advance Africa's transformation agenda.

1.4. **Accordingly, the EA RISP 2018-2022 entails several key innovations that distinguish it from the previous RISP.** It is underpinned by a Regional Diagnostic Note (RDN), which synthesizes a series of analytical notes prepared by various Bank departments, and recent economic and sector work (ESW) conducted by the Bank and partner institutions (summarized in **Annex 3)**. It also draws on feedback from early Board engagement, in addition to consultations conducted both at regional levels (with the RECs in the region) and at national levels (through the Country Economists).

1.5. Collectively, these processes have informed the key innovations of the RISP. First, the RISP takes into account the region's diversity and specific challenges and needs of island states, landlocked and fragile countries. Second, it embraces a spatial approach, taking into account the geographical location of current and potential sources of transformative growth and demand (markets). Third, the RISP entails stronger complementarity with the CSPs for the countries of the region, both at strategic and operational level. Fourth, the RISP acknowledges the key role of the private sector as the main driver of transformative growth in the region. Therefore, interventions in regional infrastructure, both hard and soft, are geared to create an enabling environment to promote private sector participation to drive regional integration, while promoting active engagement with private sector bodies to find collective solutions to integration challenges, drawing lessons from good practices. Fifth, the RISP embraces the Theory of Change by adopting the Bank's new results measurement tools, which comprises an *Alignment Matrix* to demonstrate relevance of RISP priorities to those of its clients and to other Bank strategies and *a Performance Matrix* to monitor and track performance of the Bank's actions on a range of performance criteria (**Annex 1**). Sixth, it adopts a rolling Indicative Operational Program (IOP), which will be monitored closely in liaison with the RECs and updated at midterm (2020). This approach will ensure relevance, reduce implementation delays, and improve coordination and follow up of the Operational program. Lastly, the under the new RISP the Bank will reinforce evidence-based dialogue and policy advice to strengthen its positioning as a knowledge-based institution in the region.

2. REGIONAL CONTEXT AND PROSPECTS

2.1 Regional Diversity

2.1.1. The region's significant diversity implies various degrees of incentives among individual countries to pursue regional integration. However, all countries have the potential to benefit from greater regional integration and trade, if risks are carefully managed and major constraints such as fragility and infrastructure bottlenecks addressed.

2.1.2. For the five (5) landlocked countries, namely Burundi, Ethiopia, Rwanda, South Sudan and Uganda, regional integration offers opportunities to enhance economic competitiveness through efficient cross-border transport corridors that address transit and border obstacles, thus ensuring efficient and secure access to seaports and neighbouring markets. To illustrate, the emergence of the 'coalition of the willing' among Northern Corridor States largely reflects Rwanda's and Uganda's political interest to overcome challenges of land-lockedness. Similarly, Ethiopia's search for an alternative gateway port after losing access to the Eritrea's port of Assab, enhanced efforts to transform Djibouti port into a major transport hub.

2.1.3. For coastal countries such as Kenya, Tanzania and Djibouti, opportunities from regional integration include expanding market access for goods and services, such as ports and related logistical services to service their hinterland neighbours. The viability of major infrastructure investments at these ports (e.g. Mombasa, Lamu and Dar es Salaam) is enhanced by regional traffic. These coastal countries are also critical for the competitiveness of the EAC in general and the landlocked countries in particular. Hence, while supporting the development of hub ports, the RISP will pay equal attention to tackling border and transit bottlenecks, which will yield benefits for coastal and inland countries alike.

2.1.4. Small island states such as the Seychelles and Comoros experience unique challenges due to their geographic isolation, poor linkages to the mainland, vulnerability to climate change, and small domestic markets. The need to link up with the continental land mass, therefore, represents a strong incentive to integrate. Moreover, the sustainability of their Blue Economies in sectors such as fisheries and tourism requires regional cooperation on environmental safeguards and management of climate change risks.

2.2 Regional Fragility

2.2.1 For Fragile and post conflict countries situations such as hunger, forced migration and refugee flows impinge on progress in regional integration. Fragility drivers such as climate variability and recurrent droughts, conflicts, unemployment, and governance challenges also have cross-border spill over effects. These challenges are pertinent in Eastern Africa, with seven out of the thirteen RISP countries classified as fragile, rendering the region to have the second highest concentration of fragile states on the Continent, after Central Africa. Peace and security challenges are key drivers of fragility in the region. There are also socio-economic drivers of fragility in the region including high poverty levels, income inequality and high youth unemployment. Environmental factors such as high levels of land degradation, land overuse and removal of forest cover and recurrent droughts and food insecurity also drive fragility in the region. The regional spill over effects of fragility are significant in Eastern Africa, with the biggest burden being the hosting of large numbers of refugees and displaced persons by partner/member states. As a result, three of the RISP countries (Uganda, Kenya and Ethiopia) are among the top ten refugee hosting countries in the world.

2.2.2 Enhanced regional cooperation and integration will yield a peace dividend through the economic opportunities created and enhanced mobility that improved regional infrastructure brings. The Bank's strategic approach to regional fragility will focus on enhancing the capacity of the countries experiencing fragility and the regional institutions that have direct mandate for cross-border cooperation to better address fragility risks and threats as well as build resilience (e.g. Regional Centre on Small Arms (RECSA) and IGAD). The Bank's support to IGAD-Drought Resilience & Sustainable Livelihood Program in the Horn of Africa, being implemented in Djibouti, Eritrea, Ethiopia, Kenya and Sudan is a case in point. The Bank has also developed a fragility lens, which will remain instrumental in the design of its regional operations.

2.3 Mixed Neighbourhoods

2.3.1 Ineligibility for concessional funds for non-ADF countries constrain their choices to participate in RI initiatives due to lack of affordable resources. The Bank will therefore deploy its full range of non-lending instruments including knowledge work including ESW and policy dialogue, cross-country knowledge sharing and public-private dialogue, middle income country (MIC) grant, project pipeline studies, and trust funds for catalytic and "soft" projects to complement its lending operations. As concessional resources are becoming scarcer, RDGE is spearheading dialogue with other development partners through the establishment of the EAC DPs group to enhance co-financing of regional operations, while also attracting private sector financing through PPPs and use of guarantee instruments.

2.4 Political Context

2.4.1 Overall governance, as measured by the Ibrahim Index of African Governance (IIAG) has improved in the Region, except in Burundi, Sudan, Eritrea, and South Sudan. Within Eastern Africa, EAC countries have higher rankings in both the IIAG and Transparency International Corruption Perception Index (CPI) than their Horn of Africa counterparts. Kenya, Rwanda, Burundi and Uganda, all held successful elections recently except in Burundi where the elections held in 2015 were marred by violent conflicts, which necessitated mediation efforts by the EAC and other stakeholders. Kenya's 2017 elections were also disputed but the country scored an important milestone by handling the disputes through the courts and will serve as a benchmark for the region and Continent. The Joint Declaration on Peace and Friendship between Ethiopia and Eritrea, achieved in 2018 will also open opportunities for regional cooperation and integration.

2.4.2 In general, political stability has been favourable for regional integration and trade in the region while instability as manifested through fragility, political conflict and weak governance has hampered integration.

2.5 Economic Context

2.5.1 *Growth performance*

2.5.1.1 Eastern Africa is the fastest growing region in Africa and is home to several of the fastest growing economies in the world, such as Ethiopia, Djibouti, Kenya, Rwanda, Tanzania and Uganda. Economic growth rates averaged (4.5%) during the period 2011-2015, surpassing the Continental average (4.1%). Latest data for 2017 shows that the Region posted higher real GDP growth rate (5.9% 2017) compared to the continental average of 3.6%. The high growth is expected to continue over near term at around 6% in 2018 and 2019. However, these rates fall short of the 8.5% sustained growth threshold necessary for the Region to graduate to upper middle-income status by 2050. Growth performance on a country-by-country basis has been concentrated notably in the aforementioned high growing countries with growth rates of approximately 7% and above during the period 2011-2015, while at the other end of the spectrum, South Sudan (-8.1), Burundi (2.7%), Comoros (2.4%) and Sudan (2.1%) registered weak or negative growth rates. Better macroeconomic management, improved public sector investment, and increased household consumption attributable to the growing middle class were among the key drivers of growth.

2.5.2 ***GDP composition:*** The services sector is the largest contributor to DGP in Eastern Africa, followed by the agricultural sector and a relatively small industrial sector. However, low productivity activities such as informal and non-tradeable services dominate the services sector, with limited impact on economic transformation. Across all countries in the region, the agriculture share of GDP was around the regional average (30%), except in Seychelles where it was limited to 2.8% because of its Blue Economy nature.

2.5.2.1 Eastern Africa's economic structure and growth patterns are characterized by low degree of industrialization and value adding economic activity, including a lack of economic diversification, product differentiation and sophistication, and insufficient job creation. In 2016, the region-wide share of industry in GDP averaged 18.4%, which is below the Sub Saharan Africa (SSA) average (27.7%). Ethiopia and Tanzania have shown the most robust growth trajectory (Annex 5, Fig 1), with Ethiopia almost doubling its industry value added from 12.2% of GDP in 2000 to 21.3% in 2016 while Tanzania registered modest growth from 19.1% to 27.2% during the same period.

2.5.2.2 Manufacturing value added (MVA) growth (averaging 1.7% over the period 200-2016) has lagged behind GDP growth in the Region, causing the manufacturing sector to shrink as a share of GDP. The average MVA was limited to 8.1%, which is much lower than SSA average (10.3% in 2016). Moreover, no country in the Region has registered MVA above 15% over the period 2000-2015. Notwithstanding, there are variations within the Eastern Africa Region, with Ethiopia registering relatively robust growth in MVA (18.4% in 2016), while growth rates in Burundi (1.2%), and Uganda (0.59%) were on the lower side. Ethiopia's experience with special economic zones, and targeted infrastructure investments offers useful lessons for the Region to boost and sustain MVA growth required to generate structural transformation.

2.5.2.3 ***Business environment:*** East Africa's business environment is relatively better than other regions in SSA, but lags behind other developing regions such Latin America and the Caribbean (LAC), and East Asia. On a scale of 1 to 190 (with 190 being the worst performer), Eastern Africa as a region is ranked 110 in terms of business environment, with a distance to the frontier (DTF) score of 58.13 (World Bank Doing Business Report Regional Profile for EAC, 2018). By contrast, the corresponding figures for LAC and Asia and the Pacific are 107 and 94 (doing business rankings) and 58.75 and 61.97 (DTF scores) respectively. Individual country rankings range from 41 in Rwanda to 189 and 190 for Eritrea and Somalia, respectively. "Trading across borders" and "getting electricity" have been identified among the top three most problematic issues to doing business in the Region. Thus, improving regional infrastructure connectivity and reducing trade costs through elimination of border delays and NTBs, *inter alia,* will lead to overall improvements in the business environment.

2.5.3 ***Spatial dimensions of growth:*** In Eastern Africa, economic growth and growth potentials are spread out in an uneven pattern, with growth and populations concentrating in a relatively small number of locations within each country (growth poles). For instance, the area connected by the Central and Northern Corridors accounts for only 10% of the landmass, but 56% of the consumers, and 50% of the economy of East Africa. Thus, targeting such growth poles with interventions to promote regional integration would accelerate impact and inclusiveness. There is also a strong regional dimension to spatial growth since some locations of high economic potentials span across borders. For instance, Goma in DRC is more linked with Uganda, Rwanda and Burundi than it is with Kinshasa because of geographic proximity. Therefore removing physical and 'soft' obstacles to the free movement of goods, services, capital and people in these locations would promote borderless growth and unlock agglomeration potentials.

2.5.3.1 The spatial dimensions of growth imply that countries must adopt a pragmatic approach targeting the prioritization of infrastructure networks linking up these growth poles. One such approach is to create "islands of excellence" or carefully selected areas equipped with sound infrastructure and good business environments to exploit their economies' underutilized comparative advantage. The experience of Kenya and Ethiopia in the region and China further afield demonstrates how these islands of excellence, such as Special Economic Zones (SEZ), have been instrumental in helping to integrate countries into value chains.

2.5.4 ***Resource Discoveries:*** There are transformative potentials for value addition (e.g. mineral beneficiation) and trade (e.g. regional oil pipelines) in the Region's resource discoveries[v]. These resources, if properly managed, can boost regional trade, enhance export earnings and provide opportunities for the development of value chains in upstream and downstream activities.

2.5.4.1 However, effective management of such resources requires capable institutions and robust policy, legal/regulatory and institutional frameworks. One area of support is to help countries in the harmonization of petroleum policies, laws and regulations in areas such as environmental safeguards, to avoid a race to the bottom and to attract more investments (through the Natural Resources Centre and Africa Legal Support Facility). Opportunities also exist to enhance regional integration through sharing of infrastructure/facilities such as cross border pipelines and countries having shares in refinery and petrochemical industries in regional countries[vi].

2.5.5 ***Macroeconomic Management:*** The drive towards macroeconomic convergence, a pre-requisite for attaining a monetary union status, is a critical aspect of macroeconomic management in Eastern Africa as both the EAC and COMESA aspire to a monetary union status by 2024 and 2025 respectively. Progress towards achieving the convergence criteria in the EAC is presented in **Annex 5.** While most countries in Eastern Africa succeeded in controlling inflation and fiscal deficits, high debt levels and current account deficits remain a challenge in some countries (Annex 5). Rising debt levels is raising concerns that this could push regional economies into financial distress in the wake of volatile local currencies and insufficient export earnings. Higher debt levels and current account deficits point towards the need for industrialization and structural transformation, as a means to expand domestic outputs and exports and reduce pressure on current accounts. It also signals the need for a greater focus on innovative financing of regional projects to complement public financing. Similarly, RMCs in the region need to improve domestic resource mobilisation (DRM) efforts, which is below potential (**Annex A5.4)** in order to enhance their abilities to fund development priorities including infrastructure for regional connectivity. This should be accompanied by an additional effort to mobilize private sector investment in infrastructure, including through PPPs.

2.5.6 ***Intra-regional Trade:*** Intra-regional trade is relatively high compared to the rest of Africa, especially among the EAC countries (20% intra-regional exports)[vii]. For these countries the regional market ranks among the top five export destinations for each of the Partner States. However, the share of intra-regional exports has stagnated at that level over the last decade, and falling short of regional and continental aspirational target of 25% by 2025. Moreover, even in the EAC the value of exports has expanded much slower than imports, resulting in a widening of the trade deficit from USD8.6 billion in 2006 to USD18 billion in 2016. The degree of integration in Eastern Africa varies substantially across the three key RECs (EAC, COMESA and IGAD) with EAC ranked first and COMESA ranked seventh out of 8 RECs in the Africa Regional Integration Index (**Annex 6**).

2.5.6.1 Eastern African countries produce and export largely agricultural and mineral products and very few resource-based manufactured goods such as cement, refined sugar, beer, soap and cigarette. Most of these products are of low-level sophistication and low value added. On the other hand, imports comprise products of high sophistication and value added principally intermediate goods, followed by raw materials and capital goods and final goods, respectively. Overall, countries with relatively diversified economies, such as Kenya, showed the greatest ability to tap the benefits of intra-regional trade. This further underscores the need to focus on producing more value-added products to further grow intra-regional trade.

2.5.6.2 In addition, the Region needs to tackle high-trade costs occasioned by incomplete implementation of the Customs Union and Common Market Protocols; pervasiveness of non-tariff-barrier to trade (NTBs); cumbersome border procedures especially where One Stop Border Posts (OSBPs) are yet to be established or not fully operationalized; infrastructure bottlenecks. Non-recognition of EAC certificates of origin, particularly in the EAC, has also been identified as a challenge impeding the free flow of goods. These measures will help improve the region's trade outcomes and its score in the trading across borders sub-index of the World Bank's Doing Business report. Currently (2018), the aggregate ranking for the EAC grouping is133 out of 190, which is slightly better compared with 137 (sub-Saharan Africa rank) but worse than the rankings for East Asia and Pacific (102) and Latin America (101). Non-EAC countries in the region fared even worse, occupying mainly the bottom tiers of the rank: Djibouti (159), Eritrea (189), Ethiopia (167), Somalia (160), and Sudan (185).Governments also need to recalibrate their trade policies to make it amenable to supporting value-adding activing, for example by facilitating imports of intermediate and capital goods and export of final products. Studies show that in the EAC, for instance, 400 tariff lines for industrial inputs are misclassified as finished goods and therefore taxed at 25% instead of 10%.

2.5.6.3 Accelerating ongoing efforts to streamline border procedures along strategic transport corridors such as the Central, Northern, and Ethio-Djibouti Corridors will greatly reduce trade costs and improve the region's performance on ' trading across borders' measures. For instance, implementation of OSBPs, single customs territory (SCT) and the regional electronic cargo tracking system (RECTS) on the Northern Corridor has reduced transit times from Mombasa to Kigali via Malaba OSBP (a distance of 1,682km) from 17 days in 2012 to 7 days in 2017, translating into cost savings of USD2,500 per container. However, OSBPS are yet to be implemented on several of the Region's strategic borders. On the Northern Corridor linking six Member States of Burundi, DRC, Kenya, Rwanda, South Sudan and Uganda, only six out of the identified 25 OSBPs are operational. Lessons from the Northern Corridor also point to the need to roll such measures across contiguous regions in order to exploit spatial growth opportunities, which straddle across REC configurations. For instance, the Northern Corridor Authority seeks to roll out the SCT and ECTS to DRC, which is served by the Corridor but is not a member of the EAC.

2.5.6.4 Another area where the region can make gains is by promoting trade in services. Services account for 52% of East Africa's GDP but trade in services is still at low levels in the region, less competitive by global standards, and further constrained by restrictions on free movement of persons and professional services.

2.5.6.5 In view of the above, the Bank's support to improve intra-regional trade in goods and services and cross-border investments will focus on two areas as follows:

i) *Addressing physical infrastructure constraints,* such as degraded road infrastructure due to poor maintenance, numerous missing links on regional corridors, obsolete railway networks and equipment, inadequate container capacity at the ports, and port saturation and congestion; and

ii) *Tackling soft governance-related institutional constraints,* such as lack of harmonized legal, policy and regulatory frameworks for trade, transport and ICT; cumbersome border procedures and incomplete roll out of regional transit systems; inadequate regional product standards harmonization; prohibitive trade regulations and lack of external trade policy alignment; inadequate access to trade finance; proliferation of NTBs including difficulties with the non-recognition of certificates of origin; restrictions on free movement of talent/skills and capital; and lack of standards for harmonization of curricula and enrollment in the education sector to promote regional training.

2.5.7 ***Private Sector Development:*** The Private Sector is the main engine of growth in Eastern Africa, but its full potential for transformative growth remains yet to be exploited. In addition, its importance varies across the countries of the region. Some countries, e.g., Ethiopia and Uganda, have a relatively vibrant private sector, with private investment accounting for 25% and 22%, respectively, of gross fixed capital formation as a share of GDP in 2016. Other countries, notably those in conflict or emerging from conflict, have very small private sector investments: e.g. Burundi (9%). Salient features of the private sector in the region are lack of diversification, value addition, and informality, with a significant share of economic activity being conducted in the informal sector, which contributes about 55% of GDP and 80% of the labor force. Key bottlenecks to private sector development in the region include poor infrastructure; low-level of technology and R&D; deficiencies in entrepreneurship, talents and skills; lack of appropriate policy, legal and regulatory frameworks; poor market information; and lack of access to capital.

2.5.7.1 In view of the potentially significant benefits from business agglomeration, some countries in the region are developing industrial clusters through the establishment of Special Economic Zones (SEZs)/industrial parks. SEZs' have resulted in export diversification and creation of jobs in countries such as Ethiopia and Kenya. In Kenya SEZ employment represented about 15% of manufacturing employment in 2014. However, linkages are more likely when the domestic market is larger and can better support large-scale production, and has greater potential to diversity. Therefore, the RISP will focus on improving the regional business environment by investing in infrastructure, harmonization of regulatory frameworks governing trade and investment, improving regulatory environments, and capacity development for PPPs to facilitate private sector participation in regional operations. For instance, in many parts of the world, (e.g. Senegal, Mauritius, Singapore, etc.), private investment has been instrumental in the implementation of Single Electronic Windows for trade facilitation through PPP arrangements. Equally, make use of risk-sharing financing instruments (e.g. guarantees) to crowd in private sector participation in infrastructure investments (paragraph 2.6.2 provides an example).

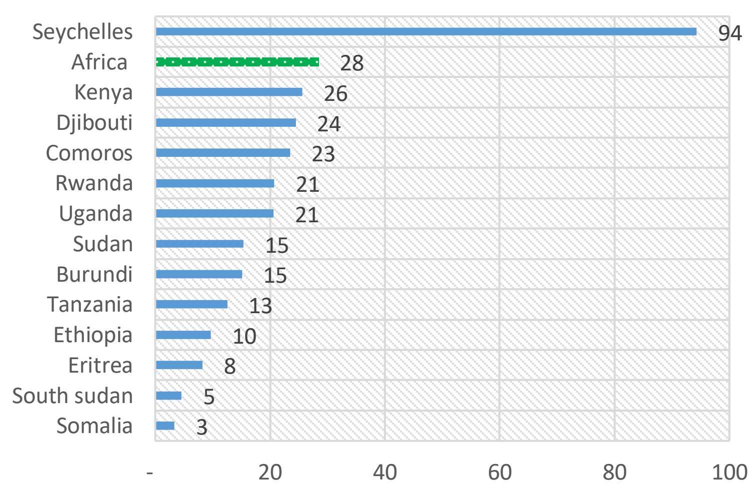
2.5.8 ***Financial Sector Integration:*** Greater financial integration could help capital markets in the region to achieve economies of scale, expand the pool of investors, increase the number and diversity of issuers and products, and strengthen corporate governance. Prior global and regional experiences indicate that there are benefits from such integration including better financial sector stability, better access to markets in the region and improved competitiveness. However, progress on financial integration is hindered by regulatory constraints such as differential tax regimes and other regulator discrepancies, lack of a single licensing regime and mutual recognition among regulators, data gap- sketchy and incomplete data on volumes of cross-border trade in financial products, and the absence of a regional Stock Exchange.

2.5.9 The integration of financial markets and the harmonization of respective policy, legal and regulatory frameworks are receiving increasing attention in the Region. For example, the EAC passed a bill in 2017 to establish the East African Monetary Institute, drawing on lessons from West Africa Monetary Union (WAEMU), where existence of such an institution has been instrumental. Other measures being pursued include adoption of a single licensing regime accompanied by mutual recognition among regulators; strengthening cross-border financial supervision by deepening cooperation among supervisors, and strengthening data gathering to improve the quality of decision making on benefits and costs of cross-border financial linkages. The Bank has supported financial integration efforts through implementation of the EAC Payment and Settlement Systems Integration Project aimed at interlinking the payment systems to build-up regionally compatible financial infrastructure and improve cross-border trade in financial products is a case in point. The Bank has also directly supported private financial institutions through equity participation, and lines of credit for Trade Finance and to support SMEs. Further the Bank plans to conduct a thorough assessment of Financial Sector integrating and financial inclusion in EA as part of the RISP non-lending program, and to strengthen the payment system by extending its coverage to South Sudan (a new EAC Partner State), among other things.

2.6 Regional Infrastructure Context

2.6.1 The state of infrastructure remains a challenge for economic transformation. Four out of the Region's 13 countries occupy the bottom 7 places in the Bank's Africa Infrastructure Index. Only Seychelles features in the top 10 African countries in the ranking, while the rest score the continental average (**Chart 1**). Accordingly, infrastructure remains the top priority in the Region's integration agenda, as reiterated by EAC Heads of States during their Retreat held in February 2018. Such high-level commitment has yielded results in the past, as evidenced under the Northern Corridor Integration Projects Initiatives (NCIP), which helped galvanize political will around selected regional projects.

Chart 1: Infrastructure Index Scores (2018)



2.6.2 The Program for Infrastructure Development in Africa (PIDA) provides a common framework for African stakeholders and development partners to build the infrastructure needed for Africa's structural transformation. Infrastructure Masterplans of the various RECs are closely aligned with the PIDA Framework. Closing the infrastructure gap in the Region will require substantial resources and private sector participation will be vital in filling in the existing financing gap. For instance, the 17 regional infrastructure projects prioritized by the EAC will require USD78 billion to implement. However, there is a limited number of infrastructure projects in which the private sector can viably participate. This implies that governments must adopt a pragmatic approach targeting the prioritization of infrastructure projects with potential to achieve the highest economic returns. This equally infers that the Bank must use its financial instruments hand in hand with risk-sharing financing instruments to crowd in the private sector and pursue co-financing with other development partners to mobilize to meet the demand. The $787 million Lake Turkana Wind Power Project in Kenya, which will eventually export power through the East Africa

Power Pool (EAPP), is a case in point, where the Bank deployed an innovative approach involving a private sector loan and a public sector Risk Participation Guarantee (RPG) to leveraged large amounts of additional financial resources (almost by a factor of 6).

2.6.3 ***Energy:*** The energy deficit characterized by low access rates and unreliable supply is the crux of the infrastructure challenge in sub-Saharan Africa, and Eastern Africa in particular. Eastern Africa has the lowest electricity access rates in Africa, at 26% (African Economic Outlook, 2018), although huge differences exist across countries. Seven out of 13 East African countries – South Sudan, Burundi, Somalia, Uganda, Rwanda, Ethiopia, and Tanzania – have access rates below the sub-Saharan Africa average of 32 percent. In the EAC sub-region, 118 million people, or 66 percent of the total population of 180 million have no access to electricity. Average electricity costs are estimated at about 14.8 US cents for one-kilowatt hour (kWh) of electricity for industrial consumers, resulting in high cost of production, making it hard to realize the much-needed economic transformation, grow trade and generate sufficient jobs. There is also an overreliance of heavy fuels and biomass, with over 60 percent of urban and nearly all rural households in the Region using biomass for their primary cooking fuel.

2.6.3.1 A regional approach is necessary to address the energy challenges. In view of low power generation in the Region (only six countries are able to generate enough power to meet their domestic demand), regional power interconnection and related soft interventions to create an effective regional power market with harmonized power interconnection codes, fully functioning dispatch centres and wheeling arrangements will enable countries that have more, such as Kenya and Ethiopia, to export power to those in the region that have less, such as Burundi and South Sudan. Investment in the liquefied petroleum gas (LPG) infrastructure value chain including production, transportation and storage would improve links between production and markets and boost intra-regional energy trade. Such regional infrastructure will need to be complemented by soft interventions to harmonize technical standards, regulation and incentives, and promoting use of LPG and behavioral change. Similarly, effective regional power trade will be facilitated enhanced by transforming the current Cooperative Pool into a Competitive Pool and operationalizing the Independent Regulatory Body (IRB). Support to strengthen power utilities to make them viable partners for PPP arrangements will also be vital to unlock private financing in the sector.

2.6.3.2 Recent resource discoveries in oil and gas in the region represent opportunities to leverage regional integration through development of gas/oil pipelines to enable producing countries to access regional markets and to facilitate shared use of infrastructure through a tolling model to exploit economies of scale. A concrete example of this is the West African Gas Pipeline, initially designed to transport gas from Escravos region (Nigeria) to Ghana (through Togo and Benin), but is geared to open up to gas produced in Ghana, so as to maximize efficiency and reduce costs.

2.6.4 ***Transport:*** Transport costs in the Region are estimated at about five times more in some countries as compared with countries in Europe and North America. With 5 out of the 13 countries being landlocked and another two being small island states, efficient regional transportation is key for cross-border connectivity and reducing cost of doing business in the region.

2.6.4.1 The region has made substantial improvements in regional infrastructure, but challenges remain. These include existence of missing links along major corridors, and under-developed inland marine waterways. The Northern and Central Corridors evacuate the bulk of the EAC traffic. However, a study by Nathan Associates estimates that the combined traffic volume on the two Corridors would grow manifold from 28.6 million tons in 2009 to 143.1 million tons in 2030, making them inadequate to cater for the region's growing economies (**Annex 7,** projected traffic volumes). This underscores the need to upgrade selected highways into superhighways (such as the planned expansion of the Kampala-Jinja highway into a six-lane superhighway), accelerate the development of alternative routes such as the Kenyan-led Lamu Port-South Sudan-Ethiopia Transport (LAPSSET) Corridor; and the Addis Ababa-Djibouti Corridor, which have been prioritized by RMCs and regional bodies. The region also needs to develop intermodal infrastructure around inland waterways (notably around Lakes Victoria and Tanganyika), railways and airports in order to cope with the projected traffic while connecting producers to raw materials and markets.

2.6.4.2 On soft issues, several One Stop Border Posts have been implemented across the region. Implementation of the Electronic Cargo Tracking System along some corridors has also helped improve efficiency of transit cargo. However, OSBPs are yet to be implemented on number spurs of the main corridors, and some of the existing OSBPs are not fully functional due to infrastructure gaps and incomplete operationalization of the facilitation instruments. Furthermore, harmonizing trade facilitation measures among different RECs in the region (EAC, IGAD, and COMESA) will also help to unlock opportunities for spatial growth since most corridors transcend REC configurations.

2.6.4.3 For the region's island states, the key constraints include inadequate regional maritime transport infrastructure; lack of effective regional shipping services (which adds 30 to 40 percent to the cost of imports and exports); piracy which is a threat to trade, tourism's yacht and cruise sector; and limited air connectivity in some SIDS, such as Comoros.

2.6.4.4 Further opportunities in accelerating regional connectivity can be realized through development of the aviation sector, to overcome barriers related to physical landscapes, enhance trade, investment, productivity, increased economic activity in tourism, and employment generation. Challenges such as fragmentation of the airspace, limitations in ground infrastructure, and unaffordability of air transport for the average population hinder the sector from realizing its full potential in the region, despite recent growth[viii]. Initiatives identified by RMCs and RECs to integrate the sector include establishment of a seamless upper airspace to enhance efficiency, interoperability, and safety in line with the Single African Air Transport Market (SAATM) launched by the African Union (AU) in January 2018[ix].

2.6.5 ***ICT:*** With about 71.53m internet users in Eastern Africa in 2016, the region accounts for 21.6% of the continental total. Access rates in some countries e.g. Seychelles and Kenya (both at more than 70% penetration rate in 2017) are well above the world (54.4%) and continental (35.2) averages; while hinterland countries such as Eritrea and Burundi lag behind at 1.4% and 5.5% respectively. In all countries, urban centres have better access than rural areas. ICT improvements have enabled innovations in services delivery, including the development of mobile phone-based financial services across the region, notably in Kenya, Tanzania and Uganda. In view of the above, priorities to improve ICT connectivity in the region include addressing uneven development of ICT infrastructure across the region and rural data connectivity as well as cross-border internet facilities remain weak. There is also need to address regulations for cross-border interconnections and inter-operability; enhancement of the regulatory framework for ICT standardization and conformance assessment, and strengthening of internet security to protect assets and users".

2.6.6 ***Water:*** In East Africa, a number of water bodies are shared among several countries- these include the Nile River whose drainage basin covers several countries in East Africa; and Lake Victoria shared by Uganda, Kenya and Tanzania; and Lake Tanganyika shared by Burundi and Tanzania. However, management of transboundary water resources, as a regional public good, remains a challenge. For example, Lake Victoria basin is dotted with 250 towns in Uganda, Tanzania and Kenya. Lessons learnt from ongoing initiatives on water and sanitation indicated that regional public goods approaches would be more effective to ensure gains recorded elsewhere are not reversed. Further, water has been inadequately exploited to enhance integration through development of inland waterways that can provide safe, cheap and environmentally friendly cross-border transport links as part of multimodal transport systems.

2.7 Social Context and Cross-cutting Issues

2.7.1 There is a substantial variation in poverty levels, income inequality and social indicators across Eastern African counties. Per capita incomes range from as low as USD 285 and USD434 in Burundi and Somalia respectively to USD 15, 076 in Seychelles (World Bank, 2017). Many of the countries also have high absolute levels of poverty, as high as 77.7% in Burundi, though with a reducing trend. Inequality, measured by the Gini coefficient, is also an issue with higher inequality exhibited by Comoros (0.55), Rwanda (0.52), Kenya (0.49) and Djibouti (0.47) while Ethiopia (0.33), and Sudan (0.35) have lower inequality. The Human Development Index (HDI) is generally low in the region and shows an even spread with most countries ranging from 0.40 (in Burundi) and 0.42 (in Eritrea) to 0.55 (in Kenya), with Seychelles (0.78) being an outlier (HDR, 2017). Impressive improvements have however been made in the area of infant mortality over the past decade across the whole region, with Rwanda, Eritrea and Seychelles showing the best performance. As countries in the region proceed towards the SDGs by 2030, there is the need to closely monitor progress at both the country and regional level.

2.7.2 ***Gender:*** The share of women in the labour force ranges from a low 29% in Sudan to a high 54% in Rwanda. Country scores on the Bank's Africa Gender Equality Index, reflect varied performance with Somalia scoring lowest (15.5 out of 100) in the region (and indeed in all of Africa) and Rwanda scoring highest (74.3). The RECs, regional organizations (AU and UNECA), and RMCs are taking measures to mainstream gender into their development programs to address gender disparities. Gender will also continue to be mainstreamed in the Bank's regional operations. The Bank's innovative social media platform called "50 million Women Speak" will be an important aspect of gender and regional integration in Eastern Africa by helping women entrepreneurs to start, grow and scale their businesses through the dynamic exchange of ideas. EAC and COMESA together with ECOWAS will benefit from the program.

2.7.3 ***Youth Unemployment:*** Youth unemployment is a major problem for social inclusion in Eastern Africa and poses a major risk for regional instability because of the potential for recruiting the unemployed youth into militant or fundamentalist movements. This is particularly a risk along the Kenya's and Somalia's coast, but also along the borders of Djibouti, Sudan, Eritrea and parts of Ethiopia. Data from International Labour Organization (ILO) shows that youth unemployment, estimated at 10.77% in East Africa in 2018, is much higher than in other regions, such as West Africa (8.9%), but lower than the Continental average (13.66%). However, unemployment data has many limitations and masks the extent of joblessness in the region. The limitations include a paucity of credible data in many countries and inclusion of the underemployed in the definition of employment. Nonetheless, in all countries across the Region, youth unemployment (regional average, 10.77%) is significantly higher than adult unemployment (6.46%).

2.7.3.1 Achieving transformative growth through the promotion of value chains, supporting youth agripreneurs, and addressing the quality of education to correct misalignment with labour market demand, and development of entrepreneurship and technology based youth skills programs is therefore essential to address the youth unemployment challenge.

2.7.4 ***Climate change and green growth:*** Key challenges in Eastern Africa are recurrent drought, famine, and meeting the huge and rising energy demand whilst staying within the confines of the global climate change agreement (CoP21). Climate change and transition to green growth pathways are an integral part of the Bank Group's TYS, the New Deal on Energy for Africa, and the Feed Africa Strategy for Africa. In the energy sector, emphasis is being put on the exploitation of renewable energy potential, which is currently under exploited.

3. STRATEGIC FRAMEWORKS, POLITICAL ECONOMY OF REGIONAL INTEGRATION, AND LESSONS LEARNED

3.1 Regional Strategic Frameworks

3.1.1 To ensure strong strategic alignment and ownership at the regional level, the RISP takes into consideration the agendas of three key RECs: COMESA, IGAD and EAC whose membership covers all the EA-RISP countries (see Annex 1). Recurring priorities under the various REC strategies include: (i) strengthening market integration to address the small size of individual countries, (ii) improving regional infrastructure focusing on a holistic approach based on development of priority regional physical infrastructure, policy and regulatory harmonization, and facilitation, (iii) enhancing regional industrial development(iv) strengthening product standardization and quality assurance, value addition and facilitating agricultural trade to enhance food security in the region, and (v) enhancing the capacity of RECs and specialized regional institutions to effectively coordinate the regional integration agenda (vi) strengthening the blue economy and (vii) strengthening the blue economy especially marine corridors. These recurring priorities, which are fully aligned with the High-5s, are taken into consideration in Section 4, articulating the Strategy.

3.1.2 Overlapping membership has been regarded as an obstacle to regional integration efforts. However, multiple membership can also be beneficial as it allows countries to pursue specific interests in the various groupings, as exemplified by Rwanda re-joining ECCAS or Morocco and Tunisia seeking to join ECOWAS and COMESA respectively, to boost economic ties and expand access to markets. However, multiple memberships can be burdensome in terms of financial obligations, and complex trade rules.

3.1.3 In this regard, the signature of the Tripartite Free Trade Area (TFTA) Agreement in June 2015 and the Continental Free Trade Area (CFTA) launched in Kigali, Rwanda in March 2018 present an opportunity to overcome the challenges associated with multiple overlapping membership in view of the ongoing harmonization of policy, legal and regulatory frameworks. The Bank has proactively supported these processes, through the approval of the UA 5 million Tripartite Capacity Building Project (TCBP) in 2013. Conclusion of the EAC-COMESA-SADC Tripartite arrangement, supported by the Bank was a major milestone towards the CFTA. The planned CFTA Implementation Support Facility Project[x] to be financed by the Bank and implemented in collaboration with the AU will help drive CFTA implementation.

3.2 The Political Economy of Regional Integration

3.2.1 Political economy issues such as concerns about the distribution of benefits and loses (winners/losers) from regional integration have affected implementation progress of the regional integration agenda in Eastern Africa. Tanzania withdrew from COMESA in 2000 citing the negative impact of diminishing tariffs on fiscal revenues. The EAC disintegrated in 1977 following perceptions of Kenyan dominance and divergent political positions and ideologies, but was revived in 2000 and has emerged stronger with more countries in the region recognizing the potential benefits from regional integration.

3.2.2 Political economy issues have also been blamed for persistence non-tariff barriers to trade (NTBs) in the region. Such measures have at times been used as protectionist measures by member states. In some cases, actors who benefit from red tape have met implementation of efficient border and transit measures with resistance. Involvement of the private sector can play an effective role in addressing the political economy issues and moving the integration agenda forward. Further discussion of the political economy is presented in the RDN.

3.3 Bank Group Corporate Strategic Framework, Aid Coordination, and Bank Positioning

3.3.1 ***Bank Group Corporate Strategic Framework:*** To accelerate the implementation of the TYS (2013-2022), the Bank has adopted five operational priorities referred to as the "High 5s" and the attendant corporate sector strategies to operationalize them. The Regional Integration Strategic Framework (RISF, 2018-2025), which guides the RISP, has prioritized three pillars, namely: Infrastructure Connectivity; Trade and Investment; and Financial Integration.

3.3.2 ***Bank Group positioning:*** The Bank's comparative advantage in the areas of infrastructure development in the region is well recognized and acknowledged by the RMCs and development partners alike. The Bank task-managed the preparation of PIDA, which is the continental blue print for infrastructure development and adds value through its private sector operations. The Bank support to the private sector promotes regional integration through investing in regional infrastructure and productive activities, and by supporting institutions that promote greater integration (such as the Trade and Development Bank (TDB), African Trade Insurance (ATI), Afrexim Bank, etc.). In addition, the Bank plays a well-established role as a convener, knowledge broker and catalyst, leveraging additional financial resources from other sources. The Bank is also the first development partner to fund export of energy from Ethiopia to Djibouti and recently from Ethiopia to Kenya, underlying its comparative advantage in facilitating power trade.

3.3.3 Furthermore, the fact that all countries in the region are members of the Bank cements its role as a truly African institution and an honest broker in providing advisory services, technical and financial support to RMCs and regional institutions. The strengthening of the RDGE under the new structure, with an enhanced staff contingent and country presence will further enhance the Bank's capacity to effectively deliver on its RI mandate (**Annex 9** presents RDGE's Oversight and Partnerships with RECs role).

3.3.4 *Aid Coordination:* **Development partners (DPs) supporting regional integration in Eastern Africa work closely with the RECs and specialized bodies such as power pools and corridor authorities.** Development partners' coordination is being enhanced through the formation of the EAC Development Partners Forum, with active participation by the Bank as the first co-chair of the grouping, alongside the EU.

3.3.4.1 The AfDB, World Bank, European Union and DfID are the major actors in the regional infrastructure area, while JICA and Trade Mark East Africa have provided support on trade facilitation and OSBPs. BRICS countries, particularly China have also emerged as key players especially in financing infrastructure projects that will contribute to regional integration. USAID has set up a new East Africa Trade and Investment Hub, which will increase US-Africa trade and investment, regional integration, and competitiveness. Where opportunities arise, the Bank will also collaborate with DPs with whom the Bank has MOUs, e.g. UNIDO and Islamic Development Bank.

3.3.4.2 The EU is a key partner for co-financing through its blending instruments such as the Africa Infrastructure Fund (AfIF) for which the AfDB is listed as a key partner. The Bank will also scale up collaboration with TMEA, including through signature of a proposed MOU, on the operationalization of OSBPs in the Region to leverage complementarities in physical and soft infrastructure investments along transport corridors. This approach has successfully worked in the past, such as at Taveta border control between Kenya and Tanzania, where TMEA implemented the soft components to operationalize the OSBP on a Bank-funded cross-border road project. The role of China has also been on the increase in recent years and its financing of regional infrastructure has been significant. In 2013, China also unveiled the One Belt, One Road initiative that will encompass road and maritime trade routes with the goal of improving trade links between China and Central Asia, Middle East, Europe and Africa. Eastern Africa countries such as Kenya, Seychelles, and Djibouti lie in the path earmarked for the Belt. Examples of projects under the initiative include the Mombasa-Nairobi Standard Gauge Railway (SGR), which facilitates regional connectivity and will ultimately link Kenya and Uganda. Chinese investment in Ethiopia has promoted the construction of industrial parks, which have propelled Ethiopia's footwear and textile industries to become the most competitive in Africa. (**Annex 8** presents the donor mapping for the region).

3.4 Main Challenges and Key Opportunities

3.4.1 The main challenge facing the region in promoting regional integration is the slow pace of structural transformation resulting from low degree of industrialization and value adding economic activity. This has stifled the expansion of trade and, by extension new jobs, since most countries do not produce enough of what their regional neighbours want. Hence, going forward, there is a compelling need for a paradigm shift: away from raw material exportation and informal, low value added economic activity, towards the production of higher value added commodities that can meet regional and global standards, thereby generating the urgently needed formal productive wage employment, notably for the region's growing youth. According to the Eastern Africa's Manufacturing Sector Regional Synthesis Report (2014), most countries in the region have particular subsectors in which they do have some degree of comparative advantages that they can unleash through regional markets: for example, Kenya in food and beverages, leather products, textiles and clothing; Ethiopia in Leather and leather products; Tanzania in textiles; and Uganda in cement, clay and ceramics; and the Seychelles in processed fish products. Opportunities for regional value chains include sourcing of intermediary inputs from neighbouring countries.

3.4.2 Under the EA-RISP (2018-2022), the Bank will contribute towards accelerating economic transformation in the Region's by enhancing key enablers to connect markets and industries, and spurring the production of higher value added commodities. In this regard, the Bank shall facilitate the removal of physical (i.e. regional infrastructural) and 'soft' (i.e., governance-related, institutional) impediments affecting the environment for value-addition, trade and economic transformation across the region. **Annex 10** summarizes key strengths/opportunities and weaknesses/challenges in Eastern Africa.

3.5 Regional Portfolio Performance

3.5.1. The on-going regional portfolio, as at October 2016 consisted of 58 public sector projects and four private sector operations for a total commitment of UA 1.94 billion. Overall, the portfolio has performed satisfactorily due to constant follow-up and enhanced dialogue with the national and regional stakeholders since the establishment of the Regional Department in 2012 (see Annex 2, Table 3) for the regional portfolio improvement plan agreed to in 2016 which has since been continuously implemented).

3.6. Summary of Lessons Learned Shaping the RISP

3.6.1. The Regional Portfolio Performance Review (RPPR), the Completion Report of the previous RISP (2011-16) and experiences from other Bank regions as well as BDEV evaluation have thrown-up a number of lessons at the strategic and portfolio management levels, as well as at RECs'/RMCs' and Development Partners' levels. The main lesson at strategic level is the need to accelerate the structural transformation and industrialization of the region, and to promote value adding economic activity and economic diversification, product differentiation and sophistication, with a view to grow trade and generate formal wage employment, especially for the increasing number of youths. The RISP will support this by removing physical (i.e. regional infrastructural) and 'soft' (i.e., governance-related, institutional) impediments to regional integration and trade and the free movement of goods, services (e.g. power trade), capital and people across the region, as discussed in detail in the previous sections of the document. At the portfolio management level, RECs lack sufficient capacity, effective governance structures, and rationalized business processes in project preparation and coordination. Since program/project implementation takes place at the national level, a key lesson is to work more closely with national institutions (e.g. roads/ports authorities, Customs authorities, standards bodies, etc.)- thinking regionally and acting locally. Consequently, the RISP shall enhance capacity-building support to address capacity gaps at national level to support regional integration especially in the Region's fragile states, while also mainstreaming regional dimensions in CSPs and national projects. BDEV also found that the Bank's system for managing for development results including M&E is not being implemented robustly enough to help guide in implementation. Therefore, the RISP (2018-2022) is underpinned by a clear vision that is supported by a theory of change and a revamped results-based framework. Finally, BDEV emphasized the need for greater attention to policy reform and 'soft' infrastructure to advance regional integration outcomes identified in the RISP. Summary lessons are outlined in **Annex 11**.

4. BANK's REGIONAL INTEGRATION STRATEGY FOR EASTERN AFRICA 2018-2022

4.1 Rationale and Selectivity

4.1.1 The RISP is the Bank's instrument to operationalize the corporate-level Regional Integration Strategic Framework (RISF), taking into account the integration priorities of its clients in each of the Bank's Regions. Through implementation of the previous RISP, the Bank has left a strong footprint in terms of financing regional integration operations and achieved notable results especially in the transport, energy, and water supply and sanitation, as well as enhancing cooperation in the management of regional public goods (**Annex 11**). The RISP also provides guidance for the mainstreaming of regional dimensions in CSP, sectoral strategies and Bank operations. In addition, the RISP is integral to the selection framework for the prioritization of regional operations for financing under the ADF Regional Operations Envelop.

4.1.2 To put the RISP's strategic and operational choices on a rational basis, a set of selectivity criteria are employed including:- (a)Lessons learned from previous RISPs, and BDEV evaluations, (b) Results of analytical work on the Region's pressing development challenges and opportunities, (c) Feedback from early Board engagement (d) Consultations with the regional stakeholder and alignment with strategic frameworks of the AU and RECs, which is also vital for ownership and sustainability of Bank-funded operations; (e) Alignment with the Bank's TYS, High-5s, RISF (2018-2025) and relevant sector strategies; (f) Complementarity/synergy of Bank's assistance with other DP's interventions; and (g) Bank's comparative advantage.

4.1.3 Under the new DBDM alignment between regional and national priorities shall be enhanced through strategic mechanisms and effective dialogue with national, regional and continental institutions. In this regard, Country Offices shall directly contribute to regional integration by mainstreaming regional dimensions in their CSPs, informed by robust country diagnostic reports integral to the CSP preparation process. Furthermore, through evidence-based dialogue the Bank will address political economy issues along with other related concerns that amount to incentives and disincentives impeding progress in integration initiatives. By undertaking studies and related assessments, the Bank, in partnership with the RECs, shall examine the challenges affecting implementation of regional projects in the Region. Bank shall also take full advantage of its regular participation in dialogues platforms such as REC and EU summits to engage high-level champions to drive the regional integration agenda. In the SIDs, the Bank will support activities to promote value chains linked to the blue economy, such as the planned Seychelles Support to Building Blue Economy MSMEs Value Chain project. The Bank will also support capacity building of regional institutions focused on blue economies, such as the IOC Secretariat.

4.2 EA RISP 2018-2022: Main Objective and Pillars

4.2.1 In response to Eastern Africa's overarching development challenge the main objective of the Eastern Africa RISP 2018-2022 is to accelerate structural transformation. In this connection, the EA RISP (2018-2022) is articulated around two mutually reinforcing Pillars, namely (i) Regional infrastructure development for economic transformation; and (ii) Policy and institutional frameworks for market integration, investment and value chains development. These are complemented and strengthened by a cross cutting foundation—financial sector integration. Selection of these thematic areas reflects, among others, the need for selectivity, adherence to the RISF and other High-5 strategies, alignment with the strategies of the relevant RECs and the AUC, lessons learned from the previous RISP implementation and BDEV's evaluation, as well other knowledge works in the Bank. The results tool in **Annex 1** articulates the strategic alignment at the regional and continental levels as well as internally within the Bank. The interventions and expected results under each Pillar are elaborated hereunder.

4.3 PILLAR 1: Regional infrastructure development for economic transformation

4.3.1 The objective of Pillar 1 is to accelerate economic transformation in Eastern Africa by scaling up investments for regional infrastructure connectivity as a key enabler. The infrastructure gap in the region is shown in Chart 1. Accordingly, regional infrastructure continues to be a priority across all REC and Continental strategies and has strong links with all the High-5s. The growth of private sector investment, industrial development, and intra-regional trade depends on the availability of efficient transport connectivity, and access to electricity, ICT and water. In this regard, the Bank will scale-up its investments to improve regional transport and ICT connectivity and enhance access to affordable, sustainable and reliable energy in order to boost competitiveness and foster economic transformation. The approach to regional infrastructure development under the new RISP will leverage complementarities between physical and soft infrastructure elements in Bank-funded operations, and promote spatial development opportunities. In the energy sector, soft interventions will include mainstreaming capacity building and policy reforms to enhance operational efficiency and financial viability of utilities to become credible partners for PPPs, for example. Soft interventions in the transport sector will include construction/upgrading and operationalization of OSBPs through simplifying and harmonization of border and transit procedures, and enhancing capacity of regional and national institutions responsible for the implementation and/or coordination of infrastructure projects. For Projects funded through the ADF Regional Operations Envelop, the Bank will ensure adherence to the ADF framework for selection and Prioritization of ROs, which stipulates that at least ten percent of a project budget be dedicated to soft interventions. The following RISP outcomes are envisaged under Pillar 1:

4.3.2 **RISP Outcome 1: Increased access to affordable and reliable energy**: Pursuant to the **Light Up and Power Africa High-5,** the Bank's support under this Pillar will focus on promoting an integrated regional power market by investing in interconnectors (which can also be used for ICT connectivity) to facilitate power trade. This is directly linked to Theme #6 and Flagship #8 of the New deal on energy for Africa, 'accelerating major regional projects and driving integration'. The Bank will also scale up investments in generation capacity targeting power plants shared by several countries (e.g. Rusumo, connecting Tanzania, Rwanda and Burundi) and focusing on 'green' climate smart and clean energy. In connection with clean energy, the Bank will contribute towards scaling up investment in the LPG infrastructure to improve the accessibility of LPG in the region.

4.3.2.1 Investments in energy infrastructure will be complemented by 'soft' interventions to improve the policy environment, in order to operationalize the East African Power Pool. In this regard, the Bank will support capacity building of the EAPP's towards transforming the existing cooperative pool into a competitive pool to operationalize the regional power market. The expected outcome is improved regional access to more affordable and reliable energy for households, industrial parks/clusters and secondary cities resulting in a reduction in cost of doing business and enhanced competitiveness for high value-added production. The expected output from Bank interventions will include expansion in kilometres of Bank-funded cross-border interconnection constructed from 1007km in 2017 to 2000 by 2022. The expected outcomes are enhanced access to electricity in the region beyond the 26% access rate reported in the African Economic Outlook (2018), and operationalization of the EAPP to grow the regional power market.

4.3.3 **RISP Outcome 2: Improved transport connectivity for enhanced access to regional and global markets**: Bank's support in the transport sector will focus on improving key regional infrastructure connectivity that is designed to enhance cross-border trade (through reducing trade costs, including costs caused by border delays), and linking production and consumption hubs and agro-poles, leading to poverty reduction, directly or indirectly.

4.3.3.1 The Bank's investment in the transport sector will bridge missing links on the strategic Eastern African transport corridors, and accelerate the development of new routes to provide traders with alternatives, and to cope with projected traffic volumes and support the region's growing economy. In connection with the latter, focus will be placed on projects prioritized by RMCs and regional bodies, such as the Lamu Port-South Sudan-Ethiopia Transport (LAPSSET) and Ethio-Djibouti Corridors. Apart from transport corridors, the Bank will support investments in multi-modal facilities and transport networks. In this regard, the Bank will support development of the Lake Tanganyika transport corridor and other inland waterways to provide safe, efficient, and environmentally friendly transport links.

4.3.3.2 In line with the holistic corridor approach adopted by the region's RECs, the Bank's support in the transport sector will also address complimentary by capacity building activities and facilitation programs articulated under Pillar 2. In addition, road-safety will be enhanced, through inclusion of road-safety data in corridor observatories to enhance monitoring. The long-term sustainability of regional infrastructure operations will be ensured by strengthening the maintenance culture and capacity of the relevant national ministries and agencies in tandem with infrastructure project investments.

4.3.3.3 Improved transport connectivity and trade facilitation will results in enhanced connectivity to markets for landlocked countries, rural and urban growth poles and centres of production in the region. The expected results will be reduced transit and border-crossing times, reduction in transport costs, enhanced industrialization and expansion of intra-regional trade. The expected output will include improved navigability and cross-border trade via inland waterways, and an increase in kilometres of cross-border roads constructed and/or rehabilitated from 1,371km by the end of the previous RISP to 2,165 km by 2022.

4.3.4 **RISP Outcome 3: Investment in Transboundary/Shared Water Resources:** The Bank interventions in this area will strengthen cooperation towards sustainable usage of shared water resources and harness their contribution to improved livelihoods. In particular, the Bank will support sanitation around Lake Victoria through improved transboundary fecal-sludge management around the Lake; improved water supply and sanitation in towns around the Lake; and multipurpose water resources development around shared water resources.

4.4 PILLAR II: Strengthening the policy and institutional frameworks for market integration, investment and value chains development

4.4.1 The main objective of the Bank's strategy under this Pillar is to foster economic transformation by addressing policy-related, institutional and capacity constraints to market integration, investment and value chains development. Bank interventions under Pillar 2 will focus on the following:-

4.4.2 **RISP Outcome 4: Improved Trade and Transport Facilitation and removal of NTBs and non-conforming measures**: Bank interventions in this area will involve establishment OSBPs on strategic transport corridors and on spurs of key corridors. The Bank will also support the operationalization of OSBPs by implementing relevant soft interventions such as streamlining and harmonizing border procedures, installation of single electronic windows and rolling out transit regimes in countries not yet covered; capacity building of border authorities, and mainstreaming of simplified trade regime (STR) to support small-scale cross border traders.

4.4.2.1 The Bank will also support measures to minimize NTBs by operationalizing corridor observatories in cross-border transport infrastructure projects as a tool for collecting corridor performance information, and informing evidence-based advocacy and reforms to remove NTBs. The Bank will also support measures to roll out online NTB reporting tools and capacity building to facilitate adoption of the EAC NTBs Act (2015) which introduces timelines, sanctions and penalties for non-compliance. In the aviation sector, the Bank will support the establishment of the EAC Upper Flight Program to accelerate regional air connectivity, enhance efficiency and aviation safety. The expected outcomes are reduction in transit and border crossing times, reduction in NTBs and growth in intra-regional trade to 25% by 2022.

4.4.3 **RISP Outcome 5: Enhanced Capacity of Regional and National Institutions:** The Bank will strengthen the capacity of RECs, regional and national institutions (especially in fragile states) responsible for coordination and implementation of regional projects, corridor development, management of cross boundary/shared resourcesand regional industrial and investment policy.

4.4.3.1 Key interventions will include: (a) provision of capacity building and technical assistance (TA) to RMCs, e.g. TA to South Sudan to effectively integrate into the EAC Customs Union in order to consolidate its resilience from fragility and foster economic transformation; (b) statistical capacity building for RECs and RMCs to enhance planning and monitoring; (c) TA to RMCs and RECs to foster effective industrial and investment policies, including capacity building for SEZ practitioners; and (d) establishment of regional centres of excellence.

4.4.3.2 Through ESW, advisory services and technical assistance, the Bank will support the RMCs with new resource discoveries in the region to harmonize their oil and gas sector policies and regulations especially in environmental protection, national content policies, and skills development to avoid a race to the bottom and promote investment into the region.

4.4.3.3 Under the one Bank approach, where opportunities arise, RDGE will work with NEPAD-IPPF to support and/or enhance the capacity of RMCs and RECs to prepare bankable regional projects. The expected outcomes of this intervention area will be enhanced capacity of RMCs/RECs to implement regional operations and to facilitate timely readiness of regional projects for investment.

4.4.4 **RISP Outcome 6: Enhanced Regional Financial Systems to Support Trade and Investment:** The Bank will strengthen the frameworks for financial sector integration and financial inclusion through strengthening the regional payments systems; scale up its non-sovereign support to financial institutions through provision of lines of credit, risk participation agreements, equity participation and guarantees; and scale up provision of trade finance through regional financial institutions (Afrexim Bank, and TDB) to boost intra-African trade. The expected outcome of this intervention area will be enhanced mobility of capital, financial inclusion, and access to trade finance.

4.5 Mainstreaming Gender and Inclusiveness

4.5.1 The design of the Bank's new regional infrastructure projects will have a greater gender-oriented focus than before; among others by mandating gender mapping in every new project and involving systematic gender analysis during the preparation of each new operation. Specific components targeting women and youth will be included in project design. Gender and age disaggregated indicators will be integrated in project Results-Based Frameworks (RBF). The projects will also seek to support social facilities along the corridors tailored to meet the needs of female cross-border traders.

4.6 Complementarity/synergy with on-going Bank operations and those of other DPs

4.6.1 The new projects to be approved under the new RISP 2018-22 will complement the Bank infrastructure investment during the previous RISP period since most of the approved projects are still at early implementation stage. In addition, the Bank will enhance collaboration with DPs notably the European Union, World Bank, JICA, Trade Mark East Africa, DfID and USAID to leverage complementarities and pursue co-financing opportunities for enhanced scale and impact.

4.7 EA RISP Indicative Operational Program

4.7.1 The rolling IOP (2018-2022) outlining operations and knowledge work to realize the RISP outcomes is presented in **Annex 2**. In view of strong demand for regional operations and limited resources, selection of activities for the RISP pipeline is fashioned after the Bank's prioritization tool for regional operations (**Annex 2**, **Table 1**). The IOP will be reviewed at mid-term in 2020.

5. IMPLEMENTING THE EA RISP

5.1. Internal and External Arrangements

5.1.1. Implementation of the RISP will follow Bank-wide approach under the Bank's new DBDM. In this regard, Sector Experts will design and manage of projects that will support RISP implementation. RDGE supported by the Country Offices in the region will lead programs/projects coordination and policy dialogue with RECs, specialized regional bodies, and RMCs. In so doing, RDGE will ensure close alignment of the RISP and CSPs priorities and mainstreaming regional dimensions in national operations. There will also be strengthened collaboration with the African Investment Forum to support private sector dialogue at the regional level. Finally, RDGE in collaboration with RDRI, will monitor the RISP portfolio performance and results, and address regional portfolio challenges in a nimble fashion. The Headquarters (RDVP/RDRI) will also support the field-based experts through development of tools; coordinate dialogue with continental level and global institutions, and facilitate sharing of experiences and good practices across regions.

5.1.2. Implementation of the RISP will also require coordinated external implementation arrangements among the RECs, specialized institutions (Power Pool, Corridors Development Authorities, etc.), national authorities, and private sector bodies including regional business councils. The Bank will support capacity strengthening of the RECs as well as national organs implementing or coordinating regional integration activities, in collaboration with relevant stakeholders such as the African Capacity Building Foundation (ACBF). There will also be close coordination with the other development partners through the EAC Development Partner Forum and similar avenues in other sub-regions. Finally, the Bank will conduct regular Fiduciary Clinics for RECs and other regional institutions that will be involved in managing Bank-funded operations to better prepare them for implementation after Board approval of the RISP.

5.2. Financing the RISP

5.2.1. The Bank's regional lending and non-lending programs will be financed by a range of instruments including ADF, ADB, Trust Funds, and blending instruments such as Africa Growing Together Fund (AGTF). The Bank will enhance dialogue with RMCs to ensure commitment to regional operations (ROs) and will encourage countries to leverage the ADF Regional Operations Envelop incentive mechanism to engage in ROs. The ROE provides additional resources to RMCs to leverage their performance-based allocations (PBAs), and in the case of fragile states, the Transition Support Facility (TSF) to implement ROs[xi]. For countries that have access to ADB resources (e.g. ADF-only countries with access to ADB window, blend countries, and MICs)[xii], such resources will be used to complement ADF resources. For instance, the "Multinational Rumonge-Bujumbura and Kabingo-Manyovu Road Upgrade" Project will combine ADB loan, ADF country allocation and ADF ROE loans in Tanzania, and ADF country allocation and ROE grants in in Burundi.

5.2.2. Further, the Bank will collaborate with other DPs and their initiatives such as European Union's African Investment Facility (AfIF), USAID's Power Africa, and Commonwealth Secretariat's technical assistance on blue economies and trade; and the private sector to leverage additional funding through co-financing and PPPs[xiii]. Based on the IOP for the new RISP, the indicative resource requirement is estimated at about UA2.38 billion on 50 operations, subject to review during the MTR. This represents a 31% increase over the UA1.82 billion delivered under the previous RISP, as highlighted in the CR.

5.3. RISP Monitoring and Evaluation

5.3.1. The RISP IOP will be closely monitored by RDGE in collaboration with RDRI, based on the rresults tools articulated at **Annex 1**. The RISP IOP will be reviewed and updated periodically, in line with the Bank's RISF (2018-2025), which provides for a 3-year rolling plan. This will facilitate timely refinements in the lending and non-lending program to adequately respond to emerging regional priorities. Moreover, to enhance capacity in monitoring performance and improve availability of the needed data, the Bank will enhance its support to Statistical Capacity Building as well as relevant TAs to other RECs and RMCs.

5.4. Regional and Country Dialogue

5.4.1. The Bank will intensify production of quality knowledge products/ESWs to inform evidence based regional dialogue and advisory services. Regional and country level dialogue with RECs, specialized institutions and RMCs will continue to be strengthened through the collaborative efforts of RDGE and its Country Offices. The private sector and other non-stake actors will also be included in these dialogues. The following main areas for dialogue are envisaged: (i) ensuring coherence between regional and national operations, (ii) eliminating NTBs, (iii) portfolio implementation and performance improvement; and (iv) resource mobilization for regional operations through PPPs and co-financing.

5.5. Risks and Mitigation Measures

5.5.1. Risks that could potentially affect the effective implementation of the RISP and mitigation measures are outlined in **Annex 12.** Management of these risks will be an iterative process, with new risks identified, assessed, prioritized, and dealt with throughout the duration of the implementation of the RISP.

6. CONCLUSION AND RECOMMENDATION

6.1. The EA RISP 2018-2022 lays out the proposed strategic direction of the Bank's regional integration work in Eastern Africa over the next five years. It indicates the expected contribution of the RISP to the realization of East Africa's development challenges, namely, the need to attain economic transformation, which is fully aligned with the Bank's High 5s priorities. The document is also aligned with the Bank's Regional Integration Strategic Framework, and takes into account the guidance provided by the Committee on Development Effectiveness (CODE) during the early Board engagement. Management hereby requests the approval of the new Eastern Africa RISP covering the period 2018-2022.

ANNEXES

Annex 1: Results Measurement Tool

A. Strategic Alignment Matrix

<table>
<tr><th colspan="6">Pillar 1: Regional Infrastructure Development for economic transformation</th></tr>
<tr><th colspan="3">Continental and Regional</th><th></th><th colspan="2">African Development Bank</th></tr>
<tr><th colspan="3">Continental</th><th></th><th colspan="2">Corporate policies:</th></tr>
<tr><td colspan="3">AU Agenda 2063:
- Aspiration 2, An Integrated Continent: Africa shall have world class, integrative infrastructure that crisscrosses the continent
AU Program for Infrastructure Development for Africa (PIDA)
- Promote socio-economic development through regional and continental infrastructure networks and services</td><td></td><td colspan="2">High 5 priorities:
- Integrate Africa: Enhancing infrastructure connectivity for transformation
- Light up and Power Africa (Achieve universal electricity access by 2025)
Ten Year Strategy (2013-2022):
- Operational Priorities: Infrastructure development and Regional Integration</td></tr>
<tr><th colspan="3">Regional</th><th></th><th colspan="2">Bank Sector / Thematic Strategy:</th></tr>
<tr><td colspan="3">EAC 5th Development Plan (2017-2021)
- Focus Area 2: development of regional infrastructure
COMESA Medium Term Strategic Plan (2016-2020)
- Strategic Objective 5: Strengthen development of economic infrastructure (Energy, transport, ICT)
IGAD Regional Strategy (2016-2020)
- Pillar 2: Economic Cooperation & Integration: Develop regional infrastructure to support economic cooperation & integration</td><td></td><td colspan="2">Regional Integration Strategic Framework (RISF, 2018-2025):
- RISF Pillar 1: Infrastructure Connectivity
Bank Group Strategy for the New Deal on Energy for Africa strategic themes (2016-2025):
- Theme #3: dramatically increase the number of bankable energy projects
- Theme #6: Accelerating major regional projects and driving integration
Industrialization Strategy for Africa (2016-2025)
- Flagship program #6: Develop efficient industry clusters/SEZ in each region</td></tr>
<tr><th colspan="3">Regional Development Results/Indicators:</th><th></th><th colspan="2">Bank’s interventions & Resources:</th></tr>
<tr><th>Indicator</th><th>Baseline (2018)*</th><th>Target (2022)</th><th></th><th>Generic areas of interventions or instruments</th><th>Amount (UA million)</th></tr>
<tr><td colspan="3">Energy</td><td></td><td>Interventions in Regional Energy in Eastern Africa</td><td></td></tr>
<tr><td>Electrification rate (% of population)</td><td>26</td><td>74**</td><td></td><td>Regional energy operations (power plants, transmission, distribution)</td><td>617</td></tr>
<tr><td></td><td></td><td></td><td></td><td>Technical assistance</td><td>2</td></tr>
<tr><td>EAPP power trade operational (yes/no)</td><td>no</td><td>yes</td><td></td><td></td><td></td></tr>
<tr><td colspan="3">Transport connectivity</td><td></td><td>Intervention in regional transport in Eastern Africa</td><td></td></tr>
<tr><td>Cross-border new or upgraded roads (km)</td><td>0</td><td>65,700 (2050)**
11,000 by 2022</td><td></td><td>Multinational operations</td><td>1,460.5</td></tr>
<tr><td>Railway networks (km, new)</td><td></td><td>2,438 (2050**)
500 by 2022</td><td></td><td>National investment operations with regional implications</td><td>412</td></tr>
<tr><td>Others</td><td></td><td></td><td></td><td>Other interventions in Eastern Africa</td><td>6.5</td></tr>
<tr><td>Cross-border ICT connections</td><td>TBD</td><td>TBD</td><td></td><td>ICT</td><td>15</td></tr>
<tr><td>Transboundary water management</td><td>TBD</td><td>TBD</td><td></td><td>Transboundary water management feasibility studies</td><td>4.1</td></tr>
</table>

<table>
<tr><th colspan="6">Pillar 2: Strengthening the policy and institutional frameworks for market integration, investment and value chains development</th></tr>
<tr><th colspan="3">Continental and Regional</th><th></th><th colspan="2">African Development Bank</th></tr>
<tr><th colspan="3">Continental</th><th></th><th colspan="2">Corporate policies:</th></tr>
<tr><td colspan="3">AU Agenda 2063: Aspiration 2: An Integrated Continent
- Establish a Continental Free Trade Area; Implement the African Passport and free movement of people
AU Boosting Intra-African Trade Agenda (BIAT)
- Boost intra-trade from 13% (2015) to 25% by 2025
AU Accelerated Industrial Development Agenda
- Enhance Africa’s industrial output to GDP to foster transformation</td><td></td><td colspan="2">High 5 priorities:
- Integrate Africa: Connecting markets and industries through economic integration
- Light up and Power Africa
- Industrialize Africa
Ten Year Strategy (2013-2022):
- Operational Priorities: (i) Regional Integration; (ii) Private Sector Development</td></tr>
<tr><th colspan="3">Regional</th><th></th><th colspan="2">Bank Sector / Thematic Strategy:</th></tr>
<tr><td colspan="3">EAC 5th Development Plan (2017-2021)
- Focus Area 1: Consolidation of the single customs territory
- Focus are 3: Free movement of all factors
COMESA Medium Term Strategic Plan (2016-2020)
- Strategic objective 1: Strengthen market integration
IGAD Regional Strategy (2016-2020)
- Pillar 2: Economic Cooperation & Integration: Trade, Industry and Tourism Development Programme Area</td><td></td><td colspan="2">Regional Integration Strategic Framework (RISF, 2018-2025):
- RISF Pillar 2: Trade and Investment
- RISF Pillar 3: Financial Integration
Bank Group Strategy for the New Deal on Energy for Africa strategic themes (2016-2025):
- Theme #1: Setting up the right enabling policy environment
- Theme #6 & Flagship #8: Accelerating major regional projects and driving integration (grow power markets)
Industrialization Strategy for Africa (2016-2025)
- Flagship program 1: Foster successful industrial policies
- Flagship #6: Develop efficient industrial clusters (provision of technical assistance targeted at industry clusters/SEZ)</td></tr>
<tr><th colspan="3">Regional Development Results/Indicators:</th><th></th><th colspan="2">Bank’s interventions & Resources:</th></tr>
<tr><th>Indicator</th><th>Baseline (2018)*</th><th>Target (2022)</th><th></th><th>Interventions or instruments in Eastern Africa</th><th>Amount (UA)</th></tr>
<tr><td colspan="3"></td><td></td><td colspan="2">High-5: Integrate Africa</td></tr>
<tr><td>Increased intra-African trade (%)</td><td>14.6 (2017)</td><td>25 by 2025</td><td></td><td>Technical Assistance & Capacity building</td><td>39</td></tr>
<tr><td>Improved trading across borders ranking, Distance to Frontier in WB Doing Business (score, 0=worst; 100=best or frontier)</td><td>53.8 (2018)</td><td>TBD***</td><td></td><td>Investment operations</td><td>13</td></tr>
<tr><td>Increased industrial contribution to GDP</td><td>Less than 15%</td><td>25% by 2030**</td><td></td><td>Knowledge products</td><td>2.7</td></tr>
<tr><td>RECs' integration score[1]
(score, low = 0 to high =1)</td><td>0.47</td><td>0.6 by 2025</td><td></td><td></td><td></td></tr>
</table>

* Or latest available data

**EAC target. Other RECs do not have specific indicators that are time bound. Though the target periods are not fully aligned with RISP period, the Bank will track its contribution to the REC targets via the operational Performance Matrix below

***RECs do not have targets. However, progress may be benchmarked against Sub-Saharan Africa average (51.66), OECD (93) and Latin America (68.35) for the trading against border index; and

[1] Source: Africa Regional Integration Index Report (AfDB, AU, ECA)

B. Regional Engagement and Performance Matrix

Performance areas	Monitoring indicators (EA RISP)	Baseline	Target (2022)	Source of Verification
Operational results	Cross-border roads constructed or rehabilitated (km)	1,371	2,165	RPPR, Project IPRs
	Regional power interconnections (km)	1,007 (2017)	2000	RPPR, Project IPRs
	Electricity traded in Eastern Africa region (GWh)	1,326.32	2,600	RPPR, Project IPRs
	-of which, electricity traded within the EAPP (%)	0	7.5	EAPP Annual Reports
	New or upgraded OSBPs fully operationalized (#)	0	5	Corridor Authorities' Transport Observatory Reports; Project IPRs
	Countries connected to a regional payments system (#)	4 (2018)	6	REC Annual Reports, Project IPRs
	Amount of TA support to harmonize policies for industrialization and investment (UA million)	0	3	PARs
	IPPR approved operations (#)	0	32	IPPR annual report
Capacity building and technical assistance on regional integration	Infrastructure master plans by IGAD (yes/no)	no	yes (by 2019)	
	New regional infrastructure projects prepared to bankability (#)	0	10	NEPAD-IPPF Reports
	Bank-organized seminars on trade facilitation, power trade and other regional integration issues (#)	0	5	
Co-financing Mobilized	Regional projects financed through co-financing (#)	0	3	PARs
	Resources leveraged through co-financing and PPPs(UA million)	0	2,065	PARs
Portfolio performance	Overall Portfolio Performance (scale, 1=worst to 4=best)	3.8	3.9	RPPR
	Projects at Risk (%)	10	8	RPPR
Knowledge work & policy advice on regional integration	EWS/Flagship reports on regional issues (#)	0	5	ESW Reports
Coordination with RECs and development partners	Regional Working groups chaired by the Bank (#)	0	1	Summary report of Development Partners' meetings
	MOUs operationalized with other development partners (#)	0	1	MOUs

<u>Annex 2</u>: RISP Indicative Operational Program (IOP)

Table 1. Filtering Process

The Regional Operations Envelop (ROE) provides additional resources to regional member countries to leverage their performance-based allocations to implement regional projects. Countries which are classified as fragile, can also apply their Transition States Facility (TSF), in order to leverage Regional Operations Envelop incentive mechanism, at a ratio of 1 to 1.15, i.e. for every dollar a country commits from its TSF or PBA allocation, it can leverage an additional 1.5 dollar from the ROE.

Within Eastern Africa, the following 6 countries are eligible for the TSF:

1. Burundi
2. Comoros
3. Eritrea
4. Somalia
5. South Sudan
6. Sudan

During the ADF-14 cycle (2017-2019), (21%) of the total ADF resources, amounting to UA 865.95 Million were ring-fenced under the regional operations envelop for the three-year ADF-14 cycle. Out of this amount, UA 129.89 Million, was apportioned to Regional Public Goods (RPG) and eighty-five percent (85%) (UA 736.06 million) to Cost-shared Regional Operations (RO). Split over the three-year ADF-14 period, resources available for each year will be UA 245.35 Million for ROs and UA 43.30 Million for RPGs.

The filtering process for projects funded under the Regional Operation Envelop (ROE) follows two steps:

i) The first step seeks to ensure country ownership and commitment, strategic alignment with regional priorities, Bank's regional integration strategy/papers, and major continental commitments such as PIDA, and the inclusion of policy components in projects. This step is to be ensured by sector departments and verified by Regional Departments through a pre-prioritization exercise and confirmation of country financial commitments.

ii) After the first step, projects are subjected to a pre-screening phase which involves the allocation of score and ranks based on criteria such as (i) project readiness (i) project alignment to institution priorities such as TYS and High 5s and (iii) policy component – provision in the project to address soft issues. This assessment is undertaken by a cross-departmental team.

iii) The final step is to score and rank the projects based on indicators such as countries' involvement in RO (CPIA, PPA) provided by FIRM and countries' commitment to regional integration (provided by PITD and PICU) and two indicators related to the project (expected development outcome, ADOA-RO, rated ECMR. Annexes 1, 2 and 3 support these processes.

Table.2 EA-RISP Regional Indicative Operational Program (IOP) 2018-2022

Sectors		Projects	AfDB UA Mn.	Source	Co-financing	Potential co-financier
Transport		RISP Pillar I: Regional Infrastructure for Economic Transformation				
	1	Multinational Kasulu-Manyovu (Tanzania)-Rumonge Bujumbura Road Upgrade Project	271	ADF		
	2	Multinational Ethiopia – Djibouti Transport Corridor Project Phase I	143	ADF	257	JICA, WB
	3	Malindi –Mombasa –Lunga Lunga-Tanga-Bagamoyo road project – phase 1 (Kenya: Mombasa-Mtwapa bypass [13km] & Tanzania: Pangani bridge/bypass [10km] and Mkwaja-Tanga [96km])	585	ADB, ADF	65	EU
	4	Multinational Masaka – Mutukula road in Uganda (89 km) and the Mutukula – Kyaka (30km) / Bugene – Kasulo road in Tanzania (124 km)	243	ADF		
	5	Development of Lake Tanganyika Transport Corridor (Burundi/Zambia)	66.5	ADF	24	EU
	6	Construction of Kampala Jinja Expressway on the Northern Corridor*	229.27	ADB+ AGTF	590	Total project amount USD1,542.16m
	7	Feasibility study for the 940km Mbarara-Kisangani Road	2	ADF		
	8	Isaka-Kigali Standards Gauge Rail (SGR) Network Project (Tanzania-Rwanda):Design Review & Update of 2014 Feasibility Studies (USD1.5); Transaction Advisory (USD2m); and supervision (USD200m)	145	ADF		
	9	Isaka-Kigali/Keza-Gitenga-Musongati and Uvinza-Musongati Standards Gauge Rail (SGR) Network Project (Tanzania-Rwanda): 521km-Design & build- PPP model	TBD	ADF		
	10	EAC Railway sector enhancement program Phase 2A & 2B (soft issues and detailed design studies for selected EAC railway projects and railways infrastructure policy harmonization)	5	ADF		
Energy	11	Masaka (Uganda)-Mwanza (Tanzania) Transmission line - (220kv)	93	ADF	22	EU-project in RIP
	12	NELSAP - Burundi/DRC Interconnection - Supplementary loan	15	ADF		
	13	NELSAP - Financing gap for Burundi/Rwanda Interconnection	35	ADF		
	14	Construction of Rusizi Hydro Power Project (Burundi, Rwanda, DRC)	TBD	ADF	1,082	PPP

Sectors		Projects	AfDB UA Mn.	Source	Co-financing	Potential co-financier
	15	Kakono 87 MW Hydro Power Project*	120	ADF		
	16	Ethiopia - Sudan 500 kv interconnection project	TBD	TBD		
	17	Ethiopia-South Sudan 400kv interconnection project	196	ADF		
	18	Uganda - South Sudan 400 kv interconnection project	TBD	TBD		
	19	Zambia - Tanzania -Kenya Interconnector: Sector Mbeya – Kabwe	157	ADB,ADF	25.0	EU-project in RISP
	20	Kigali- Bujumbura oil products pipeline feasibility study	0.4	IPPF		
	21	Uganda-Tanzania-oil-pipeline-products study	1.2	IPPF		
	22	Scaling-up the clean cooking industry in Africa (continental TA project with activities covering Kenya, Ghana and Cameroon)	1	FAPA		
	23	TA to the EAPP to boost regional power trade	1	ADF (RPG)		
ICT	24	Interconnect government owned optical fibre backbone networks (Burundi, Kenya, South Sudan, and Uganda)	11	ADF, ADB		
	25	Construct cross-border backbone ICT interconnection stations at 8 EAC common borders (Kobero, Akanyaru, Gatuna, Mutukula, Malaba, Nimule, Nadapal, Namanga)	2	ADF		
	26	Support to EAC Digital agenda (E-Government) in collaboration with EASTECO	2	ADB		
Water	27	Feasibility study for the transboundary fecal sludge management among urban poor populations around Lake Victoria	1	AFW		
	28	Water supply & sustainable sanitation in towns around Lake Victoria (Uganda, Kenya, Tanzania, Rwanda, Burundi)	TBD			
	29	Songwe River Basin development project (Tanzania/Malawi)	TBD			
	30	Feasibilities Studies and Development of the Gebel Aulia-Renk-Malakal Integrated Water Resources and Fisheries Management project (NELSAP)	1.55	IPPF		
	31	Angololo (Uganda/Kenya) and Akanyaru (Burundi/Rwanda) multipurpose water resources development projects-NELSAP	1.5	Trust Funds		
		Total Pillar 1	***2,328.4***		***2,65.0***	
Trade & Trans		RISP Pillar 2: Strengthening the policy and institutional frameworks for market integration, investment and value chains development				

Sectors		Projects	AfDB UA Mn.	Source	Co-financing	Potential co-financier
	32	CFTA Implementation Support Facility Project	3.5	ADF ROE		
	33	EAC trade development programme (NTBs, simplified trade regime, operationalization of tripartite (this consolidates several submissions by the Trade & Customs department, following discussions during the mission)	8	ADF ROE		
	34	Single Customs Territory assessment & Transit System improvement on the Northern Corridor	0.5	TFs, ROE		
	35	TA support to regional corridor agencies to improve transit systems (UA million)	2	TFs, ROE		
	36	East Africa Regional Trade Facilitation Project (PACCI & IGAD)	0.65	AFTRA		
Industrialization capacity building	37	Regional Industrial Parks/SEZ policy and regulatory framework and national master plans/SEZ frameworks	0.58	TFs		
	38	TA for Harmonization of policies for industrialization and promotion of EAC as single investment destination	2	TFs		
	39	Regional capacity building for SEZ/IP practitioners, policy makers, academia, and SEZ/IP developers	0.58	TFs		
	40	Support to Building Blue Economy MSMEs Value Chain project*	0.85	FAPA		
Financial Integrat	41	Multinational - EAC-payment and settlement systems integration project Phase II	10.4	ADF ROE (RPG)		
Institutional and Cross-Sectoral Capacity Building and TA	42	Institutional capacity building support for the Integration the Republic of South Sudan into the EAC Customs Union	1.5	TFs		
	43	Statistical Capacity Building for RECs ($2m) and RMCs ($3m)	3.5			
	44	IGAD Regional Infrastructure Master Plan (to be finalized 2019)	2.5	ADF ROE (RPG)		
	45	Nutrition support project in pastoralist areas (PANP) – IGAD: Ethiopia, Djibouti, Kenya, Sudan, S. Sudan, Somalia & Uganda	TBD	TSF		
	46	Implementation of 5-Years Plan for the establishment of EAC Upper Flight Program to create a single airspace	3	ADF		
	47	Establish East African Community Regional Centre of Excellence for Nutritional Sciences Institute (EANSI)	13	ADF		
Knowledge Products	48	Time Release Studies to improve Customs clearance at borders	1	TFs		
	49	Eastern Africa Industrial Competitiveness Report (in collaboration with UNIDO)	1.2	TFs		

Sectors		Projects	AfDB UA Mn.	Source	Co-financing	Potential co-financier
	50	Financial Sector Integration and Inclusion in Eastern Africa	0.5	ECVP		
Total Pillar 2			***55.3***			
Total Pillars 1 & 2			**2,383.7**		**2,065.0**	

*National project, but with regional benefits and/or prioritized in regional frameworks

Table 3: Regional Portfolio Improvement Plan

Identified Issues	Issue Description	Recommended Action	By who?	Indicators
1. Quality at Entry /Aid Start up	Weak projects design and change of scope that result into cost overruns and project delays	• Ensure baseline data and all studies including detailed designs are available before project approval • Develop Bank business processes tailored to regional projects	Sector departments RDVP	No of new projects assessed of high quality in design No of projects with baseline data and all studies available at appraisal. New business processes apply to all new projects
	Delays at the project start up and getting loans declared effective	• Streamlining of conditions prior to effectiveness as recommended in PD02/2015Ensure a broad-based participation of all regional stakeholders during project preparation, including local councils and national/regional parliaments where necessary • Engage Governments Authorities and emphasize timely budgeting and timely compensation and on case by case basis examine the feasibility of including funds for land compensation in the project financing	Task Managers (TMs). PGCL TMs Country Managers/TMs TMs	No of project loans effective within the deadlines No of new projects with compensation issues handled within the required schedule
2. Procurement	Slow procurement process that leads to delays in project implementation	• Increased use of advance procurement to reduce delays, as recommended in PD02/2015 •	• Organize regional workshops for contractors and consultants on procurement procedures and systems • Prepare a regional contract administration manual that would include among other things contract	Reduced time lag in procurement process Reduced time lag in procurement by 70% Performance of 80% of consultant and contractors rated satisfactory

			management procedures, approval process, required skills mix etc. • Introduce a tracking system of how procurement process is handled on regional basis ,track queries and responses both from the Bank and the governments sides • On case by case basis, consider during project preparation establishment of a joint tender board to service the entire project • Develop a generic framework to assess quality of consultants and contractors and maintain a regional database of their performance records	
3. Financial Management Audit	Weaknesses in fiduciary management, in submission of audit reports and in monitoring the implementation of audit recommendations Delays in processing disbursement applications		• Enhance the monitoring tool for tracking implementation of audit recommendations • Enhance trainings of Executing Agencies on fiduciary management and on Bank disbursement procedures • Introduce the use of e-form for	100% of audit reports are submitted according to schedule 100% of audit recommendations are implemented Disbursement applications are processed within 25 days

			processing disbursement applications similar to the one used by the World Bank	
Identified Issues	**Issue Description**		**Recommended Action**	**Indicators**
4. Monitoring and Evaluation	Weak M&E systems in place and limited skills in Executing Agencies, reporting not focused on results, results and impact indicators not well defined.	•	• Strengthen capacity of Executing Agencies by providing training in monitoring and evaluation specifically in key areas such development of M&E indicators and systems. • Establish a regional shared computerized management information system for proper and efficient results reporting • Carry out systematically for all projects independent mid-term reviews	No of M&E established and effective by 31/12/2015 Sharing of information improved No of progress reports focusing on results with clear indicators 90% of projects with MTRs
5. Institutional Capacity & Coordination Arrangements	Capacity of Executing Agencies varies from project to project and from country to country. Weak capacity of RECs to prioritize , coordinate and manage projects	•	• Strengthen capacity of Executing Agencies by providing regular trainings in such areas as financial management, project management, procurement and contract management • Enhance dialogue with Senior Governments	No of projects implemented according to original schedules Number of RECs assessed and supported.

			authorities on the need to rationalize multiple and overlapping membership of RECs • Strengthen capacity of RECs to enhance their role of coordinating and managing regional projects and sharing of experience & lessons	
6. Paris Declaration / Aid Coordination	High transaction costs for co-financed projects due to lack of common arrangements Increased use of country systems in the area of procurement	•	• Develop mechanism to guide implementation of co-financed programs to include joint missions and diagnostic reviews, common arrangements for appraisal, procurement, disbursement , reporting, monitoring and evaluation • Assess the countries in East Africa procurement processes and procedures with a view to determine to which extent the Bank can use the country procurement procedures	No of joint missions at appraisal and supervision as well as joint reports No of country systems used

Table 4: Active Portfolio of Regional Operations in Eastern Africa at 31 August 2018

Sector Name	Long Name	Countries involved	Loan Number	Funding Source	Status	Approval Date	Completion Date	Net Loan (UA)	Disb. Ratio (%) /1	Age in Years
Agriculture	Drought Resilience & Sustainable Livelihood Program	Kenya	2100150028345	ADF	OnGo	12/19/2012	12/31/2019	37,410,000.00	27.05	5.69
	Drought Resilience & Sustainable Livelihood Program	Djibouti	2100155024217	ADF	OnGo	12/19/2012	12/31/2019	10,700,000.00	79.67	5.69
	Multinational-Drought Resilience And Sustainable Livelihood	Djibouti	2100150033443	ADF	OnGo	06/17/2015	12/31/2021	11,500,000.00	7.43	3.20
	Djibouti Rural Livelihoods Adaptation To Climate Change	Djibouti		Global Environmental Facility (GEF)	APVD	12/15/2016	12/31/2020	3,927,719.65	0.91	1.70
	Drought Resilience & Sustainable Livelihood Program Ii	Eritrea	2100150033196	ADF	OnGo	11/26/2014	12/31/2020	5,750,000.00	15.67	3.76
			2100155029967	ADF	OnGo	11/26/2014	12/31/2020	5,750,000.00	7.46	3.76
	Ethiopia-Drought Resilience & Sustainable Livelihood Program	Ethiopia	2100150028344	ADF	OnGo	12/19/2012	12/31/2019	30,000,000.00	41.45	5.69
	Somalia-DRSLP II		2100150032394	ADF	OnGo	11/26/2014	12/31/2020	28,482,000.00	20.05	3.76
	Somalia-DRSLP II	Somalia	2100155028971	ADF	OnGo	11/26/2014	12/31/2020	10,000,000.00	9.11	3.76
			2100155028971	ADF-TSF	OnGo	11/26/2014	12/31/2020	5,000,000.00	12.45	3.76
	Sudan Drought Resilience And Sustainable Livelihoods	Sudan	2100155030121	ADF	OnGo	06/17/2015	12/31/2021	10,000,000.00	4.80	3.20
	Sudan DRSLP II		2100155028970	ADF	OnGo	11/26/2014	12/31/2020	10,000,000.00	24.16	3.76
	Sudan DRSLP II		5900155007901	ADF-TSF	OnGo	11/26/2014	12/31/2020	9,872,840.48	7.56	3.76
	Uganda- Lakes Edward & Albert Integrated Fisheries &Water R	Uganda	2100150033495	ADF	OnGo	05/20/2015	06/30/2021	5,000,000.00	35.21	3.28

Sector Name	Long Name	Countries involved	Loan Number	Funding Source	Status	Approval Date	Completion Date	Net Loan (UA)	Disb. Ratio (%) /1	Age in Years
Agriculture Total								**265,628,106.58**		
Power	NELSAP Interconnection Project - Burundi	Burundi	2100155018519	ADF	OnGo	11/27/2008	12/31/2025	15,150,000.00	20.06	9.76
	Ruzizi Iii Hydropower Project (Burundi)	Burundi	2100155031719	ADF	APVD	12/16/2015	12/30/2021	19,290,000.00	0.00	2.70
	Regional Rusumo Hydropower - Burundi	Burundi	2100155026516	ADF	OnGo	11/27/2013	08/31/2019	16,700,000.00	1.37	4.75
		Burundi	5580155000001	EU Africa Infrastructure TF	OnGo	11/21/2013	08/31/2019	10,581,878.84	5.23	4.77
	Ethiopia-Kenya Electricity Highway(Kenya)	Kenya	2100150027845	ADF	OnGo	09/19/2012	12/31/2018	75,000,000.00	60.64	5.94
	Kenya - Tanzania Interconnection (Kenya)	Kenya	2100150032846	ADF	OnGo	02/18/2015	12/31/2019	27,500,000.00	16.22	3.53
	Ethiopia-Kenya Electricity Highway (Ethiopia)	Ethiopia	2100150027844	ADF	OnGo	09/19/2012	12/31/2019	150,000,000.00	49.30	5.94
	Ruzizi Iii - Appui À La Coopération, A Ntégration Régionale	Multinational	2100155031718	ADF	APVD	12/16/2015	12/31/2022	1,710,000.00	6.18	2.70
	NELSAP Interconnection Project - Rwanda	Rwanda	2100155018518	ADF	OnGo	11/27/2008	08/31/2019	30,470,000.00	89.73	9.76
	Ruzizi Iii Hydropower Project (Rwanda)-Project Implementati	Rwanda	2100150034844	ADF	OnGo	12/16/2015	12/30/2022	16,000,000.00	0.00	2.70
	Ruzizi Iii Project Management And Regional Cooperation/Integ	Rwanda	2100150034845	ADF	OnGo	12/16/2015	06/30/2022	1,500,000.00	5.65	2.70
	Regional Rusumo Hydropower - Rwanda	Rwanda	2100150030546	ADF	OnGo	11/27/2013	08/31/2019	18,884,000.00	3.91	4.75
		Rwanda	2200160001239	NFT	OnGo	11/27/2013	08/31/2019	6,500,000.00	0.00	4.75
	Kenya - Tanzania Interconnection	Tanzania	2100150032845	ADF	OnGo	02/18/2015	05/13/2024	75,290,000.00	20.68	3.53

Sector Name	Long Name	Countries involved	Loan Number	Funding Source	Status	Approval Date	Completion Date	Net Loan (UA)	Disb. Ratio (%) /1	Age in Years
	(Tanzania)									
	Regional Rusumo Hydropower - Tanzania	Tanzania	2100150030545	ADF	OnGo	11/27/2013	08/31/2019	22,408,000.00	3.82	4.75
	Supplementary Loan For NELSAP Interconnection Project - Ugan	Uganda	2100150036343	ADF	OnGo	11/15/2016	12/31/2019	5,840,000.00	0.00	1.78
Power Total								**492,823,878.84**		
Transport	Projet De Route Nyamitanga-Ruhwa-Ntendezi-Mwityazo	Burundi	2100155014670	ADF	OnGo	12/16/2008	12/31/2018	50,620,000.00	95.45	9.70
		Burundi	2100155014671	ADF	OnGo	12/16/2008	12/31/2018	49,380,000.00	98.24	9.70
	Burundi- Projet D'ammenagement Et De Bitumage De Routes Mugi	Burundi	2100155023016	ADF	OnGo	06/27/2012	12/31/2018	27,500,000.00	83.12	6.17
	Project Preparatory Study For Development Of Bujumbura Port	Burundi	5150155001302	NEPAD/IPPF	OnGo	10/14/2013	10/31/2018	832,241.11	93.47	4.87
	Multinational: Arusha-Holili/Taveta-Voi Road (Kenya)	Kenya	2100150028894	ADF	OnGo	04/16/2013	12/31/2018	75,000,000.00	72.49	5.37
	Mombasa -Nairobi-Addis Ababa Corridor Phase Iii - Kenya	Kenya	2100150025546	ADF	OnGo	11/30/2011	12/31/2018	120,000,000.00	75.88	6.75
	Kapchorwa - Suam - Kitale And Eldoret Bypass Roads Project	Kenya	2000200001052	ADB	OnGo	03/29/2017	12/31/2022	58,729,578.94	12.97	1.42
		Kenya	2100150037300	ADF	OnGo	03/29/2017	12/31/2022	35,113,000.00	11.47	1.42
	Mombasa -Nairobi-Addis Ababa Corridor Phase Iii - Ethiopia	Ethiopia	2100150025545	ADF	OnGo	11/30/2011	12/31/2020	105,000,000.00	68.56	6.75
	Kampala-Juba-Addis Ababa-Djibouti Corridor Study	Multinational	5150155001051	NEPAD/IPPF	OnGo	09/30/2013	06/30/2019	2,617,188.43	58.73	4.91
	EAC Rehabilitation	Multinational	5150155001502	NEPAD/IPPF	OnGo	06/20/2014	04/01/2019	1,923,189.59	32.31	4.19

Sector Name	Long Name	Countries involved	Loan Number	Funding Source	Status	Approval Date	Completion Date	Net Loan (UA)	Disb. Ratio (%) /1	Age in Years
	Selected Roads									
	Multinational Uganda – Tanzania (Masaka-Mutukula-Kyaka-Bugene	Multinational	5150155002551	NEPAD/IPPF	OnGo	10/18/2017	12/30/2022	1,085,433.63	0.00	0.86
	LAPSSET- Lamu Port South Sudan Ethiopia	Multinational	5150155002451	NEPAD/IPPF	OnGo	11/24/2016	04/30/2020	1,386,992.11	0.74	1.76
	Rwanda-Projet D'amenagement De Routes (Mugina-Mabanda	Rwanda	2100150027043	ADF	OnGo	06/27/2012	12/31/2019	40,525,000.00	69.04	6.17
		Rwanda	2100155023017	ADF	OnGo	06/27/2012	12/31/2019	4,525,000.00	31.04	6.17
	Busega-Mpigi & Kagitumba-Kayonza-Rusumo Road Project - Rwanda	Rwanda	2100150035494	ADF	OnGo	06/22/2016	07/13/2021	66,560,000.00	26.79	2.18
		Rwanda	5580155000501	EU Africa Infrastructure TF	OnGo	06/22/2016	07/13/2021	16,599,025.64	23.39	2.18
	Multinational: East Africa:Arusha-Voi (Tanzania)	Tanzania	2100150028893	ADF	OnGo	04/16/2013	08/31/2020	79,900,000.00	54.14	5.37
	Kampala-Mpigi & Kagitumba-Kayonza-Rusumo Road Project - Ugan	Uganda	2000200000151	ADB	APVD	06/22/2016	12/31/2020	65,175,508.33	0.00	2.18
		Uganda	2100150035493	ADF	APVD	06/22/2016	12/31/2020	42,500,000.00	0.35	2.18
	Kapchorwa - Suam - Kitale And Eldoret Bypass Roads Project (	Uganda	2000200001051	ADB	OnGo	03/29/2017	12/31/2022	27,502,632.09	0.00	1.42
		Uganda	2100150037299	ADF	OnGo	03/29/2017	12/31/2022	41,462,000.00	0.00	1.42
Transport Total								**913,936,789.87**		
Water Supply/Sanitation	Lake Victoria Water And Sanitation Program Ii	Multi	2100155019967	ADF	OnGo	12/17/2010	12/30/2018	72,980,000.00	93.80	7.70
	Feasibility Study Of The Nyimur Multipurpose Water	Multi	5600155004051	Africa Water Facility Fund	OnGo	11/21/2014	12/31/2018	1,639,238.44	80.78	3.77

Sector Name	Long Name	Countries involved	Loan Number	Funding Source	Status	Approval Date	Completion Date	Net Loan (UA)	Disb. Ratio (%) /1	Age in Years
	Resources									
	Elaboration Du Programme Regional De Developpement Integred	Multi	5600155004201	Africa Water Facility Fund	OnGo	07/16/2015	06/30/2019	1,634,602.33	38.65	3.12
Water Supply/Sanitation Total								**76,253,840.77**		
	Lake Victoria Maritime Communications And Transport	Kenya	2100150036247	ADF	APVD	10/24/2016	04/30/2021	3,770,000.00	0.38	1.84
		Tanzania	2100150036245	ADF	OnGo	10/24/2016	12/31/2016	3,770,000.00	1.49	1.84
		Uganda	2100150036246	ADF	OnGo	10/24/2016	04/30/2021	10,210,000.00	0.80	1.84
Communications	50 Million African Women Speak Networking Platform (EAC)	Multi	2100155032767	ADF	OnGo	07/15/2016	12/31/2019	2,500,000.00	7.26	2.12
Communications Total								**20,250,000.00**		
	FAPA- EADB 2013	Multi	5700155001701	FAPA	OnGo	05/01/2013	11/07/2017	655,336.16	66.57	5.33
	East African Development Bank - Line Of Credit	Multi	2000130013931	ADB	OnGo	10/15/2014	03/03/2025	28,648,575.09	75.00	3.87
Finance	Eastern And Southern Africa Development Bank LOC V	Multi	2000130016681	ADB	APVD	12/07/2016	03/09/2029	128,918,587.91	66.67	1.72
	Shelter Afrique Emergency Liquidity Facility	Multi	2000120004669	ADB	APVD	02/14/2017	12/31/2019	14,324,287.55	0.00	1.53
	The East African Community (EAC) - Payments And Settlement Systems	Multi	2100155023918	ADF	OnGo	12/05/2012	06/30/2020	15,000,000.00	58.75	5.73
Finance Total								**187,546,786.71**		
	Fashionomics Africa Online - Initiative	Multi	5700155003051	FAPA	APVD	06/28/2018	12/31/2020	661,474.11	0.00	0.17
	IGAD Infrastructure Master Plan	Multi	2100155034267	ADF	OnGo	02/13/2017	11/30/2020	2,500,000.00	7.10	1.54
	T.A And Capacity Building To ICGLR	Multi	5900155005551	ADF	OnGo	07/15/2013	03/31/2017	1,481,966.53	100.00	5.12
Multi-Sector	Strengthening Regional And National	Multi	5900155013503	ADF	APVD	03/21/2018	10/30/2020	1,000,000.00	32.64	0.44

Sector Name	Long Name	Countries involved	Loan Number	Funding Source	Status	Approval Date	Completion Date	Net Loan (UA)	Disb. Ratio (%) /1	Age in Years
	Institutions For Reducti									
	Capacity Building Support To Tripartite	Multi	2100155025966	ADF	OnGo	10/09/2013	12/31/2018	5,000,000.00	99.88	4.89
Multisector Total								**10,643,440.64**		
	Communications Total	Burundi	5900155010403	ADF-TSF	OnGo	05/25/2016	12/31/2020	770,000.00	35.93	2.26
	Communications Total	Kenya	2100150031997	ADF	OnGo	10/03/2014	12/31/2019	25,000,000.00	7.77	3.90
	Communications Total	Multi	2100155032816	ADF	OnGo	07/15/2016	06/30/2022	2,730,000.00	47.31	2.12
	Communications Total	Multi	2100155025266	ADF	OnGo	07/24/2013	12/31/2019	30,000,000.00	89.65	5.10
	Communications Total	Multi	2100155031567	ADF	OnGo	10/12/2015	12/31/2018	5,000,000.00	70.47	2.88
	Communications Total	Multi	5900155010501	ADF-TSF	OnGo	05/25/2016	12/31/2020	380,000.00	32.73	2.26
	Communications Total	Rwanda	2100150031998	ADF	OnGo	10/03/2014	12/31/2019	12,500,000.00	2.81	3.90
	Communications Total	Tanzania	2100150031995	ADF	OnGo	10/03/2014	12/31/2019	6,250,000.00	21.55	3.90
Social	Communications Total	Burundi	2100150031996	ADF	OnGo	10/03/2014	12/31/2019	22,500,000.00	14.50	3.90
Social Total								**105,130,000.00**		
Total Active Regional Operations Portfolio								**2,072,212,843.41**		

Annex 3: Key Messages from RDN

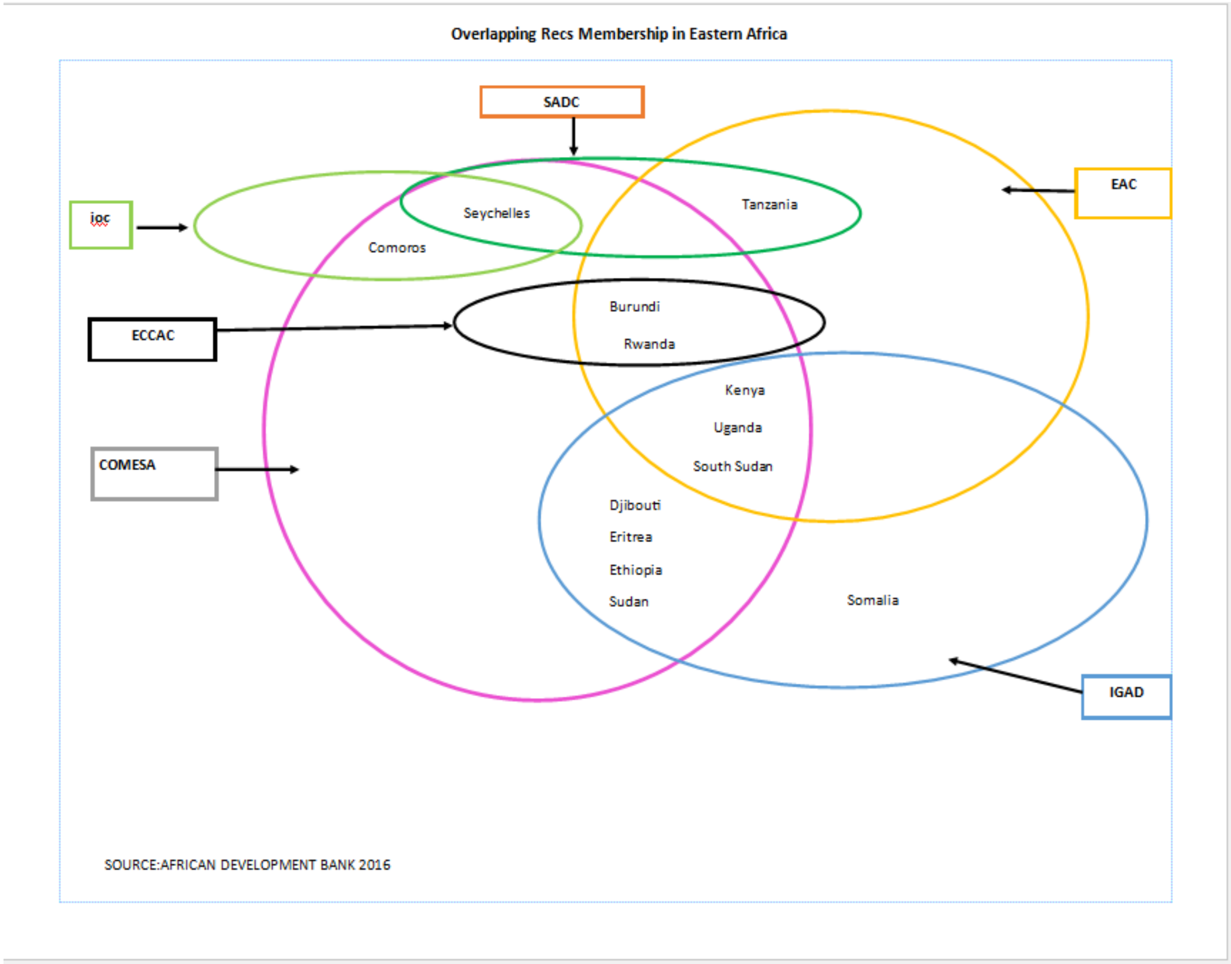
1. Energy	2. Transport	3. ICT	4. Water and Sanitation
The main source of energy in Eastern Africa is biomass. About 85% of the population in the region rely on traditional use of biomass as against about 70% average for the whole of Africa. Thus, biomass will continue to be the predominant household energy supply source with a gradual diminishing role as modern energy reaches households. It is, therefore, necessary to adopt policies and strategies to use this energy resource in an efficient and sustainable manner. This can be done through biomass resource management and use of new technologies at the end user level. In terms of modern energy sources, eastern Africa has the lowest electricity access rate (46%) in Africa compared with North Africa (92%), Central Africa (89%), Southern Africa (67%) and West Africa (55%). The average per capita electricity consumption was 130 kWh as against the continental average of 620 kWh. The low electricity access rate is a result of a number of factors including low regional power generation (only six countries are able to generate enough power to meet their domestic demand), limited regional power interconnection made up of three isolated grid-to-grid interconnectors (Kenya-Uganda, Ethiopia-Djibouti-Sudan, and Burundi-Rwanda-DRC), which is now being expanded, and low level of power trade. Effective regional power trade is also constrained by a Cooperative Pool arrangement (a bilateral trade arrangement among power utilities); and lack of appropriate policies and regulations and acceptable financial position. These factors also result in high average electricity cost estimated at about 14.8 US cents for one-kilowatt hour (kWh) of electricity for Eastern Africa domestic and industrial consumers.	The main transport mode in Eastern Africa is road transport accounting more than 85% of the modal split, except in Seychelles where construction of roadways is difficult because of the mountainous terrain and the limited right-of-way. Principal transport corridors in the region include the Northern Corridor (which runs from the port of Mombasa in Kenya through Uganda, Rwanda and Burundi), the Central Corridor (which runs from Dar es Salaam through Burundi and Rwanda, the Berbera Corridor (comprising the road linking Berbera and Addis Ababa, the port of Berbera, and the Hargeisa and Berbera airports), and prospectively, the Trans African Highway, which would include the Mombasa-Nairobi-Addis Ababa Corridor. The key issues in transport sector of the region from the perspective of regional integration are gaps in transport infrastructure; gaps in the legal, institutional and regulatory regimes; limited access to sea for land locked countries; low trade volumes with neighbours; low level transport and transit services/logistics; weak capacity of transport related institutions; and lack of sustainable maintenance of road infrastructure., amongst others. The EAC, COMESA and IGAD are championing integration of the transport infrastructure based on master plans. They have embarked on the implementation of a common market protocol and a common customs territory. The trade and transport focuses are aimed at creating trade corridors without borders and barriers, on facilitating trade, and promoting economic integration by eliminating non-tariff barriers. The Eastern Africa region is also carrying out necessary reforms and harmonization of standards in the region at creating an enabling environment for the regional trade and integration.	ICT infrastructure has seen substantial growth in the Eastern Africa over the past ten years, thanks to the rapid growth of mobile services and fiber connectivity as a result of private sector investment and public broadband projects. The focus has been on the development of submarine cable systems, broadband and metropolitan networks and mobile broadband networks. With about 71.53m internet users in Eastern Africa in 2016, the region accounts for 21.6% of the continental total. With falling cost by a factor of 3 attributed to the completion of the Seychelles East Africa Submarine (SEAS) cable and increasing penetration rate of both mobile telephone and broadband internet, ICT improvements have enabled innovations in services delivery, including the development of mobile phone-based financial services across the region. There have also been a number of regional initiatives aimed at the harmonization of the legal and regulatory framework at regional level. EAC and COMESA regions have comprehensive set of policies and regulations addressing licensing, universal service and access, frequency management, numbering, interconnection and cyber security, thus creating a conducive environment for ICT penetration. Extending access to underserved areas such as rural areas is still the main challenge in all countries, although the situation varies from one country to the other.	The East African Region is composed of countries that are at varying stages of water sector reform and development, as reflected in differing stages in sector coverage and sector regulatory development. The region is home to iconic water sources and towers like Lake Victoria, Mount Kilimanjaro, Mount Kenya, the source of the Nile and forests which form the sources of streams and rivers that drain into the lakes dotted around the region and into the Indian Ocean. Most of the rivers and fresh water bodies in the region are shared by a number of countries, hence Transboundary water cooperation has the potential to generate significant benefits for cooperating countries. However, notwithstanding the vast sources available, countries in the region still face severe water constraints. The region is home to some of the most arid and dry areas on the continent, which regularly witness debilitating droughts and famines. As a response to water governance crisis, the concept of integrated water resources management (IWRM) is being used to improve governance and reduce potential water crisis among riparian states. However, countries in the region are at different stages in entrenching policies and legal frameworks that provide for environmental sustainability, especially the concept of IWRM. Most of these policies have a common foundation mainly that, they emphasize on participatory management of environmental resources.

5. Agriculture Sector	6. Private Sector	7. Financial Sector	8. Oil and Gas
Eastern Africa countries continue to have a strong agrarian character with the agriculture sector growing at an average rate of 4% and accounting for about 30% of GDP region-wide compared with 14.64% for the SSA in 2014. Across all countries in the region, the agriculture share of GDP was around this regional average, except in Seychelles where it is limited to 2.26% because of its blue economy nature. In this context, agriculture remains an important source of income for most of the countries and represents a large share of economic output. The Agriculture sector consists primarily of small-scale farmers who cultivate a variety of low performing crops on small plots of non-irrigated land, using a minimal amount of fertilizers and pesticides. Agricultural production also largely involves low value-added activities and insufficient processing, despite the sector's enormous potential for agribusiness. with the share of agriculture are agrarian economies. Eastern Africa is endowed with sufficient natural resources to be a major player in the global agriculture and food system. The overarching challenge for East African agriculture is that of low productivity across all farming systems. A review of performance of agriculture over the last four decades shows that East Africa has generally lagged behind other regions of the world. Growth in agricultural total factor productivity (TFP) has hovered around 1%, well below the 2.5% population growth rate. Cereal (e.g., maize) yields, for example, average 1.4 tons/ha compared to 8.6 tons/ha in North America and 2.4 tons/ha in Latin America. Rice yields have witnessed a substantial increase, mainly since 2005 and now average 2.0 tons/ha compared to the world average of 4.5 tons/ha. Several factors account for low crop and livestock yields including *inter alia*, a predominantly rain fed agriculture; heavily degraded and depleted soils; many pests, diseases and weeds; inadequate levels of mechanization; climate change; lack of coherent and conducive policies and institutions; and low capacity for generation, dissemination and adoption of new	One common feature of the economies of the Eastern Africa countries is that while growing relatively rapidly over the last decade, they lack diversification and private business sector dynamism. Formal firms are few and a significant share of economic activity is conducted in the informal sector. This detracts from the capacity to access financial markets to attain economies of scale, to innovate, and to generate exports. The importance of the private sector in the region's economies varies across countries. Some countries, e.g., Kenya and Seychelles have a fairly well-developed and vibrant private sector, with private investment accounting for 12% and 27% of GDP respectively. Other countries, notably those in conflict or emerging from conflict, have very small private sector investments: e.g. Burundi (2%) and Rwanda (8%). Salient features of the private sector in the region are the lack of diversification, value addition, and informality, with a significant share of economic activity being conducted in the informal sector which contributes about 55% of GDP and 80% of the labor force. Key bottlenecks hindering the private sector from engaging in higher value added economic activities include lack of access to credit and to market, low level technology and R&D, deficiencies in entrepreneurship, talents and skills, lack of appropriate policy, legal and regulatory frameworks; and poor infrastructure. The general picture that emerges from the World Bank Doing Business reports is that it is relatively easier to start a business and deal with construction contracts and obtain power than to navigate the legal issues of registering property, enforcing contracts or resolving insolvencies. Trading across borders is much easier in the island and coastal countries than in the land-locked ones; and the ease of getting credit shows the highest heterogeneity in the region, where Rwanda, Kenya and Uganda are much closer to global standards, whereas most other Eastern African countries lag behind even by Sub-Saharan African standards. Thus, the Doing Business Index shows that the region	Over the last decade, the Eastern Africa financial sector has experienced a strong growth from a low base, particularly the banking sub-sector, which recorded double-digit annual growth rate of credit to the private sector for most countries, with the exception of Eritrea, Seychelles, and Burundi, which saw a decline and Sudan which remained constant. Eastern Africa has a low financial depth measured by: domestic credit to the private sector as a percentage of GDP (21.0%) in 2014, liquid liability as a percentage of GDP (30.4%), and bank deposit as a percentage of GDP (26.4%). The banking sector is also fairly concentrated with the top 5 banks' assets accounting for 78.1% of total bank assets in 2014. Another important feature of the financial sector is the spread of Pan-African banks in recent years, notably Ecobank and Standard Chartered Bank, which has resulted in a more competitive environment. Eastern Africa's capital markets have also made some progress, albeit through a regional approach and largely limited to the EAC. The integration of financial markets and the harmonization of its policy, legal and regulatory frameworks are receiving increasing attention in the EAC, which has started interlinking the payment systems to build-up regionally compatible financial infrastructure and improve cross-border trade in financial products. The East African Securities Regulatory Authorities (EASRA) is also in the process of drafting a legislation that will allow companies in Kenya, Uganda, Tanzania and Rwanda to float bonds within the region to facilitate regional common stock/bond exchange. Further regional financial integration is hindered by a number of factors including regulatory constraints (differential tax regimes and other regulator discrepancies), lack of a single licensing regime and mutual recognition among regulators, data gap - sketchy and incomplete data on volumes of cross-border trade in financial products, and absence of regional Stock Exchange. With improved ICT, Mobile financial services is boosting financial inclusion in the	With substantial new resource discoveries, Eastern Africa is considered a frontier region, in the industry parlance. However, with proven reserves of sizeable discoveries of oil in commercial quantity in Kenya, Uganda and South Sudan coupled with significant discoveries of natural gas in Ethiopia and Tanzania a region that was once considered unchartered waters for oil and gas companies is now open for business and is attracting not only the small independent companies but also the majors. The Region has significant oil and gas reserves, estimated at 750 million barrels in Kenya, 1.5 billion barrels in Uganda, 1 billion barrels in S.Sudan, respectively. Gas in Tanzania is estimated at 55 Tct. It is expected that the reserves of the hydrocarbon will be augmented with further explorations. The existing oil resource will be sufficient to meet the regional demand for about 60 years at the current level of consumption of about 350 barrels/day. It is estimated that possible gas reserves off the coast of Eastern and South-Eastern Africa could be up to 12.5 trillion m^3, based on the findings of the United States Geological Survey. Large scale investment is expected to pour into the region, which will no doubt boost the economy of the region. However, most of the countries in the region have new petroleum policies, laws and regulations, and there is need for harmonisation. To this end, in 2017, the Bank conducted the Harmonization of Petroleum Policies, Legal, regulatory and Institutional framework in East Africa, to inform such harmonization. The recovery of oil prices to above $77 per barrel, following a deep in 2014, which cast a cloud over short-term development plans of this sector, presents opportunities for investment. . Until its closure in 2015, the refinery in Mombasa, Kenya was the only refinery in the Eastern Africa region. With the recent discoveries of oil in Uganda, discussions are underway between the government and oil and gas companies about the viability and cost effectiveness of constructing a refinery in Uganda. . Estimates of the capital costs

technologies and innovations across the agricultural value chain	scores low in such areas as 'ease of getting credit' (32.50 out of 100), 'ease of resolving insolvency' (29.59) and 'ease of trading across borders' (41.38). To stimulate private sector development, countries in the region are paying more attention to improving the business and investment climate. Rwanda has shown significant improvements in this regard, ranking 46th out of 189 countries on the 2015 World Bank's Doing Business Index, while Eritrea ranking 89th remains the poorest performer (Annex 4). The oil, gas and mineral exploration boom is stimulating a rapid inflow of FDI into the region and was estimated to have exceeded $8bn in 2013, but Eastern Africa still lags behind the other African region in this regard.	region notably in Kenya, Tanzania and Uganda and use of mobile money range from buying airtime top-up to paying salaries, utility bills and school fees..	for the refinery and related infrastructure is USD4 billion.
9. Poverty and Social Development	**10. Gender**	**11. Regional Fragility**	**12. Climate Change/Green Growth**
There is substantial variability in levels of poverty, income inequality and social indicators across Eastern Africa, indicating varying degrees of inclusivity and gains from economic growth. The per capita income ranges from USD 270 in Burundi (2014) and USD 1,340 in Kenya (2015) to USD14,090 in Seychelles (2015). Many of the countries have high absolute levels of poverty though with a reducing trend, and the disparity in male-female poverty levels persist. Poverty incidence range from 0.4% in Seychelles and 18.3% in Djibouti to 77.7% in Burundi. Income inequality, measured by the Gini coefficient, is also an issue with inequality ranging from 0.35 in Sudan and 0.49 in Kenya to 0.55 in Comoros. The Human Development Index (HDI) is also generally low in the region and shows a fairly even spread with most countries ranging from 0.39 to 0.55, and Seychelles (0.77) being an outlier. Malnutrition remains a significant problem with 42% of the EAC's children under five showing signs of stunting. Impressive improvements have however been made in the area of infant mortality over the past decade across the whole region, with Rwanda, Eritrea and Seychelles showing the best performance. In the education sector, some countries (Burundi, Rwanda, Seychelles, and Uganda) reached 90% in the MDG enrolment	There are marked differences among the countries of the Eastern Africa region with respect to gender status in economic opportunity, human development, and voice and participation. Somalia and Sudan are consistently among the worst performers, while Seychelles, Rwanda, and Comoros are among the best performers. Of particular note are the differences in the share of women in the labor force, ranging from a low 29% in Sudan to a high 54% in Rwanda. There are also differences in human development outcomes (fertility rates, maternal mortality rates and HIV prevalence rates); where significant age- and sex- specific differences exist in risk and vulnerability. These disparities are reflected in country scores on key international gender indices, including the Bank's own recently-launched Africa Gender Equality Index, where Somalia is ranked lowest in Eastern Africa (and indeed in all of Africa) at 15.8 and Rwanda has the highest score in the Eastern Africa region at 74.3. There are also important gender differences in enterprise ownership and in legal barriers to entrepreneurship, which are of particular relevance, if the RISP is to promote cross-border trade and regional enterprise. RECs are taking measures to promote gender mainstreaming to address these gender disparities and governments	Eastern Africa region is prone to fragility with the region having seven countries which are in the Multilateral Development Bank's Harmonized List of Fragile States and the second highest concentration of fragile states in the continent. Peace and security challenges are key drivers of fragility in the region. These manifest in the form of spill-over effects of protracted conflicts, inter-community conflicts, proliferation of small arms and light weapons, as well as the rising trend in radical movements in the region (e.g Al-Shabaab's activities in Somalia and Kenya). Socio-economic drivers of fragility include high poverty levels, high levels of income and access inequality, and high unemployment especially among the youth. Environmental drivers of fragility include high levels of land degradation due to high population growth rate, land overuse and removal of forest cover; and climatic variability resulting in recurrent droughts and food insecurity. The Regional spill-over effects of fragility is significant, with the biggest burden being the hosting of large numbers of refugees and displaced persons by partner/member states. Eastern Africa regional member countries have been working to address the challenge of regional fragility. Under the aegis of IGAD, regional members have been addressing the issues of re-	Eastern Africa is highly vulnerable to climate change and this poses a serious threat to the long-term growth of the region and the green growth agenda. In the arid areas climate variation, desertification, and competition for water and pasture are increasingly cited as sources of inter-community tensions, as well as conflict. Even though Africa accounts for less than 4% of global greenhouse gas emissions, the continent stands to suffer more from its effects, especially in low rainfall areas prone to recurrent drought as well as in island countries such as, Seychelles and Comoros, and coastal cities exposed to the threat of rising sea level. The cross-cutting themes of climate change and green growth are dominated by the recently concluded Paris Agreement (CoP21). All the 13 countries in the Eastern Africa have NDCs in place to guide their climate change mitigation agenda. The NDCs are bottom up contributions towards efforts to achieve the long term goal of restricting average surface temperature rise to well below 2°C. All the countries have already identified the sectors and or gases, which will be addressed. All the countries also included adaptation components in their NDCs. The adaptation components include climate change impacts, nationally determined adaptation options and costs, and programs and

rates target at the primary school level, while the other countries lagged behind. Thus, the achievement of the MDGs was mixed. As countries in the region work towards achieving the SDGs by 2030, there is the need to closely monitor progress at both the country and regional levels. High youth unemployment in Eastern Africa complicates the poverty problem in the region. Youth unemployment is a serious problem, most importantly because of the potential for recruiting the unemployed youth into militant or fundamentalist movements. Youth unemployment is generally above 10% in most countries in the region except in Rwanda (0.7%), Tanzania (5.5%), Uganda (6.8%) and Ethiopia (7.1%). Unemployment is generally higher among females than males, and among graduates of tertiary institutions. With a high regional average population growth rate estimated at 2.8% in 2013 and almost half of the total population made up of youth under the age of 18, a booming youthful population implies an exponential youth unemployment or increased demographic dividend if the youth are productively empowered	are increasingly incorporating gender issues into their development policies and action plans. Also, most countries, Sudan being perhaps the notable exception, have very positive legal frameworks for women: all Constitutions contain clauses prohibiting discrimination on the basis, *inter alia*, of gender. However, there is one key area where women's legal protections and rights are far less strong, and this is with respect to workplace rights. Even in countries reputed to have excellent laws that are favorable to women, such as Rwanda, the situation with respect to workplace rights remains problematic	demarcation of common borders; joint economic, social and infrastructure development in key border areas; and conflict mitigation and resolution. Joint regional commissions exist to help member states to deal with illegal trade and pastoralist issues. IGAD has also formulated a Drought Disaster Resilience and Sustainability Initiative supported by the Bank's Regional Drought Disaster Resilience and Sustainability Program covering Somalia, Ethiopia, Sudan, Eritrea and Djibouti. The Initiative aims to promote the resilience of vulnerable communities in drought-affected areas.	projects per sector. Predominant adaptation themes are recurrent drought and floods, including threat from sea level rise. Climate change and transition to green growth pathways are an integral part of the Bank Group TYS, the New Deal on Energy for Africa, and the Feed Africa - Agricultural Transformation Strategy for Africa. In the energy sector, emphasis is on the exploitation of Africa's enormous renewable energy potential which is currently under exploited. Agriculture is also susceptible to climate change driven by deforestation, soil and nutrient management, and livestock emissions. Agriculture accounts for 14% of greenhouse gas emissions and the figure increases to 25% when forestry and other land uses are included.

<u>Annex 4:</u> Eastern Africa REC Composition



<u>Annex 5</u>: Macroeconomic Indicators and Progress towards Macroeconomic Convergence

Table A5.1: Selected Macroeconomic Indicators

		2007-11 Average	2012	2013	2014	2015 Est.	2012-15 Average.	2016	2017 Est.	2018 Proj.	2019 Proj.
Real GDP Growth Rate (%)	Eastern Africa	6.4	4.5	7.2	6.5	6.3	6.1	4.9	5.9	5.9	6.1
	Africa Av.	5.4	6.4	3.9	3.7	3.6	4.4	2.2	3.6	4.1	4.1
Inflation (%)	Eastern Africa	12.7	19.3	12.8	12.5	9.3	13.5	12.7	15.1	9.4	8.1
	Africa Av.	8.9	9.2	6.8	7.2	7.2	7.6	10.0	13.0	11.1	9.0
Fiscal bal. including grants (% of GDP)	Eastern Africa	-2.5	-3.8	-4.0	-3.6	-4.6	-4.0	-4.2	-3.9	-3.9	-3.8
	Africa Av.	-1.5	-2.6	-3.3	-4.8	-6.6	-4.3	-7.0	-5.7	-4.5	-4.5
Ext. Current Account balance (% of GDP)	Eastern Africa	-5.8	-7.2	-10.0	-9.3	-8.9	-8.9	-6.8	-5.4	-5.6	-5.3
	Africa Av.	1.5	-1.0	-2.6	-4.8	-7.3	-3.9	-5.9	-4.2	-3.5	-3.2

<u>Source</u>: African Economic Outlook, 2018.

Table A5.2: EAC - Progress towards Macroeconomic Convergence Criteria

	Inflation Rate (%)	Fiscal deficit with grants/GDP (%)	Current account deficit/GDP (%)	External Reserves (months of imports)
Regional Average	9.3	4.5	4.6	3.9
EAC partner states average	4.8	8.2	7.6	3.6
EAC Convergence Target	8	6	----	4.5

Source: African Economic Outlook, 2016 (figure do not include data from South Sudan)

Table A5.3: Public Debt Levels and Assessment of their Sustainability

Country	Debt to GDP ratio (%)	Debt Assessment
Burundi	67.8	Domestic debt to remain high, external debt to remain stable
Comoros	-	Risk of debt distress rated as moderate
Djibouti	79 (2017)	Country's indebtedness remains critical
Eritrea	105	high
Ethiopia	54.2[2]	
Kenya	54	Report puts country at low risk of debt distress
Rwanda	-	Risk of external debt distress remains low
Seychelles	64	
Somalia	-	Country has challenges with debt arrears. External debt stock estimated at USD5billion continues to accumulate arrears
South Sudan		
Sudan	-	External debt, most of which is in arrears, remains high and unsustainable
Tanzania	-	Sustainable
Uganda	38.6	Low risk debt distress. However, burden is growing faster than government resources

Source: AfDB, African Economic Outlook 2018

[2] AEO (2018) did not provide the debt GDP ratio for Ethiopia. Therefore this figure is gleaned from the IMF Article IV Report of 4 October 2016

A5.4 Domestic Resource Mobilization

Introduction

Improving domestic recourse mobilization (DRM) and reducing illicit financial flows (IFF) are essential elements of the emerging development paradigm defined by the sustainable Development Goals[3]. Both DRM, i.e., the generation of savings from domestic resources and their allocation to economically and socially productive investments, and IFF have implications on the availability of resources for public investment and service delivery. By some estimates, illicit flows from Africa could be as much as USD50 billion per annum, more than double the overseas development assistance (ODA) that Africa receives. Lack of financial transparency, including tax abuse (tax fraud and transfer pricing) are major factors in IFF. Therefore improving DRM, via more efficient tax collection and expenditure of tax revenue will play a vital for improving East African countries ability to fund development priorities including infrastructure to facilitate regional connectivity.

DRM in Eastern Africa

According to the World Bank[4], countries with tax revenues below 15% of DGP have difficulty funding basic state functions. Available data shows that during the decade to 2008, tax to GDP ratios in the EAC sub-region ranged from **12 percent to 22** percent compared to, on average, **36 percent and 25.4** percent for Organization of Economic Cooperation (OECD) countries and South Africa respectively (see Table below). Tax revenues in fragile and conflict-affected countries are generally below the 15% threshold. Despite the paucity of data on DRM, the prevalence of fragile/transition countries in the region (7 out of 13 RISP countries are classified as fragile), the DRM challenge should be significant.

National government (Tax and non-tax revenue) as a percentage of GDP

	Country	**2008**
1	Burundi	18.5
2	Rwanda	14.2
3	Tanzania	15.9
4	Uganda	12.8
	Kenya	22.0

Source: Domestic Resource Mobilization for Poverty Reduction in Easter Africa, AfDB 2011

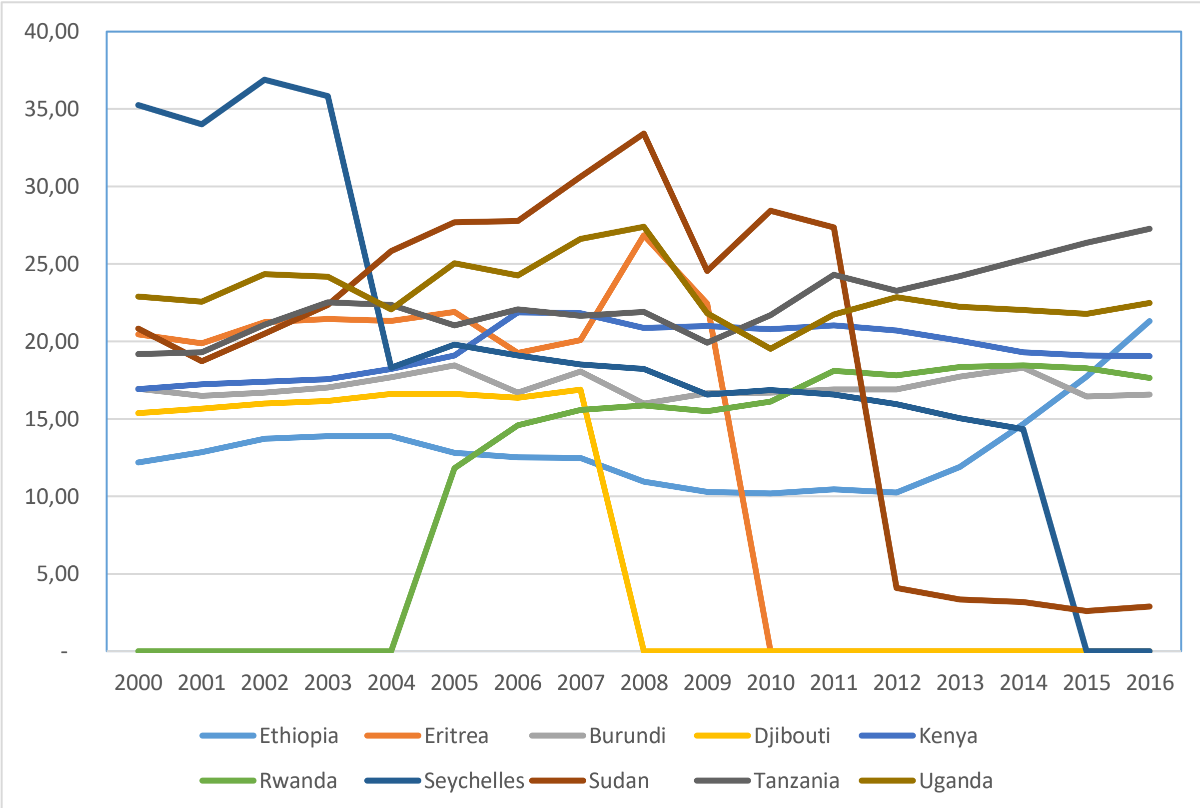
Challenges: A 2011 Bank flagship report titled, "DRM for Poverty Reduction in East Africa: *Lessons for tax Policy and Administration"* covering Kenya, Tanzania, Uganda, Rwanda and Burundi found that domestic resource mobilization, especially via taxes is still below its potential. The Report identified the following key challenges impeding DRM in Eastern Africa: general absence of voluntary compliance among tax payers (the VAT Gross Compliance Ratio in eastern Africa ranges from 26.50 in Uganda to 40.4 in Kenya compared to 86.90 and 78.60 for South Africa), weak relationships between tax policy and national development objectives and difficulties with tax administration. In addition, trade liberalization has contributed to a general decline in trade taxes (tariffs), which have historically been a major source of tax revenue for RMCs. Informality is another key challenge identified by the aforementioned World Bank paper.

[3] SDG target 17.1: Strengthen domestic resource mobilization

[4] Domestic Resource Mobilization and Illicit Financial Flow, Board Note, February 2017

Potential solutions to improve DRM (and curb IFF) include Public finance management (PFM) reforms to improve domestic capacity for tax and other revenue collection; and building capable institutions to better manage revenues from natural resource extraction. The Bank plays actively supports countries to improve strengthen domestic resource mobilization, through its PFM reform programs, economic sector works and policy dialogue. Evidence-based dialogue informed by economic sector works (such as the aforementioned East Africa flagship report) is expected to contribute to harmonization of tax regimes and, thus, support the wider regional integration agenda. The Bank is also a founding Member of the African Tax Administration Forum (ATAF)-the focal point for sharing good practices and setting strategic direction for Africa tax Administration. The aforementioned East Africa flagship report is one of the Bank initiatives conducted in partnership with ATAF.

Chart 1: Trends in Industry Value Added (% GDP)



Annex 6: Regional Integration Scores by REC (2016)

REC	**Trade Integration**	**Regional Infrastructure**	**Productive Integration**	**Free Peoples Movement**	**Financial & Economic integration**	**Average Score**
CEN-SAD	0.35	0.28	0.25	0.48	0.56	0.39
COMESA	0.57	0.44	0.45	0.27	0.34	0.41
EAC	0.78	0.50	0.55	0.72	0.16	0.54
ECCAS	0.53	0.40	0.29	0.40	0.60	0.44
ECOWAS	0.44	0.39	0.27	0.80	0.61	0.50
IGAD	0.50	0.53	0.43	0.45	0.25	0.50
SADC	0.51	0.50	0.35	0.53	0.40	0.46
UMA	0.63	0.44	0.48	0.49	0.20	0.45

Source: African Regional Integration Index

<u>Annex 7:</u> Traffic Flow Forecast on the Northern and Central Corridors 2009-30 (million tons)

Corridor	**2009**	**2015**	**2030**
Northern Corridor	21.5	35.6	89.6
Central corridor	7.1	17.3	53.6
Total Traffic	28.6	52.5	143.1
Share of Total Traffic (%)			
Northern Corridor	75	68	62
Central Corridor	25	32	38

Source: Nathan Associates Inc, Corridor Diagnostic Study of the Northern and Central Corridor of East Africa - Action Plan, USAID, 2011

<u>Annex 8</u>: Donor Mapping

Development Partners	Infrastructure/ Master Plan	Agriculture and Natural Resources	Water and Sanitation	Health and Nutrition	Education	Trade and Trade Facilitation Building	Industrialization/ Industrial Policy	Capacity Building Support	Fragility/Drought Resilience/Climate Change	Research and Statistics	Civil Society	Peace and Security
AfDB	x	x	x		x	x		x	x	x	x	
AU	x						x					x
AUSTRIA												x
CHINA	x						x					
DENMARK										x		x
DfID	x					x						
EU	x	x	x					x		x		x
FINLAND								x				
GERMANY									x			
ITALY		x						x				
JICA						x						
NETHERLAND												x
NORWAY												x
SWEDEN												x
		x	x					x	x	x		x

SWISS												
UNDP								X				
UNECA							X	X		X		
UNIFPA				X								
UNICEF				X								
UNIDO							X					
TRADE MARK EAST AFRICA						X						
USA Govt. & USAID	X	X				X		X				X
WORLD BANK	X	X						X	X			

<u>Annex 9</u>: RDGE's Oversight of the Bank's Partnership with RECs and Other Regional Organizations

Collaboration with the RECs: The Bank conducts structured dialogues with the EAC through the ADB-EAC Technical Planning Meeting focusing on identification of priorities for Bank's involvement, portfolio monitoring, and highlighting key issues that require high-level political intervention leveraging the EAC Secretariat's convening power. The RDGE has a strong collaborative working relationship with the EAC in the preparation of the Eastern Africa Industrial Sector Report. It is working with the EAC to prepare the 'Donor's Roundtable' to support the implementation of the recommendations of the Report. In addition, the Bank worked on a study on trade and investment policies of the EAC countries, and AfDB-EAC Investment Guide. ***EAC Development Partners Forum:*** As part of the 5th EAC Secretariat has proposed the establishment of a structured EAC-Development Partners Forum aimed at improving communication, enhance synergies including project co-financing, while avoiding duplication of efforts. RDGE is part of the DPs spearheading the initiative and will co-chair the infrastructure thematic group with the EU. ***Support to the Tripartite Arrangement*** – The Bank is providing support to the Tripartite North-South Corridor Investment Program, and the Tripartite Capacity Building Program focusing on support to the TFTA negotiation process and market integration activities including trade facilitation. ***Partnering with IGAD.*** The Bank is working with IGAD on its peace initiatives in the Horn of Africa for affected Regional Member Countries, and also in the broader context of the New Deal for Engagement in Fragile states. The Bank is also supporting the ongoing IGAD Drought Disaster Resilience and Sustainability Initiative and the ongoing IGAD Regional Infrastructure Master Plan (IRIMP) Project, which will develop the IGAD Infrastructural Master Plan and Financing Plan. ***Partnership with*** African Union Commission ***and UNECA:*** The Bank has strengthened its partnership with the African Union Commission (AUC) and UNECA in the context of the AUC-AfDB-UNECA Joint Secretariat. This serves as a dialogue and coordinating mechanism to advance regional integration initiatives and programs such as Agenda 2063, PIDA, BIAT, negotiation on the CFTA and the Jobs for Youth initiative. In April 2018, the Bank has also allocated UA3.5m /USD5.1m from the regional public goods envelop to support the CFTA process

<u>Annex 10</u>: Eastern Africa – Strengths/Opportunities and Weaknesses/Threats

Main Strengths/Opportunities

-Huge regional market backed by fastest growing region in Africa and a growing middle class and demand for fairly sophisticated products
-Integration of new members into EAC and COMESA to enlarge the regional market.
-Conclusion of regional frameworks in various aspects of regional integration
-The presence of strong RECs in the Region, such as the EAC which has the highest regional integration score in Africa offers a strong foundation to build upon and provides useful lessons for others
-Vibrant private sector that is supportive of enhanced regional integration
-Ample investment opportunities in various sectors, from agriculture to manufacturing, tourism, financial services, infrastructure, energy and ICT.
-Huge power potential including new discoveries of vast reserves of oil and gas, and neighbouring countries with huge hydropower potential (DRC), which has the potential to boost power trade and bring electricity to millions of consumers and production units
-The signing of the TFTA Agreement in June 2015, and the ongoing negotiations on the CFTA provide a framework for integration
-High potential for innovative solutions (e.g., Kenya's MPESA mobile money and mobile banking)
-The region has a few countries with a well-educated and trained human resources, from which other countries could benefit if restrictions on the free movement of persons were lifted.
-Huge untapped potential for transformative agri-business.
-Several countries in the region undergoing the WTO accession process (Ethiopia, Somalia, Sudan, South Sudan, Comoros) which will facilitate review and reform of economic policies and modernization of trade-related policies, laws and regulations in line with international practices thereby enhancing the regional integration process

Main Weaknesses/Threats

-Occasional nationalistic tendencies overriding regional priorities. Huge "hard" infrastructure deficit (especially energy and transport) and policy and regulatory barriers such as persistent non-tariff barriers (NTBs) and inefficiently functioning border posts limit intra- and inter-regional trade;
-Weak institutions and human capacity, at both national and the RECs levels
-Inadequate statistical data to evaluate indicators and monitor results of regional economic convergence and regional integration programs, and their poverty reduction, gender and climate change impact.
-Inadequate mechanisms to address political economy factors such as misalignment of priorities or conflicting interests among various players, leading to implementation challenges.
-Limited attention to regional value chains development/ industrial cluster/SMEs development as well as lack of forward and backward linkages in the production process limit the region's gains from GVCs, and employment and income.
-Existence of myriad policy--related and institutional constraints such as the lack of harmonized legal, policy and regulatory frameworks for trade, corporate tax, transport and ICT, etc; absence of regional standardization, testing and compliance institutions; cumbersome Customs procedures and border controls, tax measures (i.e. fees, charges, etc.); lack of coordination among institutions testing goods; lack of harmonization of road tolls; prohibitive trade regulations and lack of external trade policy alignment and trade finance; difficulties with non-recognition of EAC certificates of origin; and restriction on free movement of talent/skills and capital
-High concentration of transition states/fragile states especially in the Horn of Africa poses challenges to regional integration
-Limited range of export basket and lack of economic diversification in the region
-Huge energy and transport infrastructure deficit
-Fragility issues such as political instability and existence of extremist groups operations in some member states
-Global warming and environmental degradation.

<u>Annex 11</u>: Summary of Lessons Learnt

11.1 *Regional Portfolio Performance Review (RPPR)*

In terms of results achieved (outputs and outcomes) some progress has been made but more results are expected when all the approved projects reach full completion. Notably, results are evident in the transport, water supply and sanitation and energy sectors. Under Pillar 1, along the Mombasa-Nairobi-Addis Ababa Road Corridor (phases II and III) travel time between Addis Ababa and Nairobi declined to 23 hours in 2016 from 30 hours in 2010. Several OSBPs have also been completed namely at Namanga, and Moyale, although the latter is not yet fully operationalized because the soft-issues have not been implemented. Furthermore, access to clean water supply and sanitation has improved, albeit still below target. Thirteen (13) water treatment plants (51500m3/day) were planned to be built but 20 were eventually be achieved, thus exceeding the target. Thus, water supply sub-sector realized outcome in terms of coverage rate was 55% in selected households as at June 2016 as against the target of 80%; while in the realized sanitation coverage rate was 43% as against the target of 60%. In the energy sector, project agreements of the Ruzizi III project and the Regional Rusumo EPC were signed in December 2016. In the ICT sector, the successful completion in 2013 of the Seychelles submarine cable project has contributed significantly to access to ICT broadband internet and led to a drastic reduction in the cost of internet services by a factor of three. In the agriculture sector, despite the initial delays, the implementation of the Bank's Horn of Africa Flagship Program (the IGAD Drought Resilience and Sustainable Livelihoods Program) is now on track in all countries involved. In the financial sector, the Bank's Lines of Credit have helped to expand access to financial services across the region and have been utilized towards projects in the infrastructure, agribusiness and manufacturing sectors, and enhanced access to trade finance, which have created at least 6,400 jobs, of which 277 are for women. Under Pillar II, the Bank-funded Tripartite Capacity Building Programme (TCBP) supported negotiation of the TFTA Agreement whose first phase was concluded in July 2015 as well as capacity enhancement of the Tripartite RECs to coordinate and monitor the implementation of PIDA projects within their respective communities.

The RPPR identified a number of regional implementation challenges as highlighted in **Box 1**.

Box 1: Key regional portfolio implementation challenges

i) Inadequate counterpart funding provision at the country level for regional infrastructure projects

ii) Limited investments in the private sector, which is supposedly the engine of growth and job creation in the region.

iii) Post approval project start up delays due to quality-at-entry weaknesses; unrealistic implementation schedules that do not take into account the complexities of regional projects and the multiplicity of implementing agencies;

iv) Lack of executing agencies' readiness to implement projects and insufficient resources and incentives for management of complex regional projects at country level;

v) Lengthy and cumbersome procurement process and procedures at national level; limited capacity of executing agencies in key areas such as financial management, procurement, contract management, monitoring and evaluation;

vi) The issue of compensation, land acquisition and acquiring right of way is a chronic problem in some Eastern Africa countries;

vii) Lack of appropriate joint coordination and monitoring mechanism is a major challenge for joint operations with other development partners;

viii) Implementation issues after contracts awards such as poor performance of contractors and consultants, delays in safeguards clearance, inaccurate costs estimates, which future recruitment process needs to address.

11.2 *Main findings and Recommendations and Independent Evaluation (BDEV) of the RISP 2011-16*

BDEV's evaluation of the Eastern Africa RISP 2011-16 completed in 2016 came up with useful findings and recommendations that will inform the next RISP 2018-2022. Pertinent recommendations, which have informed the new RISP 2018-2022 include: (i) Consider to underpin the next RISP with a clear vision that focuses on regional integration and that is supported by a theory of change and a results-based framework, (ii) Strengthen the institutional capacity of RECs by underscoring their importance as the key building blocks for continental integration, (iii) Support RECs and/or RMCs to develop solid mechanisms to handle commercial, financial and technical sustainability risks associated with asset management of regional public goods, (iv) Design and implement results-based M&E systems so they provide valuable management tools for assessing and managing for results, and (v) Improve procurement process by supporting RECs and/or RMCs through Recommendation (ii) and (iii) above (vi) greater attention to policy reform and 'soft' infrastructure would further advance the regional integration outcomes identified in the RISP.

Overall, achievements of the previous RISP objectives are mostly satisfactory, both in terms of number of regional operations as well as amount of investment by the Bank against these operations as shown in the following table..

Summary of the Implementation of the RISP 2011-16 Lending and Non-Lending Programs

Operations	Planned		Achieved		Achieved		Envisaged	
	IOP 2011	Amount UAm	Mid-term 2013	Amount UAm	October 2016	Amount UAm	Dec. 2016	Amount UAm
Lending Program	20	753.6	14	1,075.89	36	1,512.03	39	1,824.14
Pillar 1	14	693.6	10	789.40	21	1,373.69	23	1,678.07
Pillar 2	6	60.0	4	35.60	15	138.34	16	146. 07
Non-Lending Program	5	N/A.	2	N/A	5	N/A	6	N/A

Note:
(i) The AIP underwent revision at Mid-term: 6 projects in the original IOP was dropped and 7 new ones introduced;
(ii) All projects (planned and unplanned) conformed with the Strategic Thrust of the RISP

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Annex 12: Risks and Mitigation Measures

	Risks	*Likelihood*	*Mitigating Measures*
i	Inadequate financing for regional operations including national counterpart funding.	M	Close coordination of the RISP and CSPs IOP, with CSPs paying particular attention to resource allocation to regional operations at the national level, and strategic partnerships with other DP for leveraging and co-financing, etc.
ii	Weak institutional and human capacity of RECs and the national coordinating units	M	Support to capacity strengthening of the relevant Tripartite Organs, RECs, regional institutions (e.g. power pools and corridors development institutions), and national coordination organs;
iii	implementation risk due in part to limited leadership commitment at the country level to implementation of jointly agreed treaties, protocols and decisions, thereby causing delays in the design and implementation of regional operation.;	L	The guiding principles of the RISP include ownership and leadership commitment, and beneficiary participation at the country level and this will be emphasized in the process of project selection and policy dialogue to mitigate this risk.
iv	Limited participation of non-state actors including the private sector in the funding, design and monitoring of regional operations.	M	Enhance the Bank's dialogue with the private sector and CSOs to secure commitment to regional programs/projects.
v	Insecurity, political instability and cross-border conflicts.	L	Closely coordinate with continental and regional institutions with core mandates for promoting peace and security to reduce regional fragility.
vi	Dwindling donor resources amidst increasing global uncertainties may affect amount of resources available for capacity building support of RECs and co-financing of regional operation	L	The Bank will pay more attention to resource mobilization in the African context e.g. Africa 50 Fund, Pension Funds; and connect regions through measures that induce structural changes, value chains development, and enhanced competitiveness to mitigate this risk. Effective participation of RDGE in development partners groups (DPGs) will ensure awareness of any shifts in other DPs priorities with regard to regional integration
vii	Delayed or lack of results due to poor projects implementation.	M	The Bank will pay greater attention to regional portfolio performance management to identify implementation issues and take remedial measures through increased engagement of country and regional CPOs. The Bank will also track other performance criteria such as leveraging, dialogue financial leveraging, knowledge and capacity advice, aid coordination and harmonization, and internal efficiency
viii	Uneven short-term benefits from integration among RISP countries	M	Promote the different comparative advantages of RISP countries to ensure that each country benefits in one way or another. This will require continuous engagement with each RISP country to explore the potentials

Annex 13: CSP and RISP Alignment

No.	Country	CSPs (current or under preparation)	Alignment with EA RISP 2018-22
1	Ethiopia 2016-20	**Pillar 1 – Infrastructure development** (energy, transport, and water and sanitation.)	RISP Pillar 1: Regional Infrastructure Development
		Pillar 2 – Promoting economic governance (emphasis on enhancing accountability and transparency in the delivery of basic services and improving the business-enabling environment for private sector development and job creation)	RISP Pillar II, particularly enhancing the Business enabling environment and support to reforms that enhance private sector development and competitiveness that enhance intra-regional trade as well as participation of the countries in regional and global value chains.
2	Comoros 2016-20	A single pillar: "Developing basic energy and road infrastructure to support economic diversification"	Pillar I of the RISP: Infrastructure development
3	Djibouti 2016-20	Development of socio-economic infrastructure in the energy and health sectors	Aligned with pillar I of the RISP
		Support for good governance through institutional capacity building	Linked with pillar II of the RISP, as capacity building and good governance help in enhancing reform outcome's and competitiveness
4	Kenya 2014-18	Enhancing physical infrastructure to unleash inclusive growth;	Aligned with pillar I of the RISP
		Developing skills for the emerging labor market of a transforming economy	Aligned with Pillar II as skills development and capacity building will improve private sector competitiveness, and trade within the region by addressing the key challenges of skilled labor force.
	2019-22 Draft	Supporting industrialization through value addition by reducing the cost of doing business (through infrastructure development)	Aligned with pillar II of the EA RISP
		enhancing skills and capacity development	Indirectly linked with pillar II of the RISP, as capacity building and good governance help in enhancing reform outcomes and competitiveness.
5	Sudan Country brief **2017-19**	Capacity Building for Improving Social Service Delivery	Indirectly linked with pillar II of the RISP
		Agriculture for Job Creation and Livelihoods.	
6	Seychelles 2016-20	**Pillar 1**: Enhancing energy infrastructure to promote inclusive and green growth	Directly linked and in line with Pillar I of the RISP.
		Pillar 2: Stimulating private sector activity in support of economic diversification though policy reforms	Directly linked and in line with Pillar II of the RISP.
7	Uganda 2017-21	Infrastructure Development for Industrialization,	Aligned with pillar I of EA RISP
		Skills and Capacity Development	Aligned with Pillar II as skills development and capacity building will improve private sector competitiveness, and trade within the region
8	Somalia Country brief 2017-20	Rebuilding key infrastructure to enhance resilience and diversify livelihoods	Aligned with pillar I of EA RISP
		Institutional capacity building and skills development for improved governance and job creation.	Aligned with Pillar II as skills development and capacity building will improve private sector competitiveness, and trade within the region by addressing the key challenges of skilled

			labor as well as governance
9	Eritrea Interim CSP 2017-19	Single Pillar: Agriculture Transformation for Inclusive and Sustainable Growth.	Indirectly linked with pillar II of the RISP
10	Burundi 2012-16 extended to Dec. 2018	Pillar II: Amélioration des infrastructures	Aligned with pillar I of EA RISP
11	Tanzania 2016-20	Pillar-I: Infrastructure Development for inclusive growth & competitiveness	Aligned with EA RISP pillar I
		Pillar-II: Strengthening governance and accountability for improved	Aligned with pillar II of RISP
12	Rwanda 2017-21	Pillar-1 Investing in energy and water infrastructure to enable inclusive and green growth	Directly linked and in line with Pillar I of the RISP
		Pillar-2 – Developing skills to promote high value added economic activities and economic transformation.	Aligned with pillar II of EA TRISP, as it highlights and supports the main impediments of competitiveness – skills development and participation in regional and global value agenda.
13	South Sudan		

[i] Burundi, Comoros, Djibouti, Eritrea, South Sudan, Somalia and Sudan

[ii] The EA RISP is particularly aligned with SDG 17.11 on significantly increasing exports of developing countries; SDG 9.1 to realize reliable, sustainable and resilient infrastructure, including regional and trans border infrastructure, and SDG 9.2 on promoting inclusive and sustainable industrialization and significantly raise industry's share of employment and gross domestic product (GDP)

[iii] In addition to *Integrate Africa*, the other High5s priorities are: "*Light up and power Africa, Feed Africa, Industrialize Africa, and Improve the quality of life for the people of Africa"*

[iv] Burundi, the Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Rwanda, Seychelles, Somalia, South Sudan, Sudan, Tanzania, and Uganda.

[v] The oil and gas resources recently discovered include oil reserves in Uganda (1.7 billion barrel) and Kenya (750 million barrels), and gas resources in Tanzania (55 trillion cubic feet (tcf) and Rwanda (2.1 tcf). South Sudan has 1 billion barrels of oil and is the only country currently producing oil in the region.

[vi] Other examples include the Gold Refinery at Entebbe in Uganda, has contributed to mineral beneficiation in the region, as a sizeable amount of gold refined is sourced from various countries including Tanzania, South Sudan, Burundi, DRC, Cameroon and parts of West Africa. The establishment of an oil refinery in Uganda is also being promoted as an EAC regional initiative.

[vii] Compared to Africa's average of 12-16%. Intra African trade is as low as 2% in some RECs such as Arab Maghreb Union. Data for intra-EAC trade does not include South Sudan which joined the trading bloc in 2016

[viii] Aircraft movement has grown by 7.9% per annum in the EAC between 2008-2012, and the projected growth to 2022 is 6.7% per annum. The upper air space will have more traffic than the lower airspace in Kenya, Tanzania and Uganda and vice versa in Burundi and Rwanda (EAC Upper Freight Information Region Follow on Study 2016)

[ix] This is also in line with Intervention Area 4, 'Policies and Institutional Frameworks' of the Bank's Framework and Guidelines to Support the Aviation Sector (July 2018)

[x] Under the project, support will be provided through RECs and RMCs to implement the tariff liberalization program, review and update tariff regimes, establish notification points, mainstream CFTA into REC and national trade or development policies, and undertake gaps assessments.

[xi] During ADF-14 cycle (2017-2019), (21%) of the total ADF resources, amounting to UA 865.95 million, were ring-fenced under the ROE. Out of this amount, UA 129.89 million was apportioned to Regional Public Goods (RPGs, which can be accessed by entities that are unable to borrow such as RECs among others). Split over the three-year ADF-14 period, resources available for each year amount to approximately UA 245.35 million (approx. USD368m) for ROs and UA 43.30 million (approx. USD65m) for RPGs. Thus, assuming equal distribution among the four ADF-eligible sub-regions, EA can potentially leverage at least USD92m from the ROE and implement regional operations of at least USD184 million per year. This is a crude estimate and the assumption is illustrative. In reality, the ROE is not allocated equally among the 4 eligible regions, and actual allocations depend on a range of factors such as performance based allocations to individual countries, head room, quality at entry assessments, etc. Each year the Bank prioritizes projects on a competitive basis using the two-way process described in Annex II.

[xii] As at February 2018 the Region had only one MIC (Seychelles), one blend country (Kenya), and one ADF-gap country (Djibouti). The rest are ADF countries.

[xiii] RDGE has been supporting its RMCs (e.g. Ethiopia, Sudan, Kenya, Seychelles and Tanzania) in needs assessment of their PPP legal and regulatory environment and capacity building trainings and TAs on PPPs.