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SOUTHERN AFRICA REGION
REGIONAL INTEGRATION STRATEGY PAPER 2020-2026

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ABBREVIATIONS AND ACRONYMS

ABs	Analytical Briefs
ADB	African Development Bank
ADF	African Development Fund
AFAWA	Affirmative Finance Action for Women in Africa
AFCAC	Africa Civil Aviation Commission
AfCFTA	African Continental Free Trade Area
AICD	African Infrastructure Consortium
ASCCI	Association of SADC Chambers of Commerce and Industry
ASF	African Standby Force
AU	African Union
BD	Board Document
COMESA	Common Market for Eastern and Southern Africa
CRF	COVID-19 Rapid Response Facility
CoP21	Global Agreement on Climate Change
CSP	Country Strategy Paper
CSOs	Civil Society Organizations
DBDM	Development and Business Delivery Model
DBSA	Development Bank of South Africa
DO	Development Objective
DTF	Distance to Frontier
EAC	East African Community
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
EIB	European Investment Bank
EU	European Union
ESW	Economic and Sector Work
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HIV/AIDS	Human Immunodeficiency Virus, Acquired Immunodeficiency Syndrome
IAI	Intra-African Investment
ICP	International Cooperating Partners
ICT	Information and Communications Technology
IIAG	Ibrahim Index of African Governance
IOC	India Ocean Commission
IOP	Indicative Operational Program
IP	Implementation Progress
JICA	Japan International Cooperation Agency
LIC	Low Income Country
MDGs	Millennium Development Goals
MEC	Macroeconomic Convergence
MIC	Middle Income Country
MoU	Memorandum of Understanding
MTR	Mid-term Review
MTSP	Medium-Term Strategic Plan
NDCs	Nationally Determined Contributions
NEPAD	New Partnership for Africa’s Development
NSC	North-South Corridor
NTBs	Non-Tariff Barriers
OKACOM	The Permanent Okavango River Basin Water Commission

ONRI	NEPAD, Regional Integration and Trade Department
ORASECOM	Orange-Sengu River Commission
ORRU	Partnerships and Cooperation Unit
OSBP	One-Stop Border Post
PAP	Priority Action Plan
PBA	Performance Based Allocation
PIDA	Program for Infrastructure Development in Africa
PIN	Project Issues Note
PPP	Public Private Partnership
RDGS	Regional Director General South
RDRI	Regional Directorate Regional Integration
REC	Regional Economic Community
RIDMP	Regional Infrastructure Development Master Plan
RIPoS	Regional Integration Policy and Strategy
RIS	Regional Integration Strategy
RISDP	Regional Indicative Strategic Development Plan
RISF	Regional Integration Strategic Framework
RISP	Regional Integration Strategy Paper
RMC	Regional Member Country
RO	Regional Operation
RPGs	Regional Public Goods
RPIP	Regional Portfolio Improvement Plan
RPPR	Regional Portfolio Performance Review
SAATM	Single African Air Transport Market
SARB	South African Reserve Bank
SACU	Southern Africa Customs Union
SADC	Southern African Development Community
SAPP	Southern Africa Power Pool
SDCs	Sustainable Development Goals
SENSAD	Sustainable Development Goals
SIDS	Community of Sahel Saharan African States
SIRESS	SADC Integrated Regional Electronic Settlement System
SMEs	Small and Medium Enterprises
SRBC	Sesquehanna River Basin Commission
TEU	Twenty-foot Equivalent Unit
TFTA	Tripartite Free Trade Area
ZAMCOM	The Zambezi Watercourse Commission
ZAR	South African Rand
ZRA	Zambezi River Authority

WEIGHTS AND MEASURES (Metric Systems)

1 metric ton	=	2,201 pounds lbs.
1 kilogram (kg)	=	2,200 pounds lbs.)
1 meter (m)	=	3.28 feet (ft)
1 millimeter	=	0.03937 inches
1 kilometer (km)	=	0.62 miles
1 hectare (ha)	=	2.471 acres

Fig. 1: MAP OF SOUTHERN AFRICA

EXECUTIVE SUMMARY

1. This Regional Integration Strategy Paper for Southern Africa (SA-RISP) defines the Bank's framework for operations in the region over the 2020-2026 period. The Paper has been prepared within the context of major institutional changes, and the adoption of the *Regional Integration Strategic Framework (RISF) 2018-2025 (ADB/BD/WP/2017/202/Rev.2)*. In line with its *Ten-Year Strategy*, the Bank has placed regional integration at the core of its activities, and made it one of its five operational priorities (High 5s); the other four priorities seek to "Feed Africa", "Light Up and Power Africa", "Industrialize Africa" and "Improve the Quality of Life for the People of Africa." The preparation of SA-RISP 2020-2026 has also benefitted from the guidance of CODE when they endorsed the SA-RISP 2011-2015 Completion Report *(ADB/BD/WP/2020/08/Rev.1/Approved)* in May 2020.[1]

2. The new SA-RISP is underpinned by a comprehensive *Regional Diagnostic Note (RDN)*,[2] based on analytical briefs prepared by various Bank departments, as well as economic and sector work (ESW) and policy and strategy documents recently prepared by the Bank and Regional Economic Communities (RECs), notably the Common Market for Eastern and Southern Africa (COMESA) and the Southern Africa Development Community (SADC). The RISP also embraces an innovative Results-Based Framework that tracks relevant activities and results. Last but not the least, the strategic direction and indicative operations programs (IOPs) of the SA RISP 2020-2026 are aligned with those of the Eastern Africa Regional Integration Strategy Paper 2018-22 and the Central Africa RISP 2019-2025 to ensure that the RISPs fully support the cross-regional infrastructure projects and the *Tripartite Free Trade Area (TFTA)*.

3. The RISP is being proposed at an opportune time when key continental initiatives are being rolled out to promote African economic transformation and integration, including the African Union (AU) *Agenda 2063* and the *Continental Free Trade Area (AfCFTA)*, as well as the TFTA connecting COMESA, SADC the East Africa Community (EAC). *Agenda 2063* is a strategic framework for Africa's socio-economic transformation, building on and seeking to accelerate the implementation of past and current continental initiatives for growth and sustainable development.[3]

4. The SA-RISP 2020-2026 covers 13 countries: Angola, Botswana, Eswatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Sao Tome and Principe, South Africa, Zambia, and Zimbabwe. Sao Tome and Principe was added to the initial 12 countries to take advantage of operational and institutional synergies provided by the Angola Field Office within RDGS. The population of the region was estimated at 209 million in 2018 (about 17% of Africa's population), while the region's 2019 Gross Domestic Product (GDP) at current prices was estimated at US$577 billion (about 23% of Africa's GDP).[4] The region is diverse in in terms of countries' economic structures, resource endowments, economic and social development, geography (with the largest number of land-locked countries among African regions), and exposure to climate change. This diversity offers opportunities to the region for broad-based economic growth, yet also imposes challenges which are addressed as core issues in this RISP.

5. The Southern Africa region's overarching development challenges include high levels of poverty and income inequality. About 46% of the region's population lives on less than $2 per day. The region is also exposed to external shocks, especially climate change and commodity price volatility, and low industrialization and high unemployment. These development challenges are compounded by second-tier challenges such as (i) insufficient cross-border transport and ICT

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[1] Although the RISP 2011-2015 was not extended, the Completion Report also covered activities up to 2019.

[2] The *Regional Diagnostic Note on Southern Africa* is accessible online at: http://collaboration.afdb.org/RDVP/RDGS0/RDGS%20Work%20Programme/RISP/LB%20SA-RISP%20RDN%20DRAFT%2003%2010%202019%20%20Cleared%20Emmanuel.docx?Web=1

[3] Other past and current initiatives built on include: *The Program for Infrastructure Development in Africa (PIDA)*, the *Comprehensive Africa Agricultural Development Program (CAADP)*, the *New Partnership for Africa's Development (NEPAD), Boosting Intra-Africa Trade (BIAT)*, and *Accelerated Industrial Development for Africa (AIDA)*.

[4] Data used in the document is from AfDB Statistics Department unless otherwise indicated.

infrastructure connectivity, (ii) a regional power deficit for most of the countries that limits access to clean electricity for households and small businesses, (iii) poor linkages to markets such as unpaved roads and weak distribution channels, and (iv) persistent non-Tariff Barriers (NTBs) and other obstacles to regional integration and corresponding trade and investment. These challenges have been exacerbated by the direct impacts of the COVID-19 pandemic, which has led to a reversal in growth trends as economies face collapse from declining exports, tax revenues and customs duties, and a general breakdown in trade and investment with the global slowdown in all major sectors. These issues will persist in the short- to medium-term and call for Bank support to mitigate the impacts at a regional level.

6. The main objective of the new RISP is to foster an integrated and diversified Southern African region promoting structural transformation and inclusive and green growth. Reflecting this objective, the new RISP has two mutually reinforcing Priority Areas of Bank support: (i) Infrastructure Connectivity; and (ii) Market Integration and Industrialization. The RISP also focuses on capacity building to improve regional portfolio implementation and performance to ensure continuity with the previous SA-RISP. The RISP addresses gender, youth employment, climate change/green growth and regional fragility, all important cross-cutting issues that affect the region. The RISP also takes into consideration the region's diversity to address special concerns of land-locked countries, coastal countries, island countries, countries in transition, and the mix of countries at different income levels. The new RISP proposes specific actions to promote industrialization and value chain development through trade, investment, and financial integration. The proposed strategic direction of the RISP has been agreed with the relevant RECs during the RISP consultation process.

7. The SA-RISP 2020-26 introduces important innovations which distinguish it from the RISP 2011-2015. First, the strategy addresses infrastructure bottlenecks through multi-modal economic corridors with a view to connecting centers of production (growth-poles) with markets (regional and global), thus promoting the development of agriculture, industries and services in close proximity to required infrastructures (see Box 5). This corridor approach includes the development of marine routes to address specific needs of island countries by linking them to and promoting trade with the mainland, as well as boosting the blue economy. Further innovations include greater emphasis on 'soft' infrastructure issues and reforms, and institutional capacity building. Capacity building will have multiple areas of focus to support RECs and country efforts in the implementation of agreed policy measures and regional instruments to promote trade facilitation, to achieve economic and environmental sustainability, and to enable infrastructure assets to promote regional integration. The strategy also seeks to support the integration efforts of the member countries of SADC as well as COMESA, within the context of the TFTA.

8. Financing the strategy will face challenges. Financing large-scale regional projects in particular is burdened by the scarcity of resources for sovereign lending from both ADB and ADF windows and other official development assistance. Therefore, additional resources would need to be mobilized from sovereign wealth, pension and equity funds, and through co-financing and joint investments with the private sector and the Africa Investment Forum (AIF) with the Bank playing a syndication role (Box 6). Further, as part of the commitments under ADF-15 and GCI-7, the Bank envisages enhanced support for policy reforms and measures to expand private sector participation in infrastructure, including through PPPs and other concessions, and to enhance country level domestic resource mobilization.

9 The Board of Directors is invited to consider and approve the Southern Africa Regional Integration Strategy Paper (SA-RISP) for 2020-2026.

1. INTRODUCTION

1.1 The Bank's Southern Africa Regional Integration Strategy Paper (SA RISP) 2020-2026 has been developed in the context of the Bank's High 5 priorities and the *Regional Integration Strategic Framework (RISF) 2018-2025 (ADB/BD/WP/2017/202/Rev.2),* which redefines the Bank's regional integration engagements in support of Africa's transformation. It also responds to the guidelines provided by CODE when they endorsed the RISP 2011-2015 Completion Report *(ADB/BD/WP/2020/08/Rev.1/Approved).* This is also in line with the recent practice of other Bank programming regions.

1.2 The Bank's regional integration initiatives support Africa in the context of *Agenda 2063*, the AfCFTA, and the Tripartite Free Trade Area (TFTA). The new SA RISP 2020-2026 is also underpinned by analytical work from the *Regional Diagnostic Note (RDN)* as well as economic and sector work (ESW) and policy and strategy documents recently prepared by the Bank[5] and partner institutions, including COMESA and SADC.[6] In addition, the RISP is informed by opportunities and challenges in Southern Africa that include challenges of climate change and opportunities created by a largely peaceful region with abundant natural resources and minerals.

1.3 In addition to the introduction, this document, contains five other chapters: 2) Regional Context and Prospects, 3) Key Findings of the Regional Portfolio Performance Review, 4) Experience and Lessons, 5) Bank Group's Strategy for 2020-2026, and 6) Conclusions and Recommendations.

2. REGIONAL CONTEXT

2.1 Political Context and Prospects

2.1.1 Southern African countries have harbored diverse forms of governance with implications for regional integration. On the plus side, Southern Africa performs better than other African regions in terms of governance and stability and is relatively peaceful. Four of the 13 countries in the region (Mauritius, Botswana, Namibia, and South Africa) were placed among the top 10 countries on the 2018 Mo Ibrahim Index of African Governance (IIAG)[7]; Mauritius has consistently ranked first for over a decade. The lowest ranked countries in the 2018 Index were (from the lowest) Angola, Zimbabwe, Eswatini and Madagascar (table 1).

Table 1: Governance Indicators IIAG Rankings 2018

Country	Score	Rank Africa
Angola	38.3	45
Botswana	68.5	5
Eswatini	48.7	32
Lesotho	57.1	16
Madagascar	49	31
Malawi	55.9	19
Mauritius	79.5	1
Mozambique	51	25
Namibia	68.6	4
São Tomé & Príncipe	59.2	12
South Africa	68	7
Zambia	56.2	18
Zimbabwe	44.7	39

2.1.2 Notwithstanding recent progress in governance, Southern Africa remains a region in transition in terms of consolidating democracy and fostering a regional governance agenda. Although elections are widely accepted as the source of state legitimacy and are held regularly, many of the countries continue to struggle with building strong democratic institutions. This is evidenced by relatively weak checks and balances, ineffective separation of powers, and concentration of executive power in several cases. Some countries have

[5] This includes the AEO 2018 on Infrastructure and the AEO 2019 on regional integration.
[6] COMESA Medium Term Strategic Plan (2016-2020), Revised SADC Regional Indicative Strategic Development Plan (RISDP) (2015-2020), and successor post-2020 Strategies.
[7] Mo Ibrahim Foundation: Mo Ibrahim Index of African Governance (IIAG), 2018.

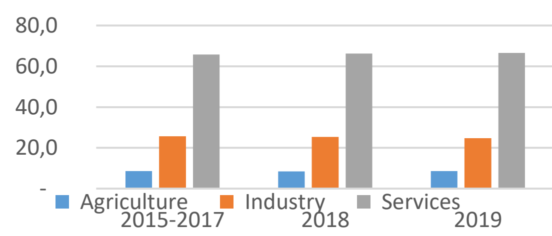
struggled to form stable government through elections. For example, Lesotho has held general elections three times in five years due to contested outcomes. Other countries have seen increased independence in governance institutions, as in Malawi where opposition groups recently successfully petitioned the outcome of presidential elections. However, more generally, political stability faces potential risks from future elections if the process is not seen a credible by electorates. Therefore, regional convergence on underlying principles that reinforce rights and stability is needed so that political institutions play a helpful role in boosting sustainable development, reducing poverty, and improving income distribution.

2.1.3 Southern Africa also faces significant fragility risks at country and regional levels (Annex 10). The main drivers of fragility include political, economic, social, and environmental and climate change. These are manifested in conflicts and political tensions, migration, cyclical economic crises, and extreme weather events and other natural disasters. These risks have the effect of depressing domestic and foreign investment and contributing to regional development imbalances. Significant spill-over effects include displacement of people to other countries, with negative effects on international trade corridors and linkages, especially for the hinterland countries. While in some cases suffering from outflows, Southern Africa also attracts large inflows of migrants and displaced persons. This sometimes results from the internal displacement of persons within the region that is exacerbated by large inflows of migrants from elsewhere in Africa such as the Great Lakes region and the Horn of Africa. Economic stagnation and fragility in Zimbabwe and security concerns in Mozambique also continue to have serious implications and spill-over effects for the entire sub-region.

2.2 Economic Context and Prospects

2.2.1 Regional Diversity: Southern Africa is a diverse region in many respects: economic structure, resource endowment, demography, economic and social development, geography, and exposure to climate change. Countries in the region can be categorized into six land-locked countries (Botswana, Eswatini, Lesotho, Malawi, Zambia and Zimbabwe), four coastal countries (Angola, Mozambique, Namibia, and South Africa), and three island countries (Madagascar, Mauritius, and Sao Tome and Principe). The countries range from middle-income, such as South Africa, Mauritius, Namibia, and Botswana, to relatively lower income countries that include Malawi and Lesotho. Mozambique, Madagascar, and Zimbabwe are classified as Transition states. These groups of countries have their specific developmental needs, challenges, and opportunities, but all of them have the potential to benefit from deeper regional integration. The six landlocked countries face particularly difficult conditions due to their remoteness from the sea and their dependence on neighbouring transit countries for external trade, which can be a serious stumbling block to their integration into the global economy. Meanwhile, most of the countries have relatively small populations and GDPs, which makes it difficult for them to achieve economies of scale at competitive global levels.

Fig 2: Southern Africa GDP by Sector 2015-19



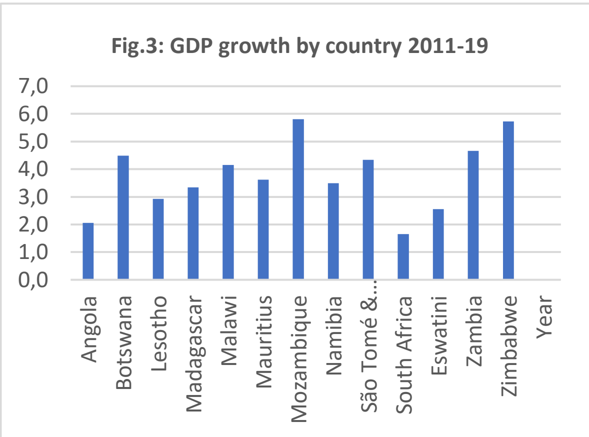
2.2.2 In economic structure, Southern Africa's economic size (GDP at current prices) was estimated at US$577 billion in 2019, which translates to about 23% of Africa's GDP. The largest economy is South Africa, accounting for 61% of total region GDP, followed by Angola at 17%. Zambia is third with close to 5% of regional GDP, and

Botswana contributes 3%.[8] These figures reveal a high level of concentration in the top two countries. Therefore, significant changes in South Africa and Angola impact the entire region. For example, the price decline in oil markets in 2020 will deeply affect Angola's GDP, trade, and fiscal position. Distribution by sector reveals that services, averaging over 65% of GDP during 2015-2019, dominate the region's economies, followed by industry[9] with a share of 25%, and agriculture at about 9% (Fig 2). The low share of agriculture in GDP does not augur well for a region in which the largest share of the population is engaged in the sector, reflecting the high level of subsistence, low level of productivity, and risk to food security.

Table 2: Southern Africa Selected Indicators

	2011	2012	2013	2014	2015	2016	2017	2018	2019(e)
GDP Growth %	3.7	4.3	3.5	2.9	1.6	0.6	1.3	1.2	0.7
Per cap GDP Gr. %	1.3	1.8	1.1	0.5	-0.8	-1.8	-1.0	-1.1	-1.6
Trade Balance %	-0.9	-2.9	-3.9	-4.8	-6.5	-3.6	-2.5	-2.2	-4.2
Inflation %	6.9	6.6	6.4	6.2	5.7	11.0	9.1	7.1	9.9
Fiscal Balance %	-1.6	-2.2	-2.8	-4.2	-3.9	-4.2	-4.7	-3.2	-3.7
Tax/GDP (%)	25.9	26.0	24.7	23.6	19.6	17.1	20.1	21.7	20.3
Total Debt (%)	28.2	32.7	35.6	39.0	42.4	52.1	50.0	50.4	56.4
FDI ($ millions)	8988	13588	11806	18595	19935	7695	-52	4955	-

2.2.3 <u>Recent Performance and Outlook</u>: The region experienced robust GDP growth in the early parts of the 2011-2019 decade, averaging 3.8% growth in 2011-2013 (Table 2). Growth declined from 2014 on, and virtually all indicators have shown deterioration since then. Steeper declines in 2020 are expected as a result of COVID-19, underlining the importance of the RISP 2020-2026 for the post-COVID recovery. Prior to 2020, the highest growth rates were experienced by Botswana, Malawi, Mozambique, Sao Tome & Principe, and Zambia (Fig.3). Poor performance in the agriculture sector due to recurrent droughts and floods, the decline in the manufacturing sector in South Africa, and the low liquidity and de-industrialization process in some countries all contributed to the poor regional growth performance. In early 2019, Cyclone *Idai* and Cyclone *Kenneth* hit Mozambique, Malawi, and Zimbabwe, resulting in loss of life and damage to crops, property and infrastructure with devastating impacts on these economies. In 2020, COVID-19 hit the region as well, while commodity exporters experienced a double-hit from dislocation in international markets independent of COVID-19.



2.2.4 The short- to medium-term growth outlook is bleak due to the negative impacts of COVID-19, which has ravaged economies in the region due to falling commodity prices, declining export revenues, and foregone customs duties and other tax revenues. Countries in southern Africa have felt the brunt of the pandemic and oil and gas exporters such as Angola and other mining-dependent countries are reeling from the impact of collapsing prices on world markets. COVID-19 has also negatively impacted other productive sectors' outputs and exports, resulting in reduced private sector activity and trade, low demand in services, travel and tourism, and higher unemployment. GDP growth is expected to decline, and economies are unlikely to recover fully in the next three to five years. Growth is expected to shrink by 6.6% in 2020 due to COVID-19 disruptions. The Bank has already provided support to RMCs under the *COVID-19 Rapid Response Facility (CRF)*. Bank support programs will continue to help the region cope with the pandemic and enhance resilience in Southern Africa.

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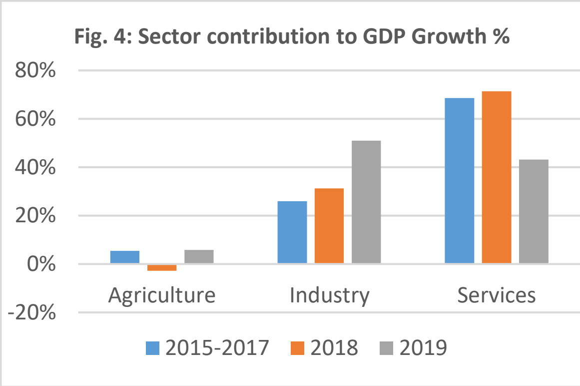
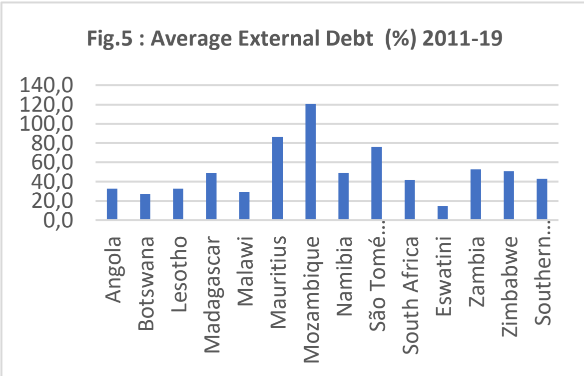
[8] AfDB Statistics.
[9] Includes manufacturing, mining, and construction.

2.2.5 GDP Growth Drivers: Services were the key driver of GDP growth in recent years, contributing on average 69% between 2015-2017, and 71% and 43% in 2018 and 2019, respectively (fig 4). Industry contributed 26% between 2015-2017, 31% in 2018, and 51% in 2019. Agriculture performed poorly, contributing 5% to growth between 2015-17, -3% in 2018 and 6% in 2019; this sector was hit by unfavourable weather patterns across the region, and armyworm infestations in Malawi, Zambia, and Zimbabwe. These economies have gradually shifted domestic resources from agriculture to services. The outlook for services remains favourable for the region, which expects higher growth in demand for tourism. However, these growth prospects are subject to considerable uncertainty resulting from COVID-19 effects on needed investment.



2.2.6 Structural transformation has been limited due to low industrial progress and insufficient expansion of intermediate and finished goods production in the region. South Africa remains the region's biggest industrial power. However, it has been deindustrializing over the last two decades. To drive economic transformation, the region needs massive investments in regional infrastructure to integrate goods, labor and financial markets, while tackling 'soft' issues such as NTBs and financial market reforms to facilitate cross-border movement of capital, goods, and people. In this regard, the creation of cross-border value chains is needed to capitalize on RMC and regional comparative advantage, with value-added processing activities driving these markets. This leads us back to the importance of power generation, transport infrastructure, ICT investment, and general linkages to consolidate markets and growth. These are all core areas of focus for the RISP.

2.2.7 Fiscal Balance and Debt: Fiscal deficits continued to worsen and remain above the 3% macroeconomic convergence target set by SADC. The fiscal deficit for the region deteriorated from 2.2 % in 2011-13 to 4.2 % in 2014, rising further to 4.7 % in 2017 before improving to 3.2% in 2018 (Table 2). The fiscal deficit is estimated to have risen to 3.7% in 2019. Sao Tome and Principe was the exception as it registered a small surplus; the deficit was also much lower for Botswana. For the entire region, fiscal balances are expected to worsen due to new developments emerging from COVID-19, including measures that countries are implementing to mitigate the impacts of the pandemic (para. 2.2.4). Fiscal deficits are thus projected at 11.6% of GDP in 2020.



2.2.8 Sharp increases in financing of new infrastructure has rapidly expanded public debt. Public debt for 2011–2019 was generally high (Table 2). Total debt for the region increased from 28% of GDP in 2011 to a high of 52% in 2016, before declining to about 50% of GDP in 2017-2018. Total external debt is estimated to have risen to 56% in 2019. Mozambique, Zambia, Mauritius, Namibia, Madagascar, and Sao Tome & Principe experienced the highest debt levels, averaging over 50% of GDP. Mozambique was by far the highest at 120% of GDP (Fig.5). Angola's ratio also rose sharply to 55% in 2019 despite a low average for the 2011-2019 period, reflecting the adverse impact on its economy of the oil price decline in recent years. Tighter global financial conditions and fading investor sentiment towards emerging markets contributed to a reversal in capital inflows and to higher financing costs. Rising indebtedness to finance infrastructure calls for alternatives, including private sector (non-sovereign) financing and PPPs.

2.2.9 Inflation increased sharply to 11.0% in 2016 after registering modest rates of around 6.0% from 2011-2015 (Table 2). The higher levels were fuelled by a rise in food prices caused by the regional *El Nino* drought in 2015-2016 which pushed up food costs. Increases in global oil prices also fed into the domestic prices of importing countries. Inflation dipped to 7.1% in 2018 but rose to 9.9% in 2019. At the country level Angola, Malawi, and Zimbabwe recorded high double-digit inflation rates (Fig.6). Zimbabwe experienced the highest level of inflation from 2011-2019 averaging close to 25% and is projected to be over 200% in 2020. Following the onset of the COVID-19 pandemic, oil-importing countries could benefit from lower inflation occasioned by the collapse in oil prices from the beginning of 2020. However, other weaknesses in their economies will limit economic activity and consumption.

2.2.10 External sector: The region's current account deficit worsened from an average of 2.6% of GDP in 2011-2013 to 6.5% in 2015, before improving to 2.2% in 2018 (Table 2). It is estimated to have widened to 4.2% in 2019 and 7.4% in 2020 due to poor export performance and COVID-19. The major exports from the region include mineral fuels, which are the largest export item, accounting for 27.5% of the region's total exports in 2017, followed by pearls and precious stones (15.0%), ores and slag (8.2%), vehicles, mostly from South Africa (5.8%), and copper and its articles and iron and steel (less than 5.0%). The top five commodities exported, mostly primary products, accounted for nearly 63% of total exports from the region in 2017. COVID-19 has resulted in the collapse of oil and mineral prices by nearly 100%, which has negatively impacted export revenues for Angola and other mineral exporters such as Zambia.

2.2.11 In terms of exchange rates, the South African Rand's poor performance against the US$ has dragged along the Common Monetary Area (CMA) currencies. Volatility in commodity prices and uncertainty in emerging markets has resulted in most Southern Africa region's currencies losing ground against the US dollar in 2019-2020 as investors seek safe havens, especially in view of the COVID-19 pandemic. Higher rates of depreciation of currencies in the region also reflect worsening terms of trade and poor export performance in commodities affected by COVID-19.

2.3. Regional Integration Context

2.3.1 Institutional Arrangements**:** The regional integration framework for Southern Africa comprises several overlapping regional integration agreements (RIAs), including SADC, COMESA, IOC, SACU and the Common Monetary Area (CMA), and several transboundary institutions. Most of the countries belong to at least two of the regional economic groupings, except for Mozambique which is only a member of SADC (Annex 14). For instance, Botswana and South Africa are members of SADC and SACU, while South Africa is also part of the common monetary area. Eswatini, a member of SACU, also holds membership of SADC and COMESA. A key achievement for the region has been the formation of the Tripartite Free Trade Area (TFTA) which now groups SADC/COMESA/EAC. The TFTA constitutes a larger block of 29 countries, enhancing prospects for broader integration and trade expansion in the region and, ultimately, towards full integration with the rest of the continent through the AfCFTA.[10] Despite some successes, rapid progress in integration is still hindered by inadequate capacity of RECs, insufficient and unpredictable funding for regional projects, and

[10] Both the TFTA process and AfCFTA have received institutional support from the Bank.

institutional weaknesses in various areas. Multiple memberships also cause issues of compliance with and ratification of agreed protocols. Overcoming these barriers and institutional challenges and harmonizing standards is key to promoting regional integration.

2.3.2 Progress in Trade: Southern Africa leads other economic blocks in intra-regional trade, with SADC being the most dominant in terms of volume and proportion, followed by COMESA and ECOWAS. Inter-regional trade with the rest of Africa stood at 37% for SADC and 15% for COMESA in 2019.[11] Growth in trade is hampered by NTBs including poor transport/trade facilitation arrangements, cumbersome border controls which limit cross-border trade, and governance/institutional impediments. The lack of implementation of agreed regional instruments (legal, policy and regulatory frameworks) causes transit delays and increases travel time and costs, especially for land-locked countries. Implementation of trade protocols has been a major constraint. The issue of free movement of persons in the region remains a challenge and has implications for intra-regional trade. Only four SADC member states (Botswana, Mozambique, South Africa and Eswatini) have signed and ratified the SADC Protocol on Free Movement of Persons. Provisions of the protocol are limited and are as restrictive as the other countries that have not ratified. The recent COVID-19 lockdown has worsened the situation.

2.3.3 Macroeconomic Convergence: Southern African countries have committed to macroeconomic convergence to achieve and maintain macroeconomic stability, balance intra-regional development, and eliminate obstacles to the free movement of goods and people to promote regional investment and integration. SADC has four primary MEC indicators: (i) Inflation rate (3%-7%), (ii) Fiscal deficit/GDP (<3%), (iii) Public debt/GDP (<60%), and Current Account/GDP (<3%). For COMESA, the primary convergence criteria are: (i) Inflation rate (5%), (ii) Fiscal deficit/GDP (5%), (iii) Central bank financing of the budget deficit (tending towards 0%), and (iv) external reserves (at least four months of import cover). In both cases, 7% real GDP growth rate is a secondary target. In terms of outcomes, MEC indicators for 2018 show that most countries did not meet the targets. However, the countries, continue to be committed to a stable macroeconomic environment and have pledged additional reforms to meet agreed targets.

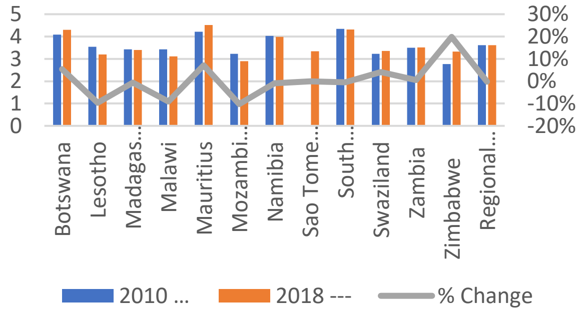
2.3.4 Financial Sector and Capital Market Integration: Commercial banks are the dominant financial institutions for most countries in the region. The financial systems of countries within Southern Africa are widely varied in terms of depth, sophistication, and access to financial services. As a result, on one end of the spectrum, countries such as Mauritius, South Africa and Namibia have relatively inclusive financial systems. On the other end of the spectrum, countries such as Malawi and Madagascar rank very low in terms of financial inclusion on indices relating to access, usage and barriers. South Africa has by far the largest market capitalization of approximately US$220 billion followed by Botswana at approximately US$1.4 billion as at end 2017. Most financial markets in the region are small and fragmented, and consolidation through financial integration could yield many benefits. Actions have also been instituted to address this as well to develop regional payment systems (see box 1).

[11] *Fitch Solutions Macro Research*, Fitch Solutions Group Ltd, UK, 2019.

Box 1: Regional Financial Integration - Cross border Payment Systems: Both COMESA and SADC are supporting regional financial integration. For SADC, a payment system - the SADC Integrated Regional Electronic Settlement System (SIRESS) - is currently operational in all SADC countries except Madagascar. This is an electronic central payment system that facilitates cross-border trade in the SADC region, and is real time, final and irrevocable. The platform allows for participating banks to facilitate financial flows and settle regional transactions within SADC countries. The system is operated by the South African Reserve Bank (SARB) on behalf of the counties, with the South African Rand (ZAR) as the settlement currency. SIRESS reduces the cost to banks as there is no intermediary institution involved, meaning all banks in the participating countries can send and receive payments directly from any of the other banks operating on SIRESS. Since the launch of SIRESS in 2013, more than 1 million transactions had been settled, representing in excess of US$500 billion.

2.3.5 Private Sector Development**:** Private sector development is crucial for growth, employment creation, and industrialization. For Southern Africa, the private sector contributes on average about 70% to GDP.[12] This is lower than the continental average of 80%.[13] The average size of the private sector is lowest in Angola, Lesotho, and Mozambique. About 40% of production in the private sector is in the informal sector. Major constraints to private sector development are poor access to finance and poor business environments that undermine the logistical and regulatory climate. For instance, many private sector firms in Angola, Lesotho, Malawi, and Zimbabwe identify access to finance as a major constraint to doing business.[14] FDI flows have been modest, partly due to the perception of weakness in credit information, minority shareholder rights, contract enforcement, insolvency frameworks, and political interference that undermines competition or adds costs to doing business (Table 2). The Bank could support regulatory and business climate reforms to unleash private sector-led growth, using policy-based operations and ESWs, in line with the *Private Sector Development Policy* under preparation. The COVID-19 pandemic has had significant negative impacts on the private sector, including service industries, the informal sector and small businesses. There is need for enhanced support to build long-term resilience going forward, including improving access to finance, deepening regional financial integration, and supporting enterprises to cater for workers and weather the impacts of the pandemic.

Fig. 7: Southern Africa GCI scores



2.3.6 Private sector development is further constrained by weak levels of competitiveness as indicated by low Global Competitiveness Index (GCI) scores averaging 3.61 in 2017/18 compared to a median of 4.1.[15] SADC countries with higher GCI scores were Mauritius (4.52), South Africa (4.32) and Botswana (4.30), which also scored well above the regional average (Fig. 7). This means the other 10 countries were further below the median, and brought the regional score down. The African Competitiveness Report[16] highlighted the persistent competitiveness challenges in the region, with the most important being large infrastructure deficits, significant skill mismatches, slow adoption of new technologies, weak institutions, and fragmented financial markets. These factors limit productivity, investment, industrial development, and structural transformation of countries in the region.

[12] African Economic Outlook (2019) estimates.
[13] African Development Bank, 2011. *African Development Report 2011: Private Sector Development as an Engine of Africa's Economic Development*. Abidjan, Côte d'Ivoire.
[14] World Bank enterprise surveys 2018.
[15] World Economic Forum 2019.
[16] WEF – African Competitiveness Report 2017.

2.3.7 Regional Value Chains: Southern Africa has adopted measures to create a paradigm shift towards the production of more sophisticated, largely private sector-led, higher value-added goods. The objective is to enhance competitiveness and sustainable economic development that generates productive wage employment, notably for the region's growing youth. SADC has identified six potential sectors and sub-sectors that have potential to boost structural transformation and industrialization, including agro-processing and mineral beneficiation. COMESA is also promoting value chains in leather and horticultural products to advance industrialisation. The sub-region has great potential to develop value chains and downstream industries in agriculture and agribusiness. Mineral value chains provide significant opportunities for regional industrial production (Box 3). The private sector will remain key in these processes.

2.3.8 The Blue Economy**:** The development of the blue economy can facilitate the interconnectedness of the regional economy, utilizing untapped potential of the lakes, rivers, and seas while also contributing to climate resilience. The strategic areas of focus in the blue economy are nutrition sensitive investments in fisheries and aquaculture, renewable ocean energy, transport and logistics, tourism, ocean knowledge clusters, research and development, seabed exploration for oil and gas, and mineral extraction. Coastal, riparian and small island developing states (SIDS) have developed major activities based on the blue economy including port infrastructures to support offshore fishing (e.g., Namibia), and other marine life, boat building (in South Africa), and vibrant leisure and tourism industries in SIDS. Moreover, the Bank has supported major investments in the development of national multi-sectoral blue economy plans (e.g., Madagascar) that will catalyse innovation within the context of regional integration and significantly enhance the benefits of the blue economy.

2.4 Sector Context

Infrastructure Development

2.4.1 Transport**:** A major impediment to trade and economic growth in the Southern Africa region is the high cost of transport. Low investment in infrastructure compounded by a poor "soft policy" environment is a key contributor. The total road network is estimated at 996,533 km, comprising both paved and unpaved roads in various conditions across the countries. In most of the countries, the paved network is estimated at only 60%-70% in fair to good conditions.[17] This is reflective of deficiencies in the regional network which need to be addressed. The SADC 2012 RIDMP identified several road infrastructure and transport projects around the three high-priority corridors - the North-South Corridor, the Maputo Corridor, and the Dar-es-Salaam Corridor. The development of these corridors presents the building blocks for the integration of the region to the Trans-Africa Highway program of the AU as part of the wider AU-defined high-priority infrastructure projects. Transport corridors remain the core implementation framework and enablers for regional integration (Box 5).

2.4.2 In rail transport, the region has seven interconnected national railways that form an extensive regional rail network, spanning half a dozen countries with a total length of 22,000 km of railway line of which 70% is in South Africa. The SADC standard of 18.5 ton per axle load (TAL) is not satisfied in a substantial part of the network. The railway sector faces several additional challenges, including operating below capacity and not functioning as an 'integrated regional rail network'. Efforts are underway to strengthen the rail sector, such as (i) Trans-Namib cooperation with Botswana rail, (ii) agreement of 5 railways agencies to operate as one, and (iii) the recent agreement that will connect the Copperbelt in Zambia to the port of Beira

[17] AICD, 2018.

in Mozambique via Harare. In maritime transport several sea ports still face key challenges, ranging from the lack of technical capacity to maintain global standards and the associated higher operational costs which make them uncompetitive.[18] The Bank-supported expansion of the Port of Walvis Bay in Namibia has nearly tripled port handling capacity, from 355,000 to over 1 million TEUs, to efficiently serve Namibia and other countries in the region.

2.4.3 In air transport the region has numerous airports, with ORT in South Africa being the largest and serving as the major regional hub for intercontinental and regional flights. In adherence to the Yamoussoukro decision to liberalize air transport, SADC is promoting deregulation of the airline industry. However, this has been slow to emerge at national levels because of concerns by countries that competition will undermine their national airlines. The major challenge is that the Africa Civil Aviation Commission (AFCAC), which has been given the mandate to implement the AU's Single African Air Transport Market (SAATM), is not technically and financially equipped to carry out this mandate. There is currently no regional regulatory body to ensure harmonization of aviation policies and adherence to international aviation safety standards in the Southern Africa region.

2.4.4 Energy: SADC has adopted several strategies and plans to achieve energy security for the region.[19] While much progress has been made, the region continues to face an energy crisis due to (i) lack of funding for new infrastructure, (ii) overreliance on highly-polluting coal and hydropower, the latter of which is highly susceptible to climate change, and (iii) inefficient and mismanaged power utilities resulting in poor services.[20] For instance, despite having the highest generation capacity of all regions at more than 60,000 MW, and a rich endowment of natural resources for hydro, thermal, biomass, solar and wind for energy generation, the region performs poorly in terms of access to electricity.[21] Addressing the energy crisis calls for investment to expand generation and transmission infrastructure. It also requires reforms to (i) facilitate energy trade across borders, (ii) strengthen operational efficiency and financial management of power utilities within sound governance frameworks, and (iii) expand electricity access for households and small businesses by crowding in Independent Power Producers (IPPs). The leveraging of power supply from the INGA III power project (Box 2) and the development of Mozambique's off-shore LNG Gas provides further alternatives for energy solutions for Southern Africa. A regional master plan on gas use for energy and industrial purposes will be developed with Bank support as part of the RISP.

Box 2: Expanding Energy Access - Leveraging the Grand Inga Project: Inga III is one of the key projects prioritized under the SADC regional infrastructure master plan. It has hydropower potential of up to 44,000 megawatts, of which less than 5% has been exploited, under Inga 1 and II. The project is a massive development that firstly necessitates coordinating different stakeholders who have competing interests and priorities for the project. Without buy-in from all stakeholders, the project is unlikely to move forward. The key interventions from the Bank based on the DRC-SA treaty of 2013 are to (i) assist DRC and other interested countries such as Angola, Namibia and Botswana to revive discussions on Inga development; (ii) assist the interested countries to accede to the Inga Treaty; (iii) assist development of the project through capacity building and technical assistance; (iv) facilitate dialogue that would eventually lead to commitment among interested parties; and (v) mainstream regional integration issues in the projects such as harmonization of energy legal and regulatory policies and strengthening of Power Pools and Utilities in the region. The Bank will continue providing technical expertise and capacity building to facilitate smooth negotiations and implementation.

2.4.5 ICT: The sector has experienced significant progress in improving connectivity, but missing broadband links within countries, overpricing, and unsecure networks reduce adoption of ICT services. On the Networked Readiness Index (NRI)[22], South Africa is ranked the highest at 4.0, while Madagascar is lowest at 2.6. Most countries are now connected to broadband international networks following the commissioning of new undersea cables such

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[18] Container handling costs stand at US$110-243 per TEU compared to US$80-150 globally (AICD).
[19] *SADC Protocol on Energy*; *Energy Cooperation Policy and Strategy* in 1996; *SADC Energy Action Plan* in 1997; and *SADC Energy Activity Plan* in 2000.
[20] For instance, generation at Kariba was at its lowest in 25 years with only 8.50% of usable generation storage.
[21] Access to electricity is estimated at only 35% on average (versus 50% in ECOWAS).
[22] The World Economic Forum's Technology Index measures the propensity to maximize the opportunities offered by ICT.

as the West African Cable System (WACS), which came online in 2012. However, landlocked countries still pay more to get high-speed bandwidth connectivity in-country. National fibre optic backbones in many countries need additional investment in infrastructure and better management, upgrading and extension to reach more people. The Bank is supporting the construction of a 600 km fibre optic link between Lusaka and Lilongwe which will enhance ICT services between the two neighbours and beyond under PIDA. This could be extended to other countries. With COVID-19 expected to have a lasting impact on how business is conducted, the Bank will also support the region in harnessing ICT to promote e-commerce.

2.4.6 Shared Water Resources: Southern Africa is characterized by high levels of water insecurity. While renewable water resources amount to 2,300 km^3 annually, they are distributed unevenly across arid and tropical zones. Only 14% are stored for use, mostly along the Zambezi River. Around 70% of this water comes from Transboundary Rivers, and the remainder from lakes and groundwater. Lake Malawi, Kariba, and Tanganyika also present opportunities for regional integrated lake management plans. The region has potential to develop bulk water transfer schemes to support deficit areas by replicating the Lesotho Highland Water project (Lesotho-South Africa). The Bank is co-financing the preparation of the *Lesotho-Botswana Water Transfer Scheme* which will address critical water needs by supplying water from the Makhaleng (Lesotho) through a conveyance pipeline estimated at 700 km through South Africa to Botswana. Other planned regional water sector programs include the *Okavango Water Resources Development program*. On the maritime side, the region has two shared large marine ecosystems (LME) spanning the Benguela Current LME in the South West and the Agulhas-Somalia Current LME in the South East, with regional initiatives on governance and benefit sharing.

Industry and Mining

2.4.7 The Southern Africa region is characterized by a low and declining level of industrialization. Average manufacturing value added (MVA) of the region over the period 2011-2018 estimated at US$5.13 billion[23]. This is well below the North Africa region (US$ 32.14 billion), but higher than Central, East, and West Africa. Within the Southern Africa region, the distribution of manufacturing activity is highly skewed, with South Africa accounting for 70.2%[24] of total MVA. In terms of contributions to GDP, the share of the manufacturing sector to overall GDP in the region has been steadily declining since 2007. Estimated at 13.6% in 2007, the average MVA (as percentage of GDP) of the region declined to 11.2% in 2016 and 10.9% in 2017.[25] In terms of employment, industry employs the fewest workers at a regional average of about 14% of total employment. In 2018, Mauritius accounted for a greater amount of industrial employment (27.1%), followed by Eswatini (24.4%) and South Africa (23.2%). However, at the other end of the spectrum, Zimbabwe and Madagascar have the lowest industrial employment rates of the region, at 7.2% and 7.4%, respectively.[26] The low employment figures in industry for South Africa depict a more capital-intensive manufacturing sector compared to the other countries.

2.4.8 Southern Africa is home to some of the world's largest mineral deposits. These minerals make a significant contribution to the GDP, foreign exchange earnings and employment of several countries.[27] The region has not maximized benefits from mining due to low value addition and weak linkages to the rest of the economy. It is important to create regional value

[23] World Development Indicators, World Bank 2019.
[24] World Development Indicators, World Bank, 2019.
[25] UNECA (2018) Recent Economic and Social Conditions in Southern Africa in 2017, and Prospects for 2018
[26] UNECA (2018) Recent Economic and Social Conditions in Southern Africa in 2017, and Prospects for 2018.
[27] SADC https://www.sadc.int/themes/economic-development/industry/mining/

chains in the sector, as well as to create linkages within and outside extractives to ensure economic diversification and positive spill-over effects into other sectors of the economy. New initiatives are beginning to emerge in mineral value chains, as shown in Box 3.

Box 3: Lithium-ion Batteries - Made in Southern Africa: With the move to cleaner energy sources, the demand for lithium-ion batteries and electric vehicles is on the rise. It is estimated that electric vehicles will reach 17% of total global car sales by 2030, up from 1% in 2017, with expected investments of $620 billion by 2040. Southern Africa is a key producer of battery minerals, yet little value addition occurs in the region. Zimbabwe and Namibia are among the top ten producers of lithium in the world, while the DRC and Zambia are producers of cobalt with approximately 60% of global supply. Likewise, Tanzania, Mozambique and Namibia have substantial deposits of graphite, while South Africa holds about 80% of the world's manganese reserves. The bulk of these minerals are exported to China in their raw form, contributing to China's global dominance with 74% market share in lithium-ion batteries. With abundant ingredients in the region, a regional value chain could be established around the production of lithium-ion batteries. Having a regional strategy to develop the sector coupled with uniform business and industrial policies could attract both foreign and regional investment. There are already regional firms striving to become global players in manufacturing lithium-ion batteries. MEGMILLION Energy, a South African firm, plans to become Africa's largest producer of lithium ion batteries, and beginning in 2020 will build a scalable manufacturing facility capable of producing 10 million lithium-ion cells per year. Opportunities for other players exist, and with a strong regional supply chain, Southern Africa could become a key global player in lithium-ion battery production.

Agriculture and Food Security

2.4.9 The Southern Africa region has a low agrarian base and much of the agriculture is subsistence farming rather than large-scale high-value export crops. South Africa is the exception, with a large, diversified, and competitive agro-industrial value chain and fishing industries. The major components of agriculture are crops, livestock, forestry, and fisheries. On average, the agriculture sector contributed about 8.6% of regional GDP between 2015 and 2017.[28] Agriculture accounts for about 13% of overall regional export earnings, while about 70% of the region's population depends on agriculture for food, income, and employment. Agricultural exports have not taken off due to (i) subsistence agriculture and land tenure policies, (ii) high cost of meeting SPS standards in export markets, including in RSA; (iii) food security policies that lead to arbitrary food export bans (e.g., maize in Zambia); and (iv) low value addition via food processing due to high energy and transit costs and related infrastructure. Countries in the region are committed to acceleration of agricultural growth through the Comprehensive Africa Agriculture Development Program (CAADP) implementation agenda in line with the Maputo Declaration which encourages African countries to deploy at least 10% of their national budgets in the agricultural sector, as well as strategies agreed with the RECs. The region could also increase productivity by leveraging the skills available in the region, especially in South Africa which has the most productive farming and commercial fisheries sectors. The Bank has also developed innovative programmes targeting youth and working with universities and regional centres of excellence.

2.5 Social Context and Cross-Cutting Themes

2.5.1 Poverty and Inequality: Per capita income averaged US$ 2,700 in the Southern Africa Region in 2011-2018, the highest among all sub-Saharan regions, yet poverty persists.[29] About 46 % of the region's population lives on less than $2 per day. While extreme poverty in the region has dropped by 9 percentage points over the past 25 years, those living in absolute poverty have nearly doubled over the same period.[30] Around 54% of the region's population lives in rural areas. Generally, the share of the rural population in most Southern African countries is declining, indicative of rising rural-to-urban migration which, in turn, puts pressure on essential services in urban areas. Income inequality is generally high in the region, especially in the MIC countries. Namibia, Lesotho, Botswana, South Africa, Zimbabwe, and Angola have high Gini coefficients ranging between 0.51 and 0.63. Two countries in the

[28] African Development Bank Statistics.
[29] Institute for Security Studies: https://issafrica.org/iss-today/extreme-poverty-set-to-rise-across-southern-africa
[30] Institute for Security Studies: https://issafrica.org/iss-today/extreme-poverty-set-to-rise-across-southern-africa

region, Namibia, and South Africa, are among the most unequal countries globally. By contrast, Lesotho has recorded gains in reducing inequality (Box 4). Regional differences in economies has fuelled significant levels of migration, especially to South Africa, both from the Southern Africa region and elsewhere in Africa. This has boosted incomes in the other countries from remittances, fostering broader economic and financial integration. However, it has also been a source of tension within South Africa where unemployment rates are high.

Box 4: How Lesotho Reduced Inequality: Lesotho has significantly reversed the trend in income inequality in recent years. The country moved from being one of the most unequal countries in the world with a high Gini coefficient of 52 in 2002 to 44.6 in 2017. This was against recurring droughts and diminished employment opportunities in South Africa. It also contrasts with the trend in South Africa, where inequality has increased since 1994. So why did inequality fall in Lesotho? Increases in formal wages among the poor, expansion of primary schooling, and favorable demographic changes all contributed to lowering inequality. However, the biggest reason had to do with introduction and expansion of social protection programs, including social cash transfers to the elderly who suffer the brunt of poverty, and a school feeding program which covers all children in government primary schools by providing cooked lunches at school. Lesotho spends 4.5% of its gross domestic product (GDP) on social protection programs in contrast to below 2% in the average country in Sub-Saharan Africa.[31]

2.5.2 Gender: The performance of countries in Southern Africa in terms of gender equality is mixed. An analysis of the region's performance on the gender inequality index shows that whilst some countries (Botswana, Lesotho, Mozambique, South Africa and Zambia) have made significant strides in addressing inequalities, the gender inequality gap has widened in others (Malawi, Eswatini, Zimbabwe, Mauritius and Namibia).[32] The SADC's *Protocol on Gender and Development*, ratified by eight countries, provides for the (i) empowerment of women, (ii) elimination of discrimination, and (iii) promotion of gender equality and equity through gender-responsive legislation, policies, programmes and projects. This Protocol also serves as an entry point for collaboration with/for development partners, including the Bank.[33] The Bank is already supporting regional efforts to achieve gender equity, including the ongoing 50 Million African Women Speak (50MWS) project jointly implemented by COMESA, EAC and ECOWAS in 36 countries. Other activities are being undertaken by the Bank under the Women's cross-border traders' program to provide women with a level playing field in trade.

2.5.3 Climate Change: Climate variability and extreme events (floods, droughts, coastal storms/cyclones, and disasters) have had a significant negative impact on the economies in the region. Direct impacts have included (i) damage and loss of public and private physical assets, (ii) degradation of ecosystems and related services – agricultural land, fresh water sources, and (iii) reduced output from key sectors. Climate change threatens to undermine poverty reduction and achievement of the SDGs. Although a low contributor at 2%, the region has committed to reducing greenhouse gases in line with international conventions. However, for the region to make its contribution, it will need financing, capacity building, and technology transfer.

2.5.4 Civil Society: In Southern Africa, civil society groups are active in several areas, including socio-economic justice and debt, land ownership and use, trade, health, democracy and human rights, trade unions, environment, and research, to name but a few. The region has several entry points for engagement with civil society. For example, the SADC Treaty enjoins the institution to seek to involve the people of the Region and non-governmental organizations in the process of regional integration. Despite these existing mechanisms, engagement with civil society is still a challenge, and CSOs are constrained by lack of financial resources and continued reliance on donor funds.

2.5.5 Youth Unemployment: Depressed economic growth and a weakening private sector underlies high youth unemployment rates, with levels over 27% across countries in the region. The average unemployment rate for 2010–2018 was 27% in Eswatini, followed by Lesotho

[31] https://blogs.worldbank.org/africacan/how-lesotho-one-worlds-most-unequal-countries-became-lot-more-equal
[32] *SADC Gender Monitor 2016, IPU*
[33] COMESA adopted the adopted the *COMESA Gender Policy* and the *Addis Ababa Declaration on Gender* in 2002

and South Africa at 26%.[34] Unemployment among youth (aged 15-24) was much higher for all the countries, reaching levels of more than 50% in South Africa and Eswatini and rising quickly in Namibia, Mozambique, Botswana and Lesotho.[35] The situation has been exacerbated by the high skills mismatch, especially for jobs in the new and emerging tech and service sectors. This calls for quality skills mix to address the prevailing unemployment of youth. The RECs are working on several initiatives, including skills development, to prepare youth for the job market, for emerging industry, and for regional workforce development for the future.

2.6 Regional Strategic Framework

2.6.1 The regional strategic framework for Southern Africa's integration is anchored in the TFTA and the integration agendas of the two major RECs in the sub-region (COMESA and SADC). The TFTA adopted a developmental integration approach built around three pillars, namely (i) Market Integration; (ii) Regional Infrastructure; and (iii) Industrial Development. The Bank is supporting the Tripartite negotiation process through the Capacity Building Project and the Tripartite North-South Corridor Infrastructure Investment Program, and additional support is envisaged under the RISP. Both SADC and COMESA have been implementing their development plans, namely the revised *SADC Regional Indicative Strategic Development Plan (RISDP), 2015-20* and the *COMESA Medium-Term Strategic Plan (MTSP) 2016-20*, both of which were designed to support the implementation of the Tripartite Framework.

2.7 Aid Coordination: Bank Positioning and Comparative Advantage

2.7.1 At a regional level, coordination of development support is led by both SADC and COMESA through their established engagement forums. COMESA uses a Development Partners Consultative Forum, which brings together COMESA and its Development Partners, including the African Development Bank. SADC uses thematic groups as platforms for coordination of initiatives with development partners and sharing of information. The Bank participates actively in these forums, and it is currently leading in the area of helping SADC to establish a regional financing mechanism for infrastructure projects, including operationalization of the SADC Regional Development Fund (RDF). The Bank is also working closely with the World Bank, DBSA, European Union, KfW, Southern African Power Pool (SAPP), and regional energy regulators in establishing the Regional Transmission Infrastructure Financing Facility (RTIFF), which will fall under the SADC RDF.

2.7.2 The Bank's central place in Southern Africa's institutional architecture for development gives it a competitive advantage in areas supporting sustainable growth and regional integration through investments in infrastructure, and capacity building and knowledge transfer with RECs and at country levels. In addition to the Bank's extensive experience in financing and supporting regional integration operations in Africa, the Bank also plays a well-established role as a convener and catalyst in the syndication of resources for investments in the region.

2.8 Strengths and Opportunities, Weaknesses and Challenges

2.8.1 Southern Africa's major strengths lie in its abundant mineral resources and vast deposits of oil and natural gas. It is also well endowed with natural resources that can support a buoyant agricultural sector and agribusiness value chains. The region also has great potential for the generation of energy. With a large market of almost 300 million people, current efforts to work towards a common market through the TFTA, and the presence of South Africa, the region offers considerable opportunities for growth and development. However, the region has not taken full advantage of these opportunities due to persistent challenges that include (i) lack

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[34] https://www.afdb.org/fileadmin/uploads/afdb/Documents /Publications/2019AEO/REO_2019_-_Southern_africa.pdf

[35] World Bank, 2018. World Development Indicators [database]. Washington, DC.

of efficient and integrated infrastructures, especially in transport and energy, (ii) a weak regulatory environment for private sector engagement and limited access to financing for business, all of which manifests itself in low levels of economic diversification and insufficient value added, and (iii) weak human capital inhibiting the utilization of natural resources for growth and regional integration. Annex 3.2 presents key RI strengths, opportunities, and challenges in the Southern Africa region.

3. KEY FINDINGS OF THE REGIONAL PORTFOLIO PERFORMANCE REVIEW

3.1 Overview of the Bank Portfolio

3.1.1 The RDGS 2020 Regional Portfolio Performance Review (RPPR) shows that, as of 14 May 2020, the Bank Group ongoing portfolio for Southern Africa consisted of 207 operations (281 instruments), with a total commitment value of UA 8.815 billion. This covers all ongoing operations in the region, including those designed for regional integration and for national development impact. The portfolio also includes two RPG projects implemented by SADC and AUDA-NEPAD under PIDA (Annex 13). The sectoral distribution of the regional portfolio reflects a dominance by the power sector at UA 3.037 billion (34.45%) followed by the financial sector at UA 2.114 billion, (23.99%), transport sector at UA 1.461 billion (16,58%), agriculture sector at UA 0.935 billion (10.61%), and the remaining UA 1.267 billion (14.37%) covering social, multi-sector, industry, mining and quarrying, and environment sectors.

3.1.2 The average age of exposure in the portfolio is estimated at 3.8 years. This includes a young portfolio of 101 operations (0 –3 years, average age of 1.4 years) representing 49% of the overall portfolio. It also includes 14 aging operations (8–15 years, average age of 10.8 years) some of which will be closing in the next year or so. Eleven of these projects are already 100% fully disbursed. The overall regional disbursement ratio and cumulative disbursements, respectively, as at mid-May 2020, stood at 54% and UA 4.738 billion. The sovereign regional operations disbursement ratio stood at 48% (UA 2.274 billion cumulative sovereign disbursements), and non-sovereign operations were at 52% (UA 2.464 billion cumulative non-sovereign disbursements).

3.2 Portfolio Quality and Performance

3.2.1 The quality and performance of the portfolio in the region has been improving over time. The ratio of red-flagged operations went down from 30% in May 2018 to 19% in mid-May 2020. The satisfactory performance ratio increased from 54% to 72% over the same period. Overall, the performance of the portfolio is considered satisfactory, with an overall rating of 3.16 on a scale of 1 to 4, an improvement from a rating of 3.00 in 2015. This rating is derived from Implementation Progress Reports (IPR) ratings of 89 ongoing public sector projects that were supervised more than once during the period of January 2010 to date. A Regional Portfolio Improvement Plan (RPIP) has been developed to further improve portfolio performance. The portfolio's key performance indicators are summarized in Annex 6.3.

3.3 Operational Challenges

3.3.1 The active portfolio has been affected by start-up delays. The current portfolio includes 10 operations experiencing signature, effectiveness and first disbursement delays. The current average time between approval and effectiveness for first disbursement is nine months, and 14 months to actual first disbursement. Low disbursement has been a general concern for the regional portfolio. Procurement and financial management challenges are still common issues in the regional portfolio, due to weak capacities, lack of good knowledge of the Bank's procedures, and absence of proper coordination and monitoring mechanisms. However, there has been some progress made by the RECs in reforming their procurement systems.

4. EXPERIENCE AND LESSONS

4.1 A number of lessons have emerged at the strategic and portfolio levels from the implementation of previous RISPs, as outlined in the Completion Report, and from the BDEV evaluations of the Bank's Eastern Africa RISP 2011-2016 (Annex 3.1), whose findings are also relevant to the Southern Africa Region. Lessons at the Strategy level for the Bank include (i) continue support for regional physical infrastructure with greater attention to 'soft' issues hindering deeper regional integration, trade and cross-border investment; (ii) support capacity strengthening of regional and national bodies coordinating regional initiatives; (iii) shift output towards higher value added commodities; (iv) ensure synergies in the strategic focus of the Eastern, Central, and Southern Africa RISPs; (v) mainstream regional integration support at country levels through CSPs; and (vi) include suitable instruments to support island countries and the blue economy. BDEV also stressed the need, to underpin the new set of RISPs by a theory of change and a robust results framework, which was addressed in developing the RISP.

4.2 The main lessons at the operational level include (i)_assign adequately trained and equipped project management staff to RECs and national PIUs; (ii) minimize the number of prior conditions for effectiveness and first disbursement; (iii) the Bank, the RECs and the PIUs all need to respond to emerging implementation problems in a timely and flexible manner; and (iv) give adequate attention to capacity assessment at the project preparation stage, especially in critical areas such as procurement and staff training in project management as well as on Bank rules and procedures.

5 BANK GROUP STRATEGY 2020-2026

5.1 Strategy, Rationale Objectives and Priority Areas for Bank Support

5.1.1 The Southern Africa region's overarching development challenges include high levels of poverty and inequality. The region is also exposed to external shocks, especially climate change and commodity price volatility, low industrialization, and high unemployment. These overarching development challenges are compounded by second-tier challenges such as insufficient cross-border infrastructure connectivity, a regional power deficit, poor linkages to markets, and persistent soft obstacles to regional integration and trade such as non-Tariff Barriers (NTBs). The region also faces new challenges from the direct impacts of the COVID-19 pandemic, leading to slower growth due to disruptions in all major sectors. This RISP builds on the impact/objectives of past Bank interventions and addresses emerging challenges and priorities such as COVID-19.

5.1.2 The main objective of the (SA) RISP is to achieve an integrated, diversified and prosperous Southern Africa Region with inclusive and green growth. To achieve this objective, the new SA-RISP has been articulated around two mutually reinforcing Priority Areas for Bank support: *(i) Infrastructure Connectivity; and (ii) Market Integration and Industrialization.* The RISP is aligned with the Bank's major strategies, including the Ten-Year Strategy (TYS) 2013-2022, the High-5s, RISF 2018-2025, upcoming *Private Sector Development (PSD), Financial Sector Development (FSD),* the *Jobs for Youth in Africa strategy (2016-2025), and Fragility Strategy.* The RISP also responds to the Bank's commitments under GCI-7 and in alignment with ADF-15 priorities for countries accessing ADF resources. The RISP emphasizes selectivity and builds on the Bank's experience, convening powers and comparative advantage.

It aims to generate synergies and leverage resources from other development partners and the private sector. The theory of change in Annex 1.2 illustrates the links between the Bank's inputs, outputs, and impacts.

5.2 Strategy and Expected Results

Priority Area 1: Infrastructure Connectivity

5.2.1 Bank support under this Priority Area will strengthen regional connectivity through the development of strategic regional infrastructure, to build on previous support through the PIDA Capacity building project and support to operationalizing the RDF. Improved regional infrastructure connectivity will promote trade, industrialization, and structural transformation, leading to job creation and youth employment and inclusiveness. This will contribute to efforts to reduce the region's high level of income inequality. Operations to be financed will incorporate relevant 'soft infrastructure' measures to ensure quality of infrastructure connectivity in line with ADF-15 and GCI-7 commitments. Activities under Priority Area 1 are aligned to the Banks' High 5s *Integrate Africa* and *Light Up and Power Africa*, as well as the Bank's *New Deal for Energy for Africa 2016-2025* which aims to achieve universal access by 2030. Investments will also address infrastructure challenges to boost the blue economy and the development of regional coastal facilities by supporting the *SADC Blue Economy Initiative* and the *IOC Plan on the Blue Economy*.

Outcome I: Increased Trade and Integration through Regional Infrastructure Development

5.2.2 Transport: The Bank will address existing transport bottlenecks through support to multi-modal transport corridors (road, rail, ports, inland and offshore waterways to island countries) to develop effective resilient regional linkages between the countries and other African regions as part of the AU's Trans-Africa Highway (Box 5). It will also support actions towards the *Single African Air Transport Market*.

Box 5: Enhancing Connectivity Through Corridors: The Southern Africa RISP 2020-2026 has adopted a multi-modal-road, rail, power-corridor approach to support regional connectivity, including through the *Nacala*, *Walvis Bay*, *Northern*, *Mtwara* and *Lobito* corridors, within the context of the AU's trans-Africa Highway. The expanded *Walvis Bay port* is a major component of the corridor system, especially in providing access to landlocked countries in the region. Plans are also advanced to (i) construct a new rail line from Gaborone to Livingstone through the newly constructed *Kazungula* bridge and support the rehabilitation of older railways further north, and (ii) develop the Copperbelt Beira rail via Harare by private financing. Zambia and Botswana are also in the process of developing industrial parks and export processing zones on both sides of the border. Countries in the region are working on improving cross-border infrastructure by developing one-stop border posts, including at Beit Bridge between Zimbabwe and South Africa, which is currently a major bottleneck. Corridors also provide a vehicle for enterprise development along the routes to galvanize agriculture and agro-processing zones. In 2016, the Bank supported Malawi and Mozambique in developing SMEs and expanding value addition, especially in agriculture, along the *Nacala* corridor. This would be duplicated along other corridors in the region, making them important engines of growth.

5.2.3 Energy**:** The Bank will address the current regional energy crisis by investing in new generation (including hydro, wind, and solar power), transmission, and distribution infrastructure, and support measures to enable power trade through the SAPP using infrastructure corridors. The Bank will support reforms in the energy sector to improve efficiency and provide capacity building to power utilities and regional agencies such as SAPP, RERA and SACREE.

5.2.4 ICT: The Bank will support improvements in ICT infrastructure to promote integrated systems supporting regional connectivity, efficient and affordable services for the private sector, financial market integration, and facilitate closer links with island states and enable virtual integration. Activities include expanding ICT access and internet penetration.

5.2.5 Transboundary Water Resources**:** The Bank will support regional priorities established in the *Revised SADC Protocol on Shared Watercourses*, the *SADC Water Sector Master Plan*, and successive strategies and policies to (i) expand regional water infrastructure, (ii) support shared, efficient and sustainable utilization of water, and (iii) promote better water security. Activities include supporting development of cross-border waterways, dams, canals, and shared cross-border irrigation systems, and strengthening governance of Large Marine Ecosystems. The Bank will also provide support to agencies such as ORASECOM, ZAMCOM, OKACOM, SRBC, and ZRA, among others.

5.2.6 Priority Area 1 Main Expected Results: (i) improved transit and access to regional markets; (ii) reduced cross-border infrastructure bottlenecks, costs and transit time; (iii) expanded access to electricity and increased power trade; and (iv) modernized, integrated ICT systems (see Annex 1 for targets).

Priority Area 2: Market Integration and Industrialization

5.2.7 The main objective of Priority Area 2 is to support capacity and soft measures and reforms to promote (i) trade expansion; (ii) harmonized financial markets; and (iii) monetary cooperation to facilitate investment to foster market integration and industrialization.

Outcome 2: Enhanced intra-regional trade and capital market integration

5.2.8 Market Integration: Support will focus on measures to boost intra-regional trade in line with BIAT continental targets. These activities are aligned to the Bank's High 5 **'***Integrate Africa'* and Pillar 2 and Pillar 3 of the RISF: *Trade and Investment* and *Financial Integration,* respectively, and will draw on the Bank's *Financial Sector Development Strategy*. Activities include (i) strengthening capacity for macroeconomic convergence, (ii) linking stock exchanges, increasing cross-border financial flows and investments, and connecting payment systems, (iii) supporting trade facilitation measures and reforms to remove NTBs, and (iv) facilitating free movement of people and skills across borders.

Outcome 3: Increased share of high value manufactured goods through industrialization

5.2.9 Industrialization: The Bank will support measures to increase industrial production and value addition. These interventions are aligned to the *High 5 Industrialize Africa* and Pillar 2: *Trade and Investment* of the Bank's RISF. They also build on the support provided to operationalize the SADC and COMESA Industrialization Strategies. Activities include (i) mineral beneficiation (Box 2); (ii) developing agro-processing zones (para. 2.3.9); (iii) building industrial parks; and (iv) cross-border value chains, including through regional retailers.

5.2.10 Priority Area 2 Main Expected Results: **(**i) increase intra-regional trade to 20% of total trade, up from the current regional average of 15% (12% of exports and 18% of total imports); (ii) develop regional value chains; (iii) expand the range of higher value products, and correspondingly increase employment and incomes.

Crossing Cutting Areas

5.2.11 Capacity Building and Knowledge Generation: Activities will include (i) capacity building that is integrated into projects and programs, and stand-alone support for RECs and other coordinating agencies; (ii) knowledge products to inform development of policy reforms and regulations to complement investments in infrastructure for efficient connectivity and operation of systems; (iii) policy advice to promote trade expansion and regional financial integration, and development of regional value chains;[36] and (iv) continued support for the TFTA and CFTA implementation process.

[36] This will include using the Trade and Transport Facilitation Due Diligence Tools.

5.2.12 Gender: Bank activities include support for women's empowerment by (i) mainstreaming gender in Bank-financed operations in line with relevant Bank guidelines and SADC and COMESA *Protocols on Gender and Development;* and (ii) financing stand-alone activities, including in the context of the Affirmative Finance Action for Women in Africa (AFAWA) program, and the *Gender Equality Trust Fund* to empower women in business and trade with capacity development, training, mentoring, information, and knowledge sharing to broaden financial inclusion.

5.2.13 Youth Employment: With regard to youth unemployment, the Bank will support (i) skills development, including entrepreneurship, through regional training and centres of excellence; and (ii) creation of well-functioning labour markets that help to meet human capital needs for competitiveness in industry, agriculture, and services including finance and logistics. The Bank will leverage its *Jobs for Youth in Africa* strategy to scale up responses to youth unemployment.

5.2.14 Climate Change: The Bank will mainstream climate change in its operations, including climate-proofing all new investments in regional infrastructure. The Bank's support will supplement actions by SADC as outlined in its policy and strategic documents in addition to the support the Bank is providing on Climate Information Services for Disaster Resilience Development (SARCIS-DR) to the region through the Climdev project.[37]

5.2.15 Fragility and Social Inequality: To tackle fragility and issues of social inequality, including gender, the Bank will support the region through alignment of investments with regional resilience initiatives that include employment creation for youth, women and rural populations, and incorporate climate smart technologies for industrialization.

5.2.16 Support for COVID-19 Response: In addition to actions to support countries under the CRF, the Bank will introduce measures within the context of the SA-RISP to finance programs under the RPG window that support the region's response to COVID-19. The Bank is preparing a regional RPG project for UA 7 million for 2020-2021.

5.3 Indicative Lending and Non-Lending Program

5.3.1 The Bank's Indicative Operations Program (IOP) for the RISP has been informed by consultations with the RECs on (i) priority operations required to accelerate economic transformation in the region, and (ii) the envisaged resource requirements, expected to be UA 3.03 billion, of which Priority Area 1 accounts for 92% and Priority Area 2 accounts for 8%. The IOP includes non-lending operations to address governance and soft infrastructure issues, and to inform policy on trade, investment, and regional financial integration. The IOP will be implemented using a combination of investment projects, policy and results-based operations, knowledge and analytical work, and technical assistance. Annex 2 contains the 2020-2026 IOP.

5.4 Dialogue

5.4.1 Regional and country level dialogue will continue to be strengthened through the collaborative efforts of RDGS/RDRI, Country Offices and Sector Departments, including constant dialogue with Governments and RECs to improve the Bank's portfolio performance in the region. Dialogue will also engage the private sector and other non-state actors. The Bank will support analytical work to inform and enhance dialogue on (i) innovative financing instruments, such as regional infrastructure bonds and equity funds to expand resource

[37] SADC Policy Paper on Climate Change; SADC Climate Change Strategy and Action Plan; Climate Change Resource Mobilization Strategy; sector-specific strategies in water and forestry.

mobilization; (ii) trade facilitation and elimination of NTBs; and (iii) measures to strengthen the energy sector and power utilities reforms. In addition, the Bank will also engage RMCs at the regional level through the Peer Review Mechanism on debt management and governance issues (Annex 13).

5.5 Financing the Strategy

5.5.1 The RISP IOP will be financed from ADF and ADB resources using an appropriate mix of loans and grants, as well as innovative financing instruments such as PPP, qualified public infrastructure bonds, project bonds, securitization, asset-backed securities, and wealth funds. This is important especially for any debt-distressed countries with limited access to Bank financing and headroom. Additional financing will be mobilized through collaboration and co-financing with other IFIs and regional development banks. Resources will also be secured from sources such as the Africa Growing Together Fund (AGTF), Africa 50, the Africa Investment Forum (AIF), and enhanced domestic resource mobilization to build necessary fiscal space. Moreover, dialogue and greater partner coordination for resource optimality will be stepped up.

Box 6: Options for Financing Regional Infrastructure: SADC is implementing the Regional Infrastructure Development Master Plan (RIDMP), a 15-year blueprint to finance cross-border infrastructure projects from 2013-2027. Priority projects will cost an estimated US$500 billion. In the short term (five years), SADC must raise $64 billion, about US$12.9 billion per annum. Traditional funding sources-IFIs, donor support and bilateral loans are inadequate to meet this demand. Yet SADC countries have approximately $400 billion in financial assets held in pension funds and an additional $200 billion in insurance and Sovereign Wealth Funds (SWF). About 60%-70% of resources from SADC are invested in low interest-bearing instruments in Western countries. It would take only 10% of pension and insurance fund assets to finance the RIDMP. The challenges are immature bond markets, inadequate securitization infrastructure, stringent national regulations, limited understanding of investment opportunities by the trustees of these funds, and virtually no instruments. With the appropriate tools, funding requirements for regional infrastructure would represent just over 2% of this asset base. The Bank, through its syndication services, would provide the advice and leadership to unleash these funds to finance transformative regional projects in transportation, energy, and transboundary water development, including regional irrigation schemes. The Bank has significant experience in syndication supported by a full-fledged department in the Finance Complex.

5.6 Implementation Arrangements Monitoring and Evaluation

5.6.1 The implementation of the RISP will be based on the "One Bank" approach, with (i) sector departments having responsibility for project design and execution, while (ii) RDGS, supported by the country offices, will lead program coordination and policy dialogue. RDGS, RDGC and RDGE will work closely together and integrate their programs to promote the Tripartite Agenda. The implementation of the RISP will also require coordinated implementation arrangements with the RECs, and with specialized regional institutions. Monitoring and evaluation will be done through supervision mission reports and PCRs. On capacity for monitoring and evaluation, the Bank will continue to provide support to strengthen statistical capacity through the RECs and RMCs.

5.7 Risks and Mitigating Measures

5.7.1 A major risk to RISP implementation is the critical energy deficit the region faces, and the high concentration of power generation in South Africa. This will be mitigated by the expansion and diversification of power generation, including from wind, solar and gas, as well as reforms to increase power trade through SAPP. Another risk is inadequate financing for regional infrastructure, especially in view of debt distress in some countries. This will be addressed through broader co-financing with the private sector, PPPs, and other partners (e.g., equity and pension funds), and support for the operationalisation of the SADC Regional Development Fund. A recurring risk is the weak capacity of RECs and country-level institutions, resulting in poor performance in implementing agreed protocols and low quality of the portfolio. The Bank will continue to provide capacity building to enhance the functioning of the RECs and transboundary organizations for long-term development of the region. (Risks that could impact effective implementation of the RISP are detailed in Annex 12.)

6 CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusion

6.1.1 The SA RISP 2020-2026 lays out the proposed strategic direction of the Bank's RI work in Southern Africa over the next five years. It highlights the expected contribution of the RISP to achieving the High 5s and takes into consideration the guidance provided by the Committee on Development Effectiveness (CODE) during the earlier Board engagement. The SA-RISP has also drawn on the experience with past interventions and BDEV reviews.

6.2 Recommendations

6.2.1 The Board is hereby requested to approve the SA-RISP 2020-2026 which proposes the Bank's strategy and operations to support regional integration to achieve prosperity and inclusive growth in the Southern Africa Region.

ANNEX 1: SOUTHERN AFRICA RISP 2020-2026 RESULTS MEASUREMENT TOOL

A. **Strategic Alignment Matrix:** This matrix demonstrates alignment of the Bank's strategic priorities to overall regional development. It is used to assess the alignment and relevance of the strategy to country/regional-level objectives and the Bank's own priorities. It is not intended to assess performance of the Bank's support.

Priority Area 1: Infrastructure Connectivity	
Regional/Continental/Global Agenda	**African Development Bank Corporate Policies/Strategies**
Continental	**Corporate policies:**
AU Agenda 2063: An Integrated Continent: Africa shall have world-class, integrative infrastructure that crisscrosses the continent (Aspiration 2) **AU Program for Infrastructure Development for Africa:** Promote socio-economic development through regional and continental infrastructure networks and services.	**Ten-Year Strategy (2013-2022):** Operational Priorities of Infrastructure Development and Regional Integration. **High 5 priorities:** (i) Integrate Africa by enhancing infrastructure connectivity for African transformation; (ii) Light Up and Power Africa (achieve universal electricity access by 2025); (iii) Industrialize Africa (by enhancing economic diversification by 2025); and (iv) Feed Africa through transformation of Agriculture by 2025.
Regional:	**Bank Sector/Thematic Strategy:**
Revised SADC Regional Indicative Strategic Development Plan (2015-2020): Industrial Development and Market Integration (Priority A); and Infrastructure in Support of Regional Integration (Priority B). **COMESA Medium-Term Strategic Plan (2016-2020):** Strengthen Development of Economic Infrastructure in Energy, Transport, and ICTs (Objective 5).	**Regional Integration Strategic Framework (RISF, 2018-2025):** (i) Infrastructure Connectivity (Pillar 1); (ii) Trade and Investment (Pillar 2); and (iii) Financial Integration (Pillar 3). **Industrialization Strategy for Africa (2016-2025):** Flagship program #6: Develop efficient industry clusters/SEZ in each region.

Regional Development Results/Indicators:

Indicator	Baseline (2020)	Target (2026)
Energy		
Generated power in the region (GWh)	57	87
Connected countries in the region to SAPP (#)	9	12
Transport		
Regional Average Transport Index (AfDB)	0.21	4.00
Reconstructed cross-border roads (km)	0	1,000
Rehabilitated and modernized cross-border rail lines (km)	0	1,500
Information and Communication Technology		

Future planned Bank's interventions & Resources:

Generic areas of interventions or instruments	UA million
Public sector regional operations	1,884.50
Private sector investment	TBD
Knowledge work	3.30
Capacity building	30.25

Built cross-border ICT connections (km)	0	2,500			
Increased Internet connectivity (%)	4	10			

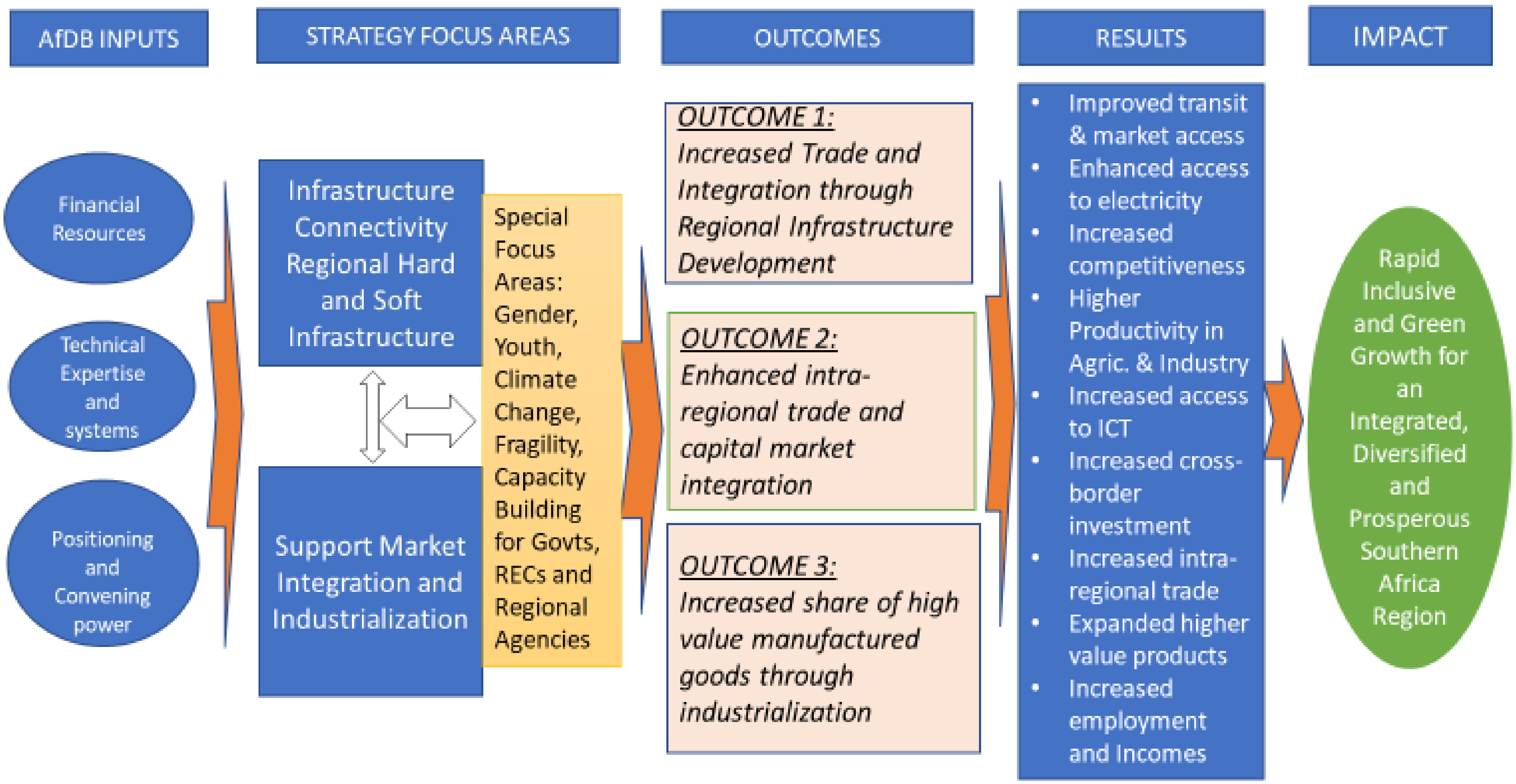
Priority Area 2: Market Integration and Industrialization					
Regional/Continental/Global Agenda				**African Development Bank** Policies/Strategies	
Continental				**Corporate policies:**	
AU Agenda 2063 An Integrated Continent by: (i) Establishing the African Continental Free Trade Area; (ii) Implement the African Passport and free movement of people (Aspiration 2). (iii) Establishing World Class Infrastructure that crisscrosses Africa; and (iv) Establishing Continental Financial and Monetary Institutions. **AU Boosting Intra-African Trade Agenda (BIAT):** by (i) Establishing and operationalizing One-Stop Border Posts; and (ii) Harmonizing and simplifying customs and transit procedures, documentation, and regulations. **AU Accelerated Industrial Development Agenda:** Enhance Africa's industrial output and contribution to GDP to foster transformation.				**Ten-Year Strategy (2013-2022) --** Operational Priorities: (i) Regional Integration; (ii) Private Sector Development. (**High 5 priorities:** (i) Integrate Africa; (ii) Light Up and Power Africa; (iii) Industrialize Africa; (iv) Feed Africa; and (v) Improve the Quality of Life for All People of Africa.	
Regional				**Bank Sector/Thematic Strategy:**	
Revised SADC Regional Indicative Strategic Development Plan (2015-2020): Industrial Development and Market Integration (Priority A); Infrastructure in Support of Regional Integration (Priority B); SADC Industrialization Strategy and Roadmap (2015-2063). **COMESA Medium-Term Strategic Plan (2016-2020):** Strengthen Market Integration (Strategic Objective 1); Industrialization (Strategic Objective 6). **COMESA Industrialization Strategy (2017-2026)**: Establishing Special Economic Zones (SEZs) and industrial parks.				**Regional Integration Strategic Framework (2018-2025):** Trade and Investment (RISF Pillar 2) and Financial Integration (RISF Pillar 3). **Bank Group Strategy for the New Deal on Energy for Africa strategic themes (2016- 2025):** Setting up the right enabling policy environment (Theme #1) and Accelerating major regional projects and driving integration (Theme #6 and Flagship #8). **Industrialization Strategy for Africa (2016-2025**): Foster successful industrial policies (Flagship program #1) and Develop efficient industrial clusters (provision of technical assistance targeted at industry clusters/SEZ; Flagship program #6).	
Regional Development Results/Indicators:				**Bank's interventions & Resources:**	
Indicator	**Baseline (2020)**	**Target (2026)**		**Interventions or instruments in Southern Africa**	**Amount (UA)**
Market integration				Public sector operations	4.70
Increased intra-regional trade (%)	18	25		Private sector operations	1.00
Financial Integration	0.42	0.5		Knowledge work	0.50
				Capacity building	5.00
Industrialization					
Productive Integration	0.24	0.35			-
Increased industrial contribution (% of GDP)	15	20			

B. Regional Performance Matrix: The performance matrix measures a wide range of results that should be regularly tracked during the CSP/RISP period. This includes operational results that will be delivered by the projects approved in the previous period and other essential elements of a country/regional strategy including cross-cutting issues, financial leveraging, harmonization, and portfolio performance.

Performance areas	Monitoring indicators (SA-RISP)	Baseline (2020)	Target (2024)	Source of Verification
Operational results: Outcomes	**Priority Area 1: Infrastructure Connectivity**			
	Transport Connectivity Cross-border travel time reduced (hours) # of One-Stop Border Posts Developed	7 3	2 10	SADC Report PARs
	Energy Energy between countries traded (GW) Countries to the regional power pool connected (#) **Inland water way between two countries**	2, 050 9 0	2, 460 12 1	SAPP Report SAPP Report SADC Report
	Priority Area 2: Market Integration and Industrialization			
	Market integration Stock exchange connected to regional hubs (#) Develop securities settlement platform (yes/no)	0 no	10 yes	SADC Report COSSE Report
	Industrialization Regional Value Chains developed in Mining, pharmaceutical and Agro-process Agro poles developed	0 0	3 2	Bank Report SADC and COMESA reports
Operational results: Outputs	**Priority Area 1: Infrastructure Connectivity**			
	Transport Connectivity Cross-border roads constructed (Km) Cross-border rail lines rehabilitated (Km) One-Stop Border Posts (OSBP) constructed (#)	TBD 0 TBD	1,000 1,500 4	Bank IPR/PCR Bank IPR/PCR SADC Reports
	Energy Cross-border transmission lines constructed (Km) Power generated in the region	TBD 57	6,860 87	SAPP Report SAPP Report
	ICT Cross-border ICT transmission	0	2,500	SADC Report
	Increased Internet connectivity (%)	4	10	SADC Report
	Cross-border Water resources Trans-boundary water Infrastructure developed River basin developed	1 0	3 2	Bank/PAR Bank/PAR

	Priority Area 2: Market Integration and Industrialization			
	Market integration Intra-regional Trade Share (%) Stock Exchanges integrated (#)	22 0	25 2	SADC Report Bank IPR/PCR
	Industrialization Regional value chains developed (#) Industrial parks developed (#)	0 0	3 2	Bank IPR/PCR Bank IPR/PCR
Cross-Cutting Issues				
Climate Change & Green Growth	Climate-proofed projects with climate change adaption measures (%)	0	100	PARs/PCRs
Gender	Operations screened by the Gender Marker (%) Female-headed businesses supported	24 0	50 5	PARs/PCRs PARs/PCRs
Disaster preparedness mechanism	SADC Disaster Preparedness and Response Mechanism operationalized (#)	0	1	SADC Report
Sustainability and Capacity building/TA	Pipeline of regional infrastructure projects developed (yes/no) New regional infrastructure projects prepared to bankability Institutional support to regional organizations and corridors	No 0 0	Yes 6 3	SADC/COMESA Bank report Bank report
Co-financing Mobilized	Regional projects financed through co-financing (#) Resources leveraged through co-financing and PPPs (UA million)	20 0	45 2,500	PARs PARs
Internal Efficiency/ Portfolio performance	Overall Portfolio Performance (scale, 1=worst to 4=best) Operations supervised on time (%) Time from approval to first disbursement (months) Operations flagged for challenges (%) Timely project completion reports (%)	3.0 64 16.1 21 92	4.0 90 15 20 90	RPPR ADB Portfolio Flagship Report Delivery Dashboard Delivery Dashboard
Knowledge work/policy advice	Infrastructure masterplans developed by SADC & COMESA (#) EWS/Flagship reports on regional issues (#)	0 0	3 4	SADC/COMESA ESW Reports
Development Coordination	Regional Working groups convened by the Bank (#)	0	5	Meeting reports

Annex 1.2: Southern Africa RISP 2020-2026 - Illustration of the Theory of Change



Annex 2:
Southern Africa-RISP Regional Indicative Operational Program (IOP) 2020-2026

Sector	No.	Projects	Program Year	AfDB (UA Million)	Source	Co-financing (UA Million)	Potential co-financier	CSP	Period
			Priority Area 1: Infrastructure Connectivity						
Energy	1	Baynes Hydropower Project between Angola and Namibia	2022	100.00	ADB			Yes-Namibia	2020-24
	2	Angola Namibia Power Transmission Project (ANNA) (P-Z1-F00-113)	2023	100.00	ADB	80	EIB and JICA	Yes-Namibia	2020-24
	3	Interconnector Between Botswana and South Africa (P-Z1-FA0-130)	2022	50.00	ADB			Yes-South Africa	2018-22
	4	Mozambique - Zambia Power Transmission Project (P-Z1-F00-093)	2022	50.00	ADB/ADF			No	
	5	Songwe River Basin Hydro Power Project (MALAWI-TANZANIA) (P-Z1-FA0-163)	2021	500.00	ADF			Yes-Malawi	2018-22
	6	Zambia - Malawi Interconnector (P-Z1-F--095)	2023	50.00	ADF/ADB			Yes-Malawi	2018-22
	8	DR Congo-Angola Interconnection Project (P-Z1-FA0-145)	2023	50.00	ADF			No	
	9	330KV Kolwezi-Solwezi Multinational Power	2023	50.00	ADF			No	

Sector	No.	Projects	Program Year	AfDB (UA Million)	Source	Co-financing (UA Million)	Potential co-financier	CSP	Period
			Priority Area 1: Infrastructure Connectivity						
		Interconnector Project (P-Z1-F00-065)							
	10	ZIZABONA Power Interconnection	2023	100.00	ADF			Yes-Zambia Yes-Zambia	2017-21 2019-20
	11	SADC LNG Gas Master Plan	2021	0.10	ADF			No	
	12	SADC/ RERA Regional Harmonization and Monitoring (P-Z1-FA0-181)	2021	0.73	ADF	-	-	No	

Sector	No.	Projects	Program Year	AfDB	Source	Co-financing	Potential co-financier	CSP	Period
			…continued Priority Area 1: Infrastructure Connectivity						
Transport	13	Transport Sector Support Project / Angola-Zambia Railway Link (P-AO-D00-004)	2023	500.00	ADB	-	-	Yes-Angola	2017-21
	14	Lobito Corridor Regional Integration Roads Interconnection (Muhango-Luena & Lumege-Luacano-Luau (P-AO-DB0-003))	2023	200.00	ADB	-	-	Yes-Angola	2017-21

	15	Rail link between Angola (Malanje) and the border with DRC to connect to Katanga	2024	200.00	ADB	-	-	No	-
	16	Multinational (Burundi/ Zambia): Lake Tanganyika Transport Corridor Development Project(P-Z1-DD0-019)	2021	57.00	ADF	-	-	No	-
	17	Upgrading of Mueda-Negomano Phase II (LOT B) (P-Z1-DB0-229)	2022	21.00	ADF	-	-	Yes-Mozambique	2018-22
	18	North - South Corridor Transport Improvement Project (Serenje - Mpika Section) (P-ZM-DB0-004)	2023	150.00	ADB	50.00 70.00	AGTF Others/ Counterpart	Yes	2017-21
	19	Strategic Plan on Southern Africa Rail Master Plan	2022	4.00	ADF	4.00	-	No	-
	20	Transport Infrastructure Improvement Project – Phase II (P-NA-DZ0-002)	2021	120.00	ADB	TBD	-	No	-
	21	Railway Infrastructure Improvement Project - Phase I (Rehabilitation of Critical Sections) (P-ZM-DC0-006)	2022	50.00	ADB	TBD	-	No	-
	22	Railway Infrastructure Improvement Project - Phase II (Kafue – Lion's Den) (P-ZM-DC0-007)	2023	100.00	ADB	TBD	-	No	-
	23	SADC Regional Multi Modal Transport Model.	2021	2.00	Trust Fund (tbc)	-	-	No	-

	24	Multinational North-South Corridor Project (Salima-Dwangwa Road) P-Z1-DBO-231	2022	50.00	ADF	-	-	No	-
	25	Support for the regional Single African Air Transport Market program	2021	2.00	ADF	-	-	No	-
Water	26	Zambia- Angola Shangombo – Rivungu Canal Project	2023	60.00	ADF	-	-	No	-
	27	Songwe River basin Hydro Power Project (Malawi-Tanzania) P-Z1-FAO-163	2023	100.00	ADF	-	-	No	-
ICT	28	Regional Fiber Optics Interconnection Masterplan	2021	0.25	ADF	-	-	No	-
Institutional and cross-Sectoral Capacity Building	29	Support to Programme for Infrastructure Development in Africa (PIDA) Implementation 2021-2030	2020	20.25	ADF	2.00	GIZ, KfW, European Union, and Japan	No	-
	30	Support to SADC-PPP Implementation Project	2020	5	ADF	0.50	-	No	-
	31	SADC Disaster Preparedness and Response Mechanism operationalized (Support COVID-19 & other pandemics)	2020	5	ADF	-	-	No	-
	32	Multi-Country (Madagascar, Malawi, Mozambique, and São Tomé and Príncipe) COVID-19 Emergency Support Program	2020	100.5	MCESP) - ADF and TSF grants & loan	-	-	-	-

		Total		**2,797.83**					
		Priority Area 2: Market Integration and Industrialization							
Market Integration	33	Support to SADC Macroeconomic Stability and Financial Integration – Macroeconomic Convergence and Capital Market Integration	2021	2.00	ADF	2.00	Stock exchanges	No	-
	34	Support to SADC Trade Facilitation	2020	1.00	-	-	-	No	-
Industrialization	35	Support to COMESA Industrialization Project - Regional Industrial Parks	2020	15.00	ADF	-	-	No	-
	36	Support policy and regulatory framework and national master plans/SEZ frameworks	2021	1.00	ADF	-	-	No	-
	37	Development of Regional Value Chains in Mining and Agro-processing Studies	2021	0.50	ADF	-	-	No	-
Agriculture	38	Building Resilience in Fish Value Chains in South West Indian Ocean Economies (P-Z1-AAF-013)	2021	1.00	FAPA Trust Fund	-	-	No	-
	39	Improving fisheries and promoting the blue economy in the South West Indian Ocean	2022	200.00	ADF/ADB	GEF	IFAD/World Bank/EU	No	-
		Total		**228.6**					
Knowledge	40	Domestic resource mobilization and development of innovative	2021	0.30	ADF	-	-	No	-

		financial instruments such as regional transit guarantee bond studies and dissemination							
	41	Policy Notes on elimination of non-Tariff Barriers	2021	0.20	ADF	-	-	No	-
	42	Deepening of macro-economic convergence in Southern Africa through M&E Studies and Dissemination	2022	0.30	ADF	-	-	No	-
	43	Regional Power Transmission Masterplan Studies	2021	3.00	ADF	-	-	No	-
	44	Study on Program-Based Operations (PBOs) and how this instrument can contribute effectively to reforms and crowd in private sector investment	2022	0.25	ADF	-	-	No	-
		Total		4.05					
		Grand Total 1 +2		**3,026.43**					

Note: *Projects not reflected in the CSPs are reflected in the SADC Master Plan and are developed in the context of Regional Integration.*

Annex 3.1: Findings of the BDEV Evaluation of the Eastern Africa RISP 2011-2016

1. Main Findings

1.1 The Bank's contribution to regional integration in Eastern Africa

Relevance: The Eastern Africa RISP is aligned with the Bank's strategic objectives under the TYS and the projects funded under the strategy are priority to participating RMCs. However, 30 percent of the projects in the portfolio were found to be multi-country operations that do not directly advance the goal of regional integration, while all of them were supportive of the RISP's other objectives and those of the Bank. Given these, the evaluation found the RISP's relevance to be moderately satisfactory

Effectiveness: Good progress is evident, but the results in achieving the planned outputs and outcomes of the RISP's two pillars are mixed. The Regional Infrastructure Pillar of the RISP was found to have greater demonstrated effectiveness (Moderately Satisfactory) than the Capacity Building Pillar (Moderately Unsatisfactory). Greater attention to policy reform and "soft" infrastructure, particularly at the design stage, would have further advanced the ambitious regional integration outcomes identified in the RISP. Overall, effectiveness is rated Moderately Satisfactory.

Sustainability: Sustainability is weak with variations across sectors. Projects in the financial and transport sectors fared better on sustainability compared to the agriculture sector and institutional building operations, where it is weakest. Overall, sustainability is rated as Moderately Unsatisfactory.

1.2 The Bank's management of regional and multi-country operations

Efficiency: The reviewed portfolio points to serious delays with problems in the procurement process of the capacity building operations. These stem from weak capacity of RECs/RMCs. Analysis on costs or rates of return were absent in the majority of the Implementation Progress and Results reports (IPRs) and supervision reports, making it difficult to conclude if the operations are/were on track or would be efficient once implemented. Overall, efficiency is rated as Moderately Unsatisfactory.

Coherence: The Bank's dialogue with RMCs and RECs did deal with regional integration issues in almost all cases.

Donor Coordination: There is evidence of donor coordination in the 24 operations reviewed, with the Bank assuming a leadership role in many cases, and RECs in the rest. However, performance was somewhat weaker in terms of working formally within the *Paris Declaration Framework* and fostering greater coordination between RECs and RMCs and between RECs and the Bank. This is partly due to lack of clarity as to who is ultimately in charge.

Managing for development results: The Bank's system for managing for development results is not being implemented robustly enough to help guide implementation or to serve as a basis for supervision. Outcomes (and their associated indicators) are well beyond what the project could affect; relevant baselines and target indicators for completion are frequently missing. Too often, project outputs and outcomes do not address the broader regional integration issues and, therefore, opportunities for synergies are missed. For the operations reviewed, the Bank has been supportive through its supervision but with resource levels that fall short of the requirements for complex, multi-country regional operations.

2. Conclusions

The evaluation findings show that the Eastern Africa RISP is relevant to the needs of the RMCs and the Bank's strategic objectives, with a full analysis of the issues and challenges to regional integration in

Eastern Africa. However, **about 30 percent of the Bank operations under review do not necessarily provide a platform for promoting regional integration but serve as multi-country or single country operations with limited regional impact or positive cross-border effects.** This is in part related to the fact that the Bank's ultimate vision toward regional integration in Eastern Africa is still underdeveloped. It also raises concerns regarding the Bank incentive mechanism for regional operations, through supplemental allocations from the Regional Operations Envelope.

The evaluation also highlights that **capacity challenges are pervasive and cut across the RECs, the RMCs, and other institutions responsible for promoting regional integration and implementing regional operations.** Good progress is evident so far, but the results in achieving the planned outputs and outcomes of the RISP's two pillars are mixed. The Capacity Building Pillar of the RISP was found to have been less effective than the Regional Infrastructure Pillar, proving that the Bank's competitive advantage has been around regional infrastructure provision.

The evaluation noted **major weaknesses in sustainability, project delays, poor results-based management, and logical frames with a disconnect between outputs and outcomes, lack of reliable data and poor performance indicators. Most of these weaknesses were linked to capacity gaps.**

3. Recommendations

Recommendation 1: Consider underpinning 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.

- The Theory of Change would be instrumental to identify the logical linkages on how Bank operations lead to regional development, support regional public goods, and then contribute to regional integration.
- The Theory of Change would guide the formulation of a balanced portfolio of operations that addresses priority regional integration objectives, and the Ten-Year Strategy (TYS) priorities of inclusive and green growth. The High 5s should guide selectivity, with particular emphasis on "soft infrastructure", including policy reforms, and on mobilizing private sector participation and investment.
- Future changes related to the eligibility framework for the Regional Operations Envelope is expected to reflect the above-mentioned considerations.
- The Results-based framework would track relevant outcomes related to regional integration.
- A solid Theory of Change would need to be based on strong analytical knowledge work to better understand development issues and challenges related to regional integration and draw more effectively on relevant analysis carried out by other institutions. The analytical work would consider the following key areas: political economy analysis, regional analysis of sectors, power and transport systems, agricultural and manufacturing value chains, spatial development, industrialization along the regional development corridors, financial and private sector development, and markets around border posts.

Recommendation 2: Strengthen the institutional capacity of RECs by underscoring their importance as the key building blocks for continental integration.

The following considerations can help guide the Bank in addressing this recommendation:

- Revisiting the role assigned to RECs, and considering the RMCs' ownership and mandate of the RECs and other implementing institutions.
- Properly resourcing the RECs through TA.
- Systemic attention to capacity development during project design would also facilitate timely launch and more effective implementation.

Recommendation 3: 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.

In order to address this recommendation, the Bank can consider:

- Prioritizing the asset protection and maintenance of regional public goods in the Bank regional operations project cycle.
- Systematically involving RECs and RMCs in the planning and implementation of projects with an emphasis on both resource mobilization and absorption capacity of RECs/RMCs.
- Project planning and implementation to be supported by non-lending activities such as policy dialogue and capacity building.

Recommendation 4: Design and implement results-based M&E systems so they provide valuable management tools for assessing and managing for results.

Following are considerations for the Bank:

- Solid results frameworks would focus the contribution made by Bank operations vs. changes that result from GDP growth. They would also allow for clear logical linkages in the results chain with clear differentiation between outputs and outcomes.
- M&E systems need to be adequately resourced to marshal the skills and relevant data collection required to yield useful accountability and learning information. Costs or rates of return are expected to be monitored through project implementation documents.

Recommendation 5: Improve the procurement process by supporting RECs and/or RMCs through Recommendations 2 and 3 above.

- (Recommendation 2-1) The Bank needs to revisit the role routinely assigned to RECs and consider the RMCs' ownership and mandate of the RECs and other implementing institutions, as well as aim to ensure provision of the required recurrent financial support.
- (Recommendation 3-3) Non-lending activities such as policy dialogue and capacity building should support both the planning and implementation stage of the above cycle.

Annex 3.2: Southern Africa - Opportunities and Challenges

Main Strengths/Opportunities:

- *Abundant mineral resources:* Botswana, Namibia, South Africa, Zambia, and Zimbabwe have significant mineral wealth (including some of the world's largest reserves of diamonds, gold, copper, coal, uranium reserves, and hydropower potential). The region is home to Africa's second largest oil producer (Angola); large natural gas reserves in Namibia and Mozambique; and shale gas reserves in the South African Karoo. These resources have direct implications for poverty reduction if well managed.
- *Agriculture:* Strong potential for agriculture due to favorable soils, climate, and large areas of uninhabited arable land. The region is a major producer of maize, beef, sugar, and tobacco. Agricultural activities can further the regional integration agenda through regional value chain development in a number of agricultural commodities, collective harnessing of trans-boundary water resources, cross-border trade in agricultural commodities, and regional agricultural marketing infrastructure and commodity exchanges.
- *Energy Trade:* Uneven distribution of energy resources across the region provides opportunities for power pooling under the Southern African Power Pool (SAPP). Thus, the SAPP has provided a marketplace for energy between energy surplus and energy deficit countries.
- *Transport and ICT:* The region is actively improving connectivity through a number of ongoing transport corridor projects which could transform it into a gateway into Africa. The region has recorded gains in broadband connectivity, is closing missing links on the North-South transport corridor, expanding capacity of heavy haul railways and ports, and upgrading quality of airport infrastructure.
- *Private Sector Development*: Increasing vibrancy of the private sector that is supportive of enhanced regional integration.
- *Trade*: The signing of the TFTA Agreement in June 2015 increases the prospects of regional integration and inter-regional trade expansion.
- *Demographic dividend:* With a combined market of 209 million people, Southern African countries have the opportunity to overcome size disadvantages imposed by national demographics and reap economies of scale for industrial production and value-chain development.

Weaknesses/Challenges:

- *Infrastructure deficiency:* Missing links in major corridors, cumbersome border posts significantly restricting trade, and poor connectivity of agricultural production areas to the markets due to poor rural infrastructure. According to SADC, lengthy border transit times experienced on the North-South corridor between Durban and Lubumbashi add at least US$1,250 per truck to transportation costs, which constrains trade on the route.
- *Energy deficiency*: Although the region has the most extensive power network on the continent, power trade is constrained by national deficiencies and congested transmission infrastructure. The Africa Infrastructure Country Diagnostics (2010) showed that increasing power trade from 45 to 140 terawatt hours per year, member countries can decrease unit costs 20 to 60 percent.
- *ICT Broadband Connectivity*: International connectivity is nearly complete, but missing broadband links within countries, overpricing, and unsecure networks reduce adoption of ICT services. SADC estimates the regional traffic for mobile telephony to cost roughly 30 percent more than international traffic.
- *Water resources constraint*: In the water sector, significant progress has been attained at establishing institutions for management of shared water resources, but far less progress has been made in collectively developing water infrastructure. The infrastructure challenges explain low levels of irrigated land (only 7 percent of the irrigable land), low development of hydropower (8 percent of hydropower potential), and the high percentage of the region's population that still has no access to adequate safe drinking water.
- *Capacity constraints:* Low capacity of the RECs, sub-regional implementing bodies and national implementing agencies is still a major challenge to meeting the region's integration objectives.
- *Regulatory constraints on private sector development:* With the exception of Mauritius and South Africa, the business environment in the region remains inimical to private sector development, limiting opportunities for regional trade. More than half of the countries are ranked in the bottom half of Doing Business Indices.
- *Information imperfections:* These relate to both asymmetric and incomplete economic, business, financial, policy and regulatory systems, which pose challenges for businesses and investors in the region.
- *Political economy problems and poorly developed financial systems*, particularly the nascent state of risky capital markets (particularly for venture capital finance) and trade finance.

Annex 4: Matrix of CODE Comments on Southern Africa RISP 2011-2015 Completion Report

COMMENTS BY CODE	ACTIONS BY MANAGEMENT
a. Quality of the Completion Report: The Committee considered that the data used to illustrate the macro-economic situation of the region were not updated and lacked rigor in analytical context. Also, the Committee expressed concern that the Completion Report does not adequately consider the diversity of economies in the region and provides limited information on interlinkages with other regions. It was further noted that the structure of the document does not fully align with that of a completion report, which should outline what was planned, what was achieved, and what lessons were learnt.	*The Completion Report has been reviewed and fine-tuned to reflect CODE concerns on the analysis and updated the data on the macroeconomic situation of the region to 2019. Further, discussion on regional diversity has been included in para 2.2.1. A section has also been introduced on regional fragility in para 2.1.3. Coupled with all these changes, interlinkages with other regions have also been outlined in sections 2.2.9, 2.5.1, and 6.1.1.* *The Structure of the Report is in line with the annotated format for Country/Regional Strategy Papers and Results Tool defined and adopted by Management in June 2019, in line with Annex 6 of the "Proposal for Revised Country and Regional Strategy Paper (CSP & RISP) that was approved by the Board in December 2018 (AFDB/BD/WP/2018/209/Approved).* *Section 3.3 Assessment of the implementation of the RISP's lending program (IOP) in terms of planned and approved operations during the strategy period has been moved from Section 3.2 to Section 3.3 to align with the template. The section has also been enhanced by including assessment of planned and carried out non-lending activities. Annexes 10A 10B, and 10C show the planned and the delivered operations.* *Section 3.4 has been amended to provide an assessment of the results (outputs and outcomes) planned and achieved during the strategy period. Details are in Annex 1.* *Section 5 presents the Bank's experience and lessons learnt during the RISP period.*
b. Implementation of RISP: The Committee expressed concern on the low level of implementation of the Bank's portfolio in the region and underscored the need to review the Bank's rating of its achievements. The Committee also sought lessons learnt on implementation, in line with the BDEV evaluation, that could help improve the implementation of the new RISP.	*Management has validated the rating and confirms what is reflected and notes there has been substantial improvement in the implementation of regional integration operations in the region in the later years. Lessons learnt from implementation have been incorporated in para. 5.2.3.*
c. Relevance of RISP: The Committee considered that RISPs should be more efficient in terms of pushing forward the regional integration agenda, otherwise their relevance will be questionable. The Committee concluded that a technical session should be organized for deeper reflection on primary objectives of RISPs and how best to achieve them.	*RISPs provide a vehicle for rallying regional member countries around the common goal of achieving economic and political integration, working in close collaboration with the Bank, Regional Economic Communities and the AU at the continental level. In the context of Southern Africa, the RISP provides an anchor and Agenda for closer collaboration by countries in the region through SADC and COMESA and extends to the broader region defined by the TFTA, and hence its relevance. The new RISP 2020-2026 articulates the Regional Integration Context of Southern*

	Africa, highlighting the major achievements in attaining integration. It also makes proposals for Bank support to the RECs and the TFTA, as an honest broker, to strengthen capacity to deliver on the mandate of integrating the region.
d. Proposed Pillars for 2020-2026 SA-RISP: The Committee underscored that the pillars depict what the Bank wants and can achieve in Southern Africa. The Committee noted that the proposed pillars are relatively broad and do not specify how they will lead to transformational reforms in the Region. In this regard, it invited Management to further articulate them with a clear outline of the priority areas of focus. Management should also indicate how it intends to tackle the issue of soft components, industrialization and market connectivity. The new RISP should address the recurrent issues of youth unemployment and gender, help to harness regional access to energy, and place greater focus on NSOs.	*The RISP's proposed two Priority Areas of focus for Bank support are now articulated with six 'Results areas' (section 6.2 of the Completion Report). The document highlights in the Theory of Change (Annex 17) the approach the Bank will pursue to achieve transformation in the region. Industrialization is discussed in 6.2.12, which is a main driver of regional transformation.* *The new full RISP will present the Bank's strategy under each of the two proposed Priority Areas in detail and spell out measures to enhance access to energy as well as proposals to develop regional value chains to create employment for youth.*
e. Process: The Committee considered whether the Completion Report should be referred back to Management to comply with the required format and re-table it or whether the Committee should give its clearance for Management to move forward with the new SA-RISP, while fine-tuning the Completion Report. The Committee concluded that both the revision of the Completion Report and the drafting of new RISP should be done in tandem.	*Management has revised and fine-tuned the RISP Completion Report in line with the comments of CODE and submitted to the Board for clearance on a lapse of time basis.*

Annex 5: **<u>Findings of stakeholder consultations</u>**

Introduction

African Development Bank met and held consultations with SADC and the Common Market for Eastern and Southern Africa (COMESA) Secretariats in June and July 2019 respectively, on the preparation of the SA-RISP 2020-2026. These meetings reviewed activities under the SA RISP 2011-2015 (which included activities up to 2019) with the aim of finalizing preparation of the RISP Completion Report, and to discuss potential areas for collaboration in preparation of the new SA RISP for 2020-2026. The Bank team also discussed and sought the views of the two RECs on issues and approaches to deepen integration in the region and how to address weaknesses to strengthen collaboration amongst stakeholders including member states, development partners and the private sector. The Outcomes of the Consultations are highlighted below.

Outcomes and Envisaged Areas of Collaboration.

COMESA

1. **Infrastructure Connectivity for Trade Facilitation:** COMESA's priorities and mandate focus on trade facilitation and development of hard and soft infrastructure. The Bank would focus its support on (i) increasing infrastructure connectivity among the member states, including support to regional transport corridors and energy power pools, and soft infrastructure to address policy and regulatory impediments related to trade expansion and the creation of viable markets in the region, regional harmonization of policies and regulations to enable efficient logistics, and cross-border movement of goods and persons; (ii) improving regional institutional frameworks to manage and support infrastructure (corridors, power pools, river basins authorities); and (iii) capacity building to COMESA, regional institutions and national organs (coordinating regional integration programs/projects).

2. COMESA was also keen to work with the Bank in developing ICT through private sector investments using the Bank's non-sovereign window. In the area of capacity building, COMESA would seek the Bank's support in creating a Project Preparation Facility to support member countries' efforts in preparing bankable regional infrastructure projects for financing by different partners.

3. COMESA has proposed studies in Rail Transport in the Region, for which they would request Bank support. On Island Countries, COMESA would seek the support of the Bank to undertake feasibility studies for the establishment of a commercial shipping line to link the Indian Ocean Island Countries. Other possible areas envisaged are studies for the development of a multinational Lake Tanganyika Transport project that would link the countries surrounding the lake. The project would be developed as a PPP.

4. **Industrial Development:** The second envisaged area of collaboration between the Bank, the COMESA Secretariat and regional member states will focus on expanding industrialization by (i) addressing soft issues related to the improvement of governance, policies and regulatory frameworks to enhance regional and global value chain development; (ii) promoting

appropriate industrial development responses to climate change and environment ("green" industrial development); and (iii) building regional capacity for an improved business enabling environment, including the development and implementation of industrial cluster action plans. This aligns with the Bank's "Industrialize Africa" strategy within the context of the High 5s priorities.

5. COMESA has developed an *Industrialization Strategy* and *Industrialization Action Plan* which focuses on Value Chain Development, giving priority to small and medium scale (SMEs) industry rather than large corporates and ultimately linking SME value chains to corporate establishments. The Action Plan envisages (i) establishing/developing regional and national industrial parks and special multi-facility economic zones; (ii) strengthening regional and national human and institutional capacities for industrialization; (iii) strengthening regional standardization, quality assurance and quality management systems; and (iv) promoting regional trade in manufactured products. COMESA has developed three value chains: (i) Leather and Leather Products, and established the Africa Leather and Leather Products Institute (ALLPI); (ii) Agro-processing Industrial Parks; and (iii) Horticulture Value Chains. COMESA has proposed establishing a cross-border agro-processing and exports zone across Zambia and Zimbabwe as a pilot that could be replicated along other borders, and is seeking financing for feasibility studies to move the process forward.

6. **Capacity building and cross-cutting Issues:** COMESA and the Bank agreed that capacity building will be incorporated as a cross-cutting issue in the collaboration envisaged between the two institutions. The Bank will design and support programs to build and enhance capacity at the level of the COMESA Secretariat, Power Pools, Corridor Development and Regional Statistical Agencies, and Regional Regulatory Agencies, as well as national regional integration coordinating agencies. Regional Public Goods (shared water resource management, climate change, and political risk mitigation) and other cross-cutting issues such as gender, environment and knowledge management will also be mainstreamed into the new SA RISP 2020-26. COMESA will seek Bank support for gender mainstreaming for trade facilitation at the level of COMESA and its engagement with member states

<u>SADC</u>

1. The SADC Secretariat outlined priority plans agreed with member states as (i) Industrial Development, Trade and Market Integration; (ii) Regional Infrastructure; (iii) Peace and Security; and (iv) Capacity Building. In the context of soft infrastructure, SADC is implementing a Trade Facilitation Program with Capacity Building and Training for Customs Officials. The program emphasizes Transparency, Predictability, Cooperation and Interconnectivity. They are also addressing the issue of non-tariff barriers through an online system supported by GIZ. The system covers SADC, COMESA, and EAC.

2. SADC is in the process of preparing the *Long-Term Vision 2063* aligned to the AU's Agenda 2063 and the draft new *SADC Strategy (2020-2030)* as successor to the current RIDSP 2016-2020, which expired at the end of 2019. The Draft plans were presented to the Council of

Ministers during the August 2019 Summit in Arusha, Tanzania and the plan s in the final stages of preparation.

3. Under Industrialization and Trade SADC, through the *SADC Industrialization Strategy and Roadmap 2015-2063,* is focusing on developing cross border value chains, supported by hard and soft infrastructure to ensure competitiveness and skills for smooth movement of goods and people. There are also plans to develop Regional Cross-Border Clusters and Special Processing zones around the corridors.
4. SADC is developing agro-processing value chains for which studies have been undertaken They have identified several crop subsectors that the region could pursue including Rice, Wheat, Soya and Cotton. Infrastructure for bulk transportation was identified as a major constraint in developing value chains. SADC has developed a three-year rolling plan with a matrix of the projects to be implemented. The Bank also confirmed that the Bank was developing agro-processing zones in several SADC countries as part of implementation of the Feed Africa strategy. This could provide opportunities to scale up the Bank's initiative on agro-processing to contribute to development of Regional Value Chains.

5. SADC emphasized the need for macroeconomic convergence to achieve integration and interconnectivity of regional financial markets and stock exchange. In that context, SADC has identified several convergence indicators including external debt, fiscal balance, and inflation rates. Compliance is monitored through regular peer review mechanisms by member states. The outcomes of the macroeconomic convergence indicators will provide direction for macroeconomic and governance reforms across the region.

During the discussions, it emerged that issues related to **regional infrastructure development** including *soft infrastructure, industrialization, trade facilitation, regional value chains, agro-processing zones, and capacity building* are top priorities for deepened collaboration between the Bank, SADC and Member States. The Bank's team and SADC officials agreed that the new SADC Strategy (2020-2030) under preparation will form the basis for the Bank and SADC collaboration. SADC would provide detailed information and potential projects which SADC wants the Bank to support during the new RISP period 2020-2026.

ANNEX 6.1: Southern Africa Bank Group Approved Multinational Operations 2011-2019

ANNEX 6.1 A - RISP PERIOD (2011 - 2015) MULTINATIONAL OPERATIONS (excl LOCs & Equity Funds Related)										
No	Long Name	SAP CODE (reflects no. of operations)	Loan Number (reflects no. of instruments)	Name	Sector Name	RISP Pillar	Approval date	Amount For Window (UA m)	Company Name	Disbursement Ratio
1	NACALA ROAD CORRIDOR PROJECT PHASE IV (LIWONDE-MANGOCHI) MA	P-Z1-DB0-084	2100150030794	Malawi	Transport	PILLAR I	03-Dec-13	42.36	ADF	74.84
	NACALA ROAD CORRIDOR PROJECT PHASE IV (LIWONDE-MANGOCHI) MA		2100155026817	Multinational	Transport	PILLAR I	03-Dec-13	0.61	ADF	53.20
2	ENABLING LARGE SCALE GAS & PWR INVESTMNT	P-Z1-FA0-073	2100150030595	Mozambique	Power	PILLAR I	18-Dec-13	9.95	ADF	20.35
3	MTWARA DEVELOPMENT CORRIDOR	P-Z1-D00-021	5150155000401	Multinational	Transport	PILLAR I	29-Oct-12	0.96	NEPAD/IPPF	100.00
4	NACALA RAIL CORRIDOR AND PORT PROJECT	P-Z1-D00-032	2000120004919	Multinational	Transport	PILLAR I	16-Dec-15	80.12	ADB	100.00
5	NACALA RAIL AND PORT PROJECT - CENTRAL EAST AFRICAN RAILWAYS	P-Z1-D00-033	2000120004920	Multinational	Transport	PILLAR I	16-Dec-15	10.10	ADB	100.00
6	NACALA RAIL AND PORT PROJECT - CORREDOR DESENVOLVIMENTO DO N	P-Z1-D00-034	2000120004922	Multinational	Transport	PILLAR I	16-Dec-15	67.55	ADB	100.00
7	NACALA RAIL AND PORT PROJECT - VALE LOGISTICS LIMITED (VLL)	P-Z1-D00-035	2000120004921	Multinational	Transport	PILLAR I	16-Dec-15	60.84	ADB	100.00
8	BOTSWANA/ZAMBIA-KAZUNGULA BRIDGE PROJECT	P-Z1-DB0-031	5580155000251	Multinational	Transport	PILLAR I	23-Feb-15	0.80	EU AITF	79.11
	BOTSWANA/ZAMBIA-KAZUNGULA BRIDGE PROJECT		5580155000252	Multinational	Transport	PILLAR I	23-Feb-15	1.27	EU AITF	76.22
	BOTSWANA/ZAMBIA-KAZUNGULA BRIDGE PROJECT		2100150025694	Zambia	Transport	PILLAR I	07-Dec-11	51.00	ADF	36.36

ANNEX 6.1 A - RISP PERIOD (2011 - 2015) MULTINATIONAL OPERATIONS (excl LOCs & Equity Funds Related)										
No	Long Name	SAP CODE (reflects no. of operations)	Loan Number (reflects no. of instruments)	Name	Sector Name	RISP Pillar	Approval date	Amount For Window (UA m)	Company Name	Disbursement Ratio
9	NACALA ROAD CORRIDOR STUDIES - FEASIBILITY STUDY FOR THE MALA	P-Z1-DB0-080	5150155000901	Multinational	Transport	PILLAR I	15-Apr-13	0.05	NEPAD/IPPF	100.00
10	DESIGN OF REHABILITATION FOR FIVE NORTH SOUTH CORRIDOR ROAD	P-Z1-DB0-131	5150155001101	Multinational	Transport	PILLAR I	18-Sep-13	3.28	NEPAD/IPPF	99.44
11	PROJECT PREPARATORY STUDY FOR DEVELOPMENT OF MPULUNGU PORT	P-Z1-DD0-014	5150155001301	Multinational	Transport	PILLAR I	14-Oct-13	1.08	NEPAD/IPPF	86.75
12	SHIRE ZAMBEZI WATERWAY	P-Z1-EAZ-030	5150155001251	Multinational	Water Sup/Sanit	OTHER	27-May-11	1.13	NEPAD/IPPF	80.77
	SHIRE ZAMBEZI WATERWAY		5600155002651	Multinational	Water Sup/Sanit		27-May-11	1.40	AWF	90.35
13	ZIZABONA POWER INTERCONNECTION PROJECT	P-Z1-F00-043	5150155000601	Multinational	Power	PILLAR I	18-Dec-12	1.45	NEPAD/IPPF	72.34
14	KARIBA DAM REHABILITATION PROJECT ZIM	P-Z1-FA0-085	2100155029116	Multinational	Power	PILLAR I	15-Dec-14	15.51	ADF	4.87
	KARIBA DAM REHABILITATION PROJECT ZIM		5900155008001	Multinational	Power	PILLAR I	15-Dec-14	7.75	FSF	17.58
	KARIBA DAM REHABILITATION (P-Z1-FA0-075)		2100150032548	Zambia	Power	PILLAR I	15-Dec-14	25.20	ADF	13.65
15	O3B SUPPLEMENTARY LOAN	P-Z1-GB0-028	2000120004269	Multinational	Communications	OTHER	27-Nov-15	2.91	ADB	100.00
16	COMESA – MICROFINANCE TRAINING COURSE FOR POLICY AND DEVELOP	P-Z1-HB0-038	5700155002101	Multinational	Finance	OTHER	03-Oct-14	0.18	FAPA	100.00
17	MAINSTREAMING MANAGING FOR DEVELOPMENT RESULTS IN RMC: MFDR	P-Z1-IA0-009	2100155022717	Multinational	Social	PILLAR II	16-May-12	9.00	ADF	99.98

ANNEX 6.1 A - RISP PERIOD (2011 - 2015) MULTINATIONAL OPERATIONS (excl LOCs & Equity Funds Related)										
No	Long Name	SAP CODE (reflects no. of operations)	Loan Number (reflects no. of instruments)	Name	Sector Name	RISP Pillar	Approval date	Amount For Window (UA m)	Company Name	Disbursement Ratio
18	EMERGING AFRICA INFRASTRUCTURE FUND 2011 LOAN FACILITY	P-Z1-KE0-013	2000130007731	Multinational	Multi-Sector	OTHER	28-Sep-11	15.18	ADB	100.00
19	RENF. CAPAC. OPERAT DU SECRETARIAT GENERAL ET DE LA MISE EN	P-Z1-KF0-020	5900155002851	Multinational	Multi-Sector	PILLAR II	29-Dec-11	0.57	FSF	100.00
20	PIDA CAPACITY BUILD. PROJECT INFRAST AUC	P-Z1-KF0-021	2100155026567	Multinational	Multi-Sector	PILLAR II	12-Dec-13	5.00	ADF	99.99
	PIDA CAPACITY BUILD. PROJECT INFRAST AUC		5500155006951	Multinational	Multi-Sector	PILLAR II	12-Dec-13	0.60	MIC	100.00
21	GRANT SUPPORT TO ACBF SMTP III	P-Z1-KF0-036	2100155026866	Multinational	Multi-Sector	PILLAR II	17-Feb-14	3.00	ADF	100.00
22	ASSISTANCE TECHNIQUE ET RENFORCEMENT DES CAPACITES EN GENRE	P-Z1-KF0-046	5900155008751	Multinational	Multi-Sector	OTHER	21-Aug-15	0.69	FSF	79.37
23	MULTINATIONAL - NACALA ROAD CORRIDOR DEVELOPMENT PROJECT PHA	P-Z1-DB0-137	2100150030793	Zambia	Transport	PILLAR I	03-Dec-13	5.00	ADF	52.69
23		23						424.54		

ANNEX 6.1 B: 2016 TO 2019 MULTINATIONAL OPERATIONS (excl LOCs & Equity Funds Related)										
NO	**Code Project**	**Loan Number**	**PROJECT NAME SHORT**	**RI**	**PILLAR**	**Sector**	**COMPANY NAME**	**Approval Date**	**Net Loan (UA million)**	**Disb. Ratio**
1	P-Z1-AAZ-038	2000120004619	EXPORT TRADING COMPANY GROUP - ETG	Y	OTHER	Agriculture	A.D.B.	07/13/2016	96.18	70.27
2	P-Z1-AAZ-050	5700155003251	GROW AFRICA AABE	Y	OTHER	Agriculture	FAPA	05/22/2019	1.00	0.00
3	P-Z1-AZ0-014	2100155040216	POST CYCLONE IDAI EMERGENCY FOR MZ MW ZW	Y	OTHER	Agriculture	A.D.F.	06/05/2019	32.00	70.41
4	P-Z1-D00-045	2100150040496	PROJET D'AMÉNAGEMENT DE CORRIDORS	NO	I	Transport	A.D.F.	11/27/2018	62.38	71.35
5	P-Z1-DB0-202	2100150041793	NACALA ROAD DEVELOMENT PHASE V MALAWI	Y	I	Transport	A.D.F.	06/19/2019	26.60	71.60
6	P-Z1-DB0-225	5150155002952	EAC-REHABILITATION OF SELECTED ROAD-OSBP	Y	I	Transport	NEPAD-IPPF	04/29/2019	0.35	0.00
7	P-Z1-DZ0-024	5150155002751	ANGOLOLO MULTIPURPOSE WATER RESOURCES PR	Y	I	Transport	NEPAD-IPPF	11/02/2018	1.08	13.75
8	P-Z1-EAZ-055	5150155002701	SONGWE RIVER BASIN DVELOPMT PRGR PPP-TAS	Y	OTHER	Water Sup/Sanit	NEPAD-IPPF	05/16/2018	0.36	0.00
9	P-Z1-F00-063	2000130017041	FACILITY FOR ENERGY INCLUSION	Y	I	Power	A.D.B.	12/13/2016	14.46	72.54
10	P-Z1-FA0-164	2100155040366	TEMANE PROJECT-TTP	Y	I	Power	A.D.F.	07/19/2019	23.58	0.00
11	P-Z1-G00-016	2100155032767	50 MILLION AFRICAN WOMEN SPEAK NETWORKIN	Y	OTHER	Communications	A.D.F.	07/15/2016	2.50	43.23
12	P-Z1-GB0-033	5110155000601	DORSALE TRANSSAHARIENNE À FIBRE OPTIQUE	NO	II	Communications	EU-AIP	04/17/2019	23.39	0.00

ANNEX 6.1 B: 2016 TO 2019 MULTINATIONAL OPERATIONS (excl LOCs & Equity Funds Related)										
NO	**Code Project**	**Loan Number**	**PROJECT NAME SHORT**	**RI**	**PILLAR**	**Sector**	**COMPANY NAME**	**Approval Date**	**Net Loan (UA million)**	**Disb. Ratio**
13	P-Z1-K00-096	2100155039967	POST CYCLONE IDAI RECOVERY 2019 ZIMBABWE	NO	OTHER	Multi-Sector	A.D.F.	06/05/2019	17.67	74.07
14	P-Z1-KB0-016	5700155002951	AFREXIM BANK - PROMOTION OF FACTORING	YES	II	Multi-Sector	FAPA	03/22/2018	0.36	0.00
15	P-Z1-KF0-056	5700155003352	INDUSTRIAL POLICY SUPPORT - FAPA	Y	OTHER	Multi-Sector	FAPA	11/13/2018	1.00	0.00
	15	**15**							**302.91**	

Annex 6.2: 2019/2020 Regional Portfolio Improvement Plan

ISSUES IDENTIFIED	RECOMMENDED ACTIONS	RESPONSIBILITY	TIME-LINE	MEASURABLE INDICATORS
PROJECT DESIGN (Quality-at-Entry)				
Some of projects are not underpinned by proper preparation of project. Projects in many cases have numerous components and activities.	Project preparation should be enhanced and supported by the Bank through preparation facilities such as NEPAD and ADF facilities. Project designs should be simplified and ensure fewer components and activities.	Bank/RECs/RMCs	Immediately	Number of projects designed based on recent studies. Appraisal Reports with fewer concise components and activities.
Regional projects being implemented by different countries following different regulatory policies and having different institutional capacities. Lack of ownership for the implementation of Regional projects by participating RMCs.	Harmonization of legal and regulatory policies of RMCs for implementation of Regional projects. Establish Regional Institutions that will focus on Regional Project implementation (Authorities).	Member Countries/RECs/ Bank	Immediately	Number of Regional Institutions for development and implementation of Regional projects established.
Stringent and complex conditions attached to project implementation (conditions	Simplify the conditions for loans and grants. Bank assessment of capacities of RECs and	Bank	Immediately	Number of assessments on capacities of RECs and Regional Institutions undertaken by the Bank.

precedent to entry into force and conditions precedent to first disbursements).	Regional institutions implementing Regional projects. Country Offices to provide regular guidance to implementing agencies/RECs and follow up with them on implementation issues.			
PROJECT IMPLEMENTATION				
FINANCIAL MANAGEMENT PERFORMANCE Late reporting on financial management and audit by implementing agencies.	Provide capacity building support on financial management and reporting to RECs and regional institutions. Organize fiduciary clinics for RECs and Regional Institutions.	Bank SADC/COMESA RMCs	Immediately	Number of capacity building operations support provided. Number of fiduciary clinics organized.
Insufficient knowledge on the Bank's rules and procedures in financial management.	Conduct training sessions on the rules and procedures for the procurement of Goods, Works and Services, and the preparation of realistic procurement plans.	Bank SADC/COMESA RMCs	Immediately	Number of training sessions conducted.
Non-compliance with disbursement rules and procedures.	Establish a checklist of all required documents to be submitted for disbursement	PIUs with the Bank's CPOs' and disbursement officers' support	Immediately	Number of disbursement requests rejected annually

	applications			
PROCUREMENT PERFORMANCE Unfamiliarity with Bank Procurement Rules and Procedures. RECs mentioned failure to use their systems which apparently lead to duplication of reporting and clearance delays High number of small activities to procure during the project implementation (also design issue)	Assess RECs' procurement procedures to determine whether the Bank should authorize them to use their own procedures. The Bank should provide targeted technical assistance to enable RECs and Regional bodies to enhance their procurement procedures to international standards.	Bank SADC/COMESA and other Regional bodies	Immediately	Number of assessments and evaluations made on RECs and Regional Institutions on their procurement procedures and their capacities. Technical Assistance provided to RECs and Regional Institutions on procurement.
COORDINATION OF PROJECTS IMPLEMENTED BY RECs (SADC/COMESA) and RMCs and the Bank Weak and fragmented implementation arrangement of regional projects	Harmonization of implementation of projects and strategies at Regional and National levels, between the Bank and the RECs, and at the level of CSPs and RISPs within the Bank. Enhance dialogue between the RECs and the Bank on the implementation of projects.	Bank/RECs	Immediately	Number of policies and strategies harmonized. Number of projects harmonized between the Bank and the RECs.

COMMUNICATION Effective communication between the Bank and the RECs under the Bank's New Business Delivery Model.	To sensitize RECs on the New Business Development model. .	Bank/RECs	Immediately	Number of meetings between the Bank and RECs on the implementation of the New Business Development Plan.

Annex 6.3: Portfolio Performance

The active portfolio has been plagued with start-up delays. The current portfolio includes 10 operations experiencing signature, effectiveness and first disbursement delays. The average time between approval and effectiveness is 9.4 months, while from approval to first disbursement is 14.3 months. Low disbursement has been a general concern for the regional portfolio with a cumulative disbursement ratio of 54% as at mid-May 2020. Procurement and financial management challenges are still common issues in the regional portfolio, due to weak capacities, lack of good knowledge of Banks' procedures by counterparts, and absence of proper coordination and monitoring mechanisms. However, there has been some progress made by the RECs in reforming their procurement systems.

Regional Projects: Key Regional Portfolio Performance Indicators		
Selected Indicators	**December 2015**	**May 2020**
Active Project (#)	50	207
Portfolio Value (UA Million)	1,600	8.815
Average size of projects (UA million)	48.8	42.6
Average project age (years)	2.1	3.8
Disbursement ratio (%)	65.8	54
Slow disbursing projects (#)	3	20
Projects at Risk (#)	0	4*
Average Time from Approval to Signature	5.8	5.6
Average Time from Approval to Effectiveness for First Disbursement	17	9.4
Average time from approval to actual first disbursement	16.7	14.3
Average time from signature to actual first disbursement	14.8	8.5

***This is made up of 3 Potentially Problematic Projects (PPP) and 1 Problematic Project (PP)**

Annex 7: Donor Mapping

	Energy	**Water**	ICT	Trade & Customs	Food, Agriculture and Natural Resources	Capacity Development	HIV/AIDS	Transport	Cross-Cutting Areas
World Bank	X	X		X	X	X		X	
USAID	X			**X**	**X**	**X**		**X**	**X**
World Trade Organization (WTO)				X	X				
African Development Bank (AfDB	X	X	X	**X**	**X**	**X**		**X**	**X**
European Union (EU	X	X	x	X	X	X	X	X	X
Development Bank of South Africa	x	X	x					**X**	
United Kingdom (DFID)		X		X					X
Canada (CIDA)	X		X	X	X	X		X	
Germany (GTZ)		X	X	**X**	**X**	**X**		**X**	
Sweden (SIDA)					X		X		
Norway (NORAD)									**X**
World Wildlife Foundation WWF									X
China						x		x	
Swiss									X
ITC				x	x				x
JICA	X			X				X	

Annex 8: Comparative Socio-Economic Indicators (available year)

	Year	Southern Africa	Africa	Developing Countries	Developed Countries
Area (000 Km square)	2018	6570	30067	92017	40008
Population (million)	2018	208.5	1286.2	6432.7	1197.2
GDP per capita (current US$)					
Gender-related development index (GDI)	Latest year available				
Population growth (annual %)	2018	2.4	2.5	1.2	0.5
Urban population growth (annual %)	2018	3.3	3.6	2.3	0.7
Population of 65 years and above (as % of total)	2018	3.7	3.5	7.2	18.0
Population ages 15-49, female (million)	2018	52.2	310.4	1631.4	265.9
Life expectancy at birth, total (years)	2018	63.1	63.1	67.1	81.3
Life expectancy at birth, female (years)	2018	65.7	64.9	69.2	83.8
Death rate, crude (per 1,000 people)	2018	8.3	8.3	7.7	8.8
Mortality rate, infant (per 1,000 live births)	2017	41.5	47.7	32.0	4.6
Mortality rate, under 5 (per 1,000)	2017	57.9	68.7	42.8	5.4
Fertility rate, total (births per woman)	2018	3.9	4.4	3.5	1.7
Improved water sources (% of total population with access)	2015	71.7	71.6	89.4	99.5
Improved sanitation facilities (% of population with access)	2015	43.4	39.4	61.5	99.4
Percentage of adults (aged 15-49) living with HIV/AIDS	2017	11.6	3.5	1.1	...
Incidence of tuberculosis (per 100,000 people)	2017	412	226	163	12
Immunization, measles (% of children)	2017	70.7	72.3	84.0	93.7
Food consumption, total calories	Latest year available				
Illiteracy rate, adult total (% of population ages 15 and above)	2010-2017	21.2	35.7	26.9	...
Illiteracy rate, adult male (% of males ages 15 and above)	2010-2017	15.8	23.0	20.9	...
Illiteracy rate, adult female (% of females ages 15 and above)	2010-2017	26.1	38.7	32.8	...
Arable land (as % of land area)	2016	6.1	8.0	11.3	10.4
CO_2 emissions (metric tons per capita)	2014	3.0	1.1	3.5	11.0
Source: AfDB, Statistics Department					

Annex 9: Southern Africa Selected Macroeconomic and Financial Indicators

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Real GDP growth (annual %)	4.4	3.9	4.1	3.5	3.0	1.6	0.6	1.7	1.1
GDP per capita, (constant 2010 Prices, US $)	3,242.1	3,285.9	3,334.4	3,363.8	3,375.9	3,346.5	3,284.7	3,253.6	3,210.4
GDP per capita, (current US$)	3,242.1	3,649.5	3,566.7	3,397.9	3,296.8	2,831.8	2,563.1	2,966.8	2,852.1
Inflation consumer prices (annual %)	6.3	6.8	6.7	6.4	6.3	5.7	11.0	9.2	7.2
Central Government, Fiscal Balance (% of GDP)	-2.9	-1.5	-2.4	-3.0	-4.2	-4.4	-4.1	-4.5	-4.1
Gross capital formation (% of GDP)	21.9	22.0	22.8	23.5	23.7	25.2	22.1	21.7	22.7
Exports of goods and non-factor services (annual % growth)	30.0	24.0	-2.1	-1.1	-5.8	-23.7	-7.2	16.6	8.4
Terms of trade, goods (% change)	13.9	12.5	-0.9	-0.6	-4.0	-9.2	1.0	8.4	-0.3
Total debt service: interest and amortization paid (% of Exports of Goods and services)	86.5	76.2	89.8	96.9	110.6	135.5	166.2	162.5	148.3
Total debt outstanding at year-end (% of GDP)	30.2	28.3	32.8	35.8	39.2	42.6	52.4	50.0	47.5

Source: AfDB, Statistics Department

Annex 10: Southern Africa Regional Vulnerability Assessment and Analysis

Key Figures	
41. 2 Million	Food Insecure
10 Countries	Stunting above 30%
Life expectancy	60.5 years
Population Under 35 Years	76 %
HIV and AIDS	0.10% - 27.2 %

Key Drivers of Fragility

Political: The main political drivers of fragility in the Southern Africa Region are political instability, political patronage, nepotism and politicization of state institutions. The effects of political instability have been depressed domestic and foreign investment, and regional development imbalances. Despite being the least conflict-affected region in Africa, the Southern Africa region has seen some cases of political instability, especially during election cycles that constitute a driver of fragility.

Economic: The main economic drivers of fragility in the Southern Africa Region are public finance mismanagement and a lack of accountability, economic and social infrastructure bottlenecks, resource extraction without intermediate or finished goods processing that limits multiplier effects in African economies, and high debt and low liquidity. These are highlighted below:

Economic and social infrastructure bottlenecks: With the exception of South Africa, most Southern Africa countries possess decaying, costly and inefficient networks of critical economic and social infrastructure (i.e., roads, railways, ports and airports). The dilapidated state and insufficiency of these networks prevent them from exercising full control and authority over their territories. This restricts the level of connectivity of regions within the same country and with other countries, making regional integration more challenging. These limitations reduce domestic, regional and international trade, making it more difficult to integrate with other economies in the SADC/Southern region.

Resource extraction and capital-intensive growth: The Southern Africa region is home to several mineral-rich countries, which have experienced high economic growth rates in recent years. However, the pattern of growth has been one that has not led to significant reduction of poverty and unemployment. This is because the major driver of that growth has been the mining and energy sectors that export raw materials without processing or additional value-added being done in Africa. Therefore, the investments made in these activities fail to create economic linkages, thereby limiting the benefits of these activities to African economies. Part of the explanation lies in the rent-seeking behaviour of ruling elites that shape industrial development policies in such a way that reliance on foreign capital-intensive mega-projects with limited or no linkages to the rest of the domestic or regional economy becomes a central component of their growth strategies.

High debt and liquidity crisis: In recent years, public and external debt in many countries across Africa have increased, especially in resource-rich countries. The current downturn in global markets has exposed the risks of this leverage in many markets, which have become a driver of fragility. In other markets like Zimbabwe where failed policies and sanctions have ruined the economy, debt and arrears prevent the country from accessing new sources of financing, further increasing the country's risk profile. In Zambia, Mozambique and Angola, debt has risen while falling prices of their main export commodities (i.e., copper and oil) have reduced liquidity. As these countries pursue expansionary borrowing for infrastructure investment, debt service adds to pressures when most households and businesses are reeling from COVID-19. The countries are implementing macroeconomic reforms or austerity measures to address the problem.

Social: Common social drivers of fragility in Southern Africa include (i) repressed and fragmented social dialogue, (ii) rising income inequality, and (iii) land access and ownership problems. Indeed, land remains one of the most contentious issues around poverty, inequality and natural resource governance in countries such as Namibia, South Africa and Zimbabwe. One social driver of social fragility in some countries is fragmented dialogue between governments and stakeholders. The effect of this is the danger of lack of ownership, delays in ratification of policies, or sabotage in their implementation. Widening income inequality is also a potential source of social and political instability, and a potential deterrent for full engagement and profitable participation of the countries in regional and international trade. This is because falling incomes of the majority of consumers means declining purchasing power, including for imports, thereby jeopardizing potential gains from trade in the region.

In Zimbabwe and South Africa, land access and ownership are at the heart of some of the observed tensions and frictions among different social groups. In Lesotho, land ownership is a driver of fragility as it still underpins the power struggle between traditional chiefs and local government over land management. It is also a driver of fragility in rural areas, despite enactment of the 2010 Land Act which provides for equality between men and women in land access and rights. Informally, there are frictions between women, orphan children and their male-relatives over land inheritance. The land issue has implications for investment decision and resulting trade patterns.

***Environmental and climate change fragility*:** The main environmental drivers of fragility include exposure to extreme weather conditions and limited institutional disaster prevention and management capacity. In many instances such environmental pressures are exacerbated by demography and migration or population displacement. Some countries (e.g., Lesotho, Madagascar, Malawi, Mozambique, and Zimbabwe) are exposed to cyclical extreme and erratic weather events. For some countries, particularly island states and coastal countries, rising sea levels and natural hazards are adversely impacting port infrastructure, logistics and food prices. Cyclones and floods have severely impacted crop harvests as well as tourism in several of the countries, a critical sector for job creation and foreign exchange earnings. Preparedness and resilience to climate change remains critically limited. On account of those limitations, these countries experience falling productivity of soils, episodes and pockets of food insecurity, destruction of infrastructure, and disruption in the provision of public goods. The manifestation of these weather events often leads to reduced output growth and disruptions of trade flows. Given that most of the economies in the SADC depend on agricultural commodities and exports, the implication of these weather events is a cyclical limitation to effectively engage in international trade. Based on this, countries in the region are working together to put in place a disaster preparedness mechanism, which could held RMCs mitigate the risk.

***Regional spillover effects of fragility*:** Some of the drivers of fragility in Southern Africa have significant regional spillover effects. These include armed conflicts and political tensions, migration, economic crisis, extreme weather events and natural disasters, natural resource management challenges, and infrastructure bottlenecks. As one example, the economic crisis in Zimbabwe has had regional impacts, manifested through emigration and skills exodus to neighbouring countries. Regional conflicts also affect international trade corridors and linkages, especially for landlocked countries.

Recommendations for the NEW SA-RISP 2020-2026

1. Bank support to the Southern Africa region in line with the two strategic areas of focus: *Infrastructure connectivity* and *Market integration & industrialization*. This will be done through alignment of investments with regional priorities.
2. Develop resilience-building initiatives, including employment creation for youth, women and rural populations, incorporating climate smart technologies for industrialization.

Annex 11: ANALYTICAL NOTE ON CLIMATE CHANGE

1. Contextual Analysis

1.1 Context of vulnerability to climate change

Climate variability and extreme events (floods, droughts, coastal storms /cyclones, and disasters[38]) have had significant impact on the economies in the region.[39] The direct impacts have included (i) damage and loss of public and private assets (e.g., impact of cyclone Idai in 2019); (ii) damage and degradation of ecosystems and ecosystem services – agricultural land, fresh water sources; (iii) reduced output from key sectors - food, energy, water; increase in the outbreak of diseases (e.g., malaria, cholera); and (iv) impact on growth (reduced trade and public revenues). Climate change threatens to weaken efforts to reduce poverty and achieve SDGs. Urban and rural communities persistently experience the consequences of climate change through (i) loss of income sources (wage employment, agriculture, fishing and livestock); (ii) loss of subsistence sources of food (crops, natural resource-based food products), leading to food insecurity; (iii) loss of services from damage and degradation (e.g., water, energy, sanitation, education, health); (iv) increase in infant and child mortality, and changes in school attendance; and (v) increased vulnerability through asset loss and erosion.

While the region boasts a variety of ecosystems, natural resources, economic activities and cultures, it is also characterized by rapid population growth, urbanization of coastal areas, encroachment into ecologically marginal areas, and poverty. The primary source of income for the region's rural population remains agriculture, much of it rain-fed and allocated to cereal production (maize). Other natural resource-based rural economic activities include fisheries, forestry and tourism. The region's uneven distribution of resources and changing climate dynamics pose significant challenges as well as considerable opportunities for cooperation across the countries of Southern Africa.

1.2 Status of economy-wide emissions

GHG emissions from RDGS countries are primarily from the energy, land-use change and forestry (LUCF), and agriculture sectors. At the regional level, energy is the highest emitting sector (544 MtCO2e), followed by LUCF (255 MtCO2e) and then agriculture (166 MtCO2e). GHG emissions from waste and industrial processes are relatively insignificant. Although energy is the region's highest GHG emitting sector, it is the leading source of emissions in mainly two countries, South Africa and Angola. The countries with the highest LUCF emissions are Zambia, Angola, Zimbabwe, Mozambique and Madagascar. The countries with the highest agriculture emissions are Angola, South Africa, Madagascar, Zambia, Mozambique, Botswana and Zimbabwe.

South Africa has the highest total greenhouse gas (GHG) emissions, followed by Angola, Zambia, Zimbabwe, Mozambique, Madagascar, Botswana, Namibia, Malawi, Swaziland, and Lesotho. The region's emissions represent nearly 2.2% of global emissions and no country is responsible

[38] Climate risk and hazards do not always cause disasters; it is the combination of an exposed, vulnerable and ill-prepared system (country, institution, community, household, and ecosystem) with a hazard event that results in a disaster (IPCC, 2007).
[39] https://www.uneca.org/sites/default/files/PublicationFiles/climate-change-and-the-rural-economy-in-southern-africa.pdf

for more than 1%[40] of global emissions.

1.3 Commitment to the Paris Agreement

All countries in the region submitted nationally determined contributions (NDCs) to the Paris Agreement. The commitments are summarized in the table below. Most commitments are conditional upon the provision of means of implementation (finance, technology, capacity building). The Green Climate Fund is the main source of concessionary and grant financing for climate action.

	Vulnerability and readiness ranking (ND - Gain 2017)[41]	**NDC Adaptation priority sectors**	**NDC Mitigation target**
Angola	It has both a great need for investment and innovations to improve readiness and a great urgency for action. Angola is the 45th most vulnerable country and the 16th least ready country.	• Agriculture • Coastal Zone • Land-Use, Forests, Ecosystems and Biodiversity • Water resources • Health	Unconditional – Reduce GHG emissions by up to 35% relative to the business-as-usual (BAU) scenario. Conditional – Reduce emissions by an additional 15% below the BAU scenario by 2030. Sectors: • Electric power generation from renewable energy sources (8,491 Megawatts of potential wind, solar, biomass, and hydroelectric projects are identified) • Reforestation • Non-targeted activities (reducing emissions from the production of charcoal, promoting the use of biofuels, and avoiding deforestation)
Botswana	It is on the road to responding effectively to climate change, but the adaptation needs and urgency to act are greater. Botswana is the 66th most vulnerable country and the 81st most ready country.	• Agriculture • Health • Water	Reduce GHG emissions by 15% by 2030 from 2010 base year. 2010 base year emissions are estimated to be 8,307 Gigagrams of CO_2e. Sector: • Energy (stationary and mobile sources) • Waste • Agriculture (livestock)
Eswatini	It has both a great need for	• Agriculture • Ecosystems and	Conditional – Eswatini's mitigation contribution is framed as an action-

[40] WRI 2012 estimates.
[41] ND Gain index assesses vulnerability (exposure, sensitivity and ability to adapt to the negative impact of climate change) and readiness (ability to leverage investments and convert them to adaptation actions).

	investment and innovations to improve readiness and a great urgency for action. Eswatini is the 32nd most vulnerable country and the 74th least ready country.	Biodiversity • Water resources • Health	based approach that includes national level action, actions in the energy sector to double the share of renewable energy, introducing the commercial use of a 10% ethanol blend in petrol by 2030, and the phase-out of the use of hydrofluorocarbons, perfluorocarbons, and sulphur hexafluoride gases. Ambition framed on an action-based approach: • Development of a national GHG inventory: a baseline and emissions trajectory; and a monitoring, reporting, and verification (MRV) system at the national level • GHG emissions reductions in the energy sector • GHG emissions reductions in the transport sector • Substitutes for ozone depleting substances (ODS)
Lesotho	It has both a great need for investment and innovations to improve readiness and a great urgency for action. Lesotho is the 49th most vulnerable country and the 55th least ready country.	• Agriculture • Ecosystems and Biodiversity • Water resources •	Unconditional – Reduce GHG emissions by 10% by 2030 compared to the BAU scenario. Conditional – Reduce GHG emissions by 35% by 2030. Sectors: • Energy efficiency and demand management • Increased investment in renewable energy in the electricity generation, buildings, and waste sectors
Madagascar	It has both a great need for investment and innovations to improve readiness and a great urgency for action. Madagascar is the 13th most vulnerable country and the 22nd least ready country.	• Agriculture • Coastal Zone • Land-Use, Forests, Ecosystems and Biodiversity • Water resources • Health	Conditional – Reduce GHG emissions by 14% (approximately 30 MtCO2) in 2030 compared to the BAU scenario. Additionally, enhanced removals from land use, land-use change and forestry (LULUCF) by 32% (estimated at 61 MtCO2) in 2030 compared to the BAU scenario. Sectors: Energy • Agriculture • LULUCF (diversified reforestation program) • Waste
Malawi	It has both a great need for	• Agriculture (crops, livestock,	The INDC identifies unconditional and conditional actions that

	investment and innovations to improve readiness and a great urgency for action. Malawi is the 31st most vulnerable country and the 26th least ready country.	fisheries) • Water resources • Health • Infrastructure • Land-use planning • Transport • Population and human settlements • Disaster risk management • Forestry • Wildlife • Energy • Gender	combined could reduce per capita emissions from 1.4 tCO2e in 2010 to 0.7 – 0.8 tCO2e in 2030 compared to a BAU of 1.5 tCO2e per capita in 2030. Sectors: Forestry • Agriculture • Energy
Mauritius	Adaptation challenges still exist, but Mauritius is well positioned to adapt. Mauritius is the 81st most vulnerable country and the 37th most ready country.	• Agriculture • Coastal Zone • Land-Use, Forests, Ecosystems and Biodiversity • Water resources • Health • Infrastructure • Disaster Risk Reduction	Abate its greenhouse gas emissions by 30% by the year 2030, relative to the business as usual scenario of 7 million metric tonnes CO2equivalent.
Mozambique	It has both a great need for investment and innovations to improve readiness and a great urgency for action. Mozambique is the 39th most vulnerable country and the 24th least ready country.	• Agriculture • Coastal Zone • Land-Use, Forests, Ecosystems and Biodiversity • Water resources • Health • Infrastructure • Disaster Risk Reduction	Conditional – Reduce approximately 76.5 MtCO2e in the period from 2020 to 2030, with 23.0 MtCO2e by 2026 and 53.4 MtCO2e from 2025 to 2030. The INDC does not specify whether reductions will be relative to a BAU scenario or baseline year. Sector: Energy • Waste • Potential actions in the industry and agriculture sectors
Namibia	It is on the road to responding effectively to climate change, but the adaptation needs and urgency to act are greater. Namibia is the 54th most vulnerable country	• Agriculture •Ecosystems and Biodiversity • Water resources • Infrastructure	Unconditional – Emissions avoided unconditionally by Namibia prior to 2010 are included in the BAU scenario. This unconditional share will represent about 10% (2,000 Gg CO2e) of the mitigation potential when taking into consideration implemented and planned measures up to 2030. Conditional – Reduction of 89% of its GHG emissions

	and the 91st most ready country.		(20,000 Gg CO2e inclusive of sequestration in the agriculture forestry and other land use (AFOLU) sector) by around 2030 compared to the BAU scenario. Sectors: Economy-wide emission reductions - • AFOLU (major contributor) • Energy • Industrial processes and product use (IPPU) o Waste
Sao Tome & Principe	It has both a great need for investment and innovations to improve readiness and a great urgency for action. Sao Tome & Principe is the 62nd most vulnerable country and the 63rd least ready country.	• Agriculture •Ecosystems and Biodiversity • Infrastructure	Conditional: Specific measures identified: •Isolated Mini Power plant (1 MW) •Hydro Power plant connected to the main network (9 MW) •Photovoltaic solar panels (12 MW) •Mini-hydro Power plant connected to the main grid (4 MW).
South Africa	Adaptation challenges still exist, but South Africa is well positioned to adapt. South Africa is the 74th least vulnerable country and the 94th least ready country.	• Water • Agriculture • Forestry • Energy • Settlements • Biodiversity • Disaster Risk Reduction	"Peak, Plateau, and Decline trajectory" capping emissions by 2025 and 2030 to a range between 398 MtCO2e-614 MtCO2e. Sectors: Economy-wide emission reductions - •Energy • IPPU •Waste • AFOLU
Zambia	It has both a great need for investment and innovations to improve readiness and a great urgency for action. Zambia is the 37th most vulnerable country and the 59th least ready country.	• Agriculture • Water • Forestry• Energy, • Wildlife • Infrastructure • Health	Unconditional – Reduce emissions by 25% (20,000 Gigagrams) by 2030 compared to 2010 base year emission levels. Conditional – Reduce emissions by 47% (38,000 Gigagrams) compared to 2010 base year emission levels. Action based approach: Sustainable forest management • Sustainable agriculture • Renewable energy and energy efficiency programs
Zimbabwe	It has both a great need for	• Agriculture • Ecosystems and	Conditional – Energy emissions per capita by 2030 that are 33% below

	investment and innovations to improve readiness and a great urgency for action. Zimbabwe is the 34th most vulnerable country and the 10th least ready country.	Biodiversity • Water resources • Disaster Risk Reduction	the projected BAU level. Sector: Energy

1.4 Regional policy environment

The Southern African Development Community (SADC) had developed a number of policy and strategic documents on climate change and green growth: (i) *SADC Policy Paper on Climate Change*; (ii) SADC Climate Change Strategy and Action Plan (under review since early 2019); and (iii) Climate Change Resource Mobilization Strategy (under development). The region has also developed sector-specific strategies (e.g., water, forestry).

2. Achievements, constraints and challenges

At the national level countries have made significant strides to improve the enabling environment for climate action (e.g., Articulation of NDC, institutional arrangements for national level coordination). The country making the most progress is South Africa, having recently approved the Climate Change Bill (2019) and the Sustainable Transport Sector Strategy (2018); South Africa is currently articulating its 2050 Low Emissions Development Strategy. The challenges being experienced that cut across most countries include capacity, institutional governance, and tools and associated methodologies.

Capacity constraints	**Institutional governance constraints**	**Lack of tools and methodologies**
• Capacity to access climate finance • Capacity to implement mitigation and adaptation action • Capacity to mobilize resources for NDC implementation • Capacity to identify and design bankable climate smart projects • Lack of capacity to coordinate and effectively implement of Ministries of Planning and Finance	• MRV systems • Data collection, access, interpretation and management • Update of NDCs and drafting of NDC implementation plans/strategies • Reporting challenges – mitigation/adaptation/finance	• Tracking climate finance • Guidelines to assess resource needs / common definition of climate finance • Guideline to align NDC priorities with national development processes at all levels. • Modelling tools

3. Progress and achievements

Since 2011 the Bank has supported the implementation of a number of national climate change initiatives, but only a limited number of regional projects. The regional projects supported include (i) Strengthening Transboundary Cooperation and Integrated Natural Resources Management in the Songwe River Basin (Tanzania and Malawi) with GEF resources of US$ 6.4 million; and (ii) Climate Information Services for Disaster Resilience Development Programme supported by the Climdev Special Fund with Euro 3.4 million, implemented by SADC Climate Services.

4. Recommendations and potential Bank response

The Bank has set ambitious targets (2016-2020) but also intends to be more ambitious in 2021-2025 concerning support for NDC implementation and the mobilization of external climate finance. In this regard, all new investments that will be implemented under the new RISP will need to demonstrate alignment with NDC priorities and prioritize the mobilization of external climate finance. The following targets are proposed for the RISP framework:

- 100% of projects and programmes implemented with climate-informed design (adaptation, mitigation activities and measures). As a practical first step, feasibility and Environmental Sustainability studies need to investigate potential climate impacts;
- 100% of project and programmes aligned with national NDC priorities;
- At least 40% of Bank-financed investment attributed as climate finance according to joint MDB methodology; and
- At least 10% of portfolio investment-equivalent sourced from external climate finance (from outside the Bank).

Climate finance provides an opportunity to leverage Bank financing through blended finance approaches – the GCF is the main source of climate financing, and the Bank has been accredited to finance projects with costs exceeding US$250 million. In addition, opportunities exist to enhance the capacity of SADC countries to access climate finance for both national and regional interventions – a proposal to the KOAFFEC Fund will be prepared in 2020.

Annex 12: Risks and Mitigation Measures

	Risks	Mitigation Measures
i	Regional fragility and political economy challenges.	Continued SADC and COMESA initiatives and dialogue at the political level.
ii	Lack of coherence and commitment to regional operations by countries.	Ensure complementarity between CSPs and RISPs as well as between national and regional priorities and financing.
iii	Inadequate financing for large-scale regional infrastructure operations.	Broader co-financing with private sector, PPPs and other partners including sovereign wealth, equity, and pension funds.
iv	Weak capacity of RECs and country-level institutions leading to poor portfolio.	Continue capacity building and pay attention to quality at entry to strengthen regional portfolio performance.
v	Vulnerability to climate change which may affect operations in various sectors	Include climate adaptation and mitigation measures in regional operations design.
vi	Limited participation by private sector and civil society.	Enhance Bank's dialogue with the private sector and CSOs during project preparation and implementation stages.
vii	Energy deficit and concentration of power generation dependency on a few countries such as South Africa.	Expansion and geographic diversification of generation including from wind and solar as well as increased power trade through SAPP.
viii	Rising indebtedness from expanded borrowing to finance infrastructure.	Encourage countries to access softer terms including low-cost ADB financing for MICs.

Annex 13: Regional Integration Projects implemented by the REC (SADC Secretariat)

Project 1: African Peer Review Mechanism Institutional Support Project (APRM-ISP)

The objective of the project is to support the APRM in its effort to promote, consolidate and improve the quality of governance in Africa by disseminating lessons learned and best practices and rectifying underlying deficiencies in governance in African countries.

The project, which was approved in 2018, will close in 2022. Once implemented, the project is expected to contribute to the consolidation of good governance and improvement of the quality of governance in Africa, which is critical to the economic transformation of Africa and the realization of the TYS and the High 5s. Improved governance linked to better macroeconomic management translates into better economic performance, higher growth rates, more jobs and improved quality of life. Economic and corporate governance improvements will improve the business environment, increase investor confidence, attract investments, and improve economic performance, hence benefiting the people of Africa.

Project 2: Sustainable Financing of Regional Infrastructure and Industrial Projects in SADC – UA 1.5 million project

The project was approved in 2019 and will close in 2021. The key objective of the project is to support sustainable financing of regional infrastructure and industrial projects in the SADC Region. The specific objectives include: (i) establishment of a financing mechanism for regional projects including financial instruments; (ii) prioritizing and developing regional infrastructure projects; (iii) developing regional value chains in the mining subsectors of copper and cobalt; and (iv) capacity building in the development of infrastructure and industrial projects.

Once completed, the project is expected to (i) increase number of priority regional infrastructure projects prepared to reach financial close; (ii) enhance the capacity of SADC countries to prepare and implement regional infrastructure projects; (iii) increase value-added within SADC in copper and cobalt mining, leading to an increase in its share of intermediate processing and contributing to regional economies, job creation and incomes.

Annex 14: SADC Macroeconomic Convergence Programme

Important milestones in terms of strengthening SADC's regional integration agenda include macroeconomic convergence. The Memorandum of Understanding on Macroeconomic Convergence that was signed in 2002, and is annexed to the Protocol on Finance and Investment signed in 2006, stipulates that member States should converge and cooperate on economic policies to promote stability and economic growth. Furthermore, the SADC Protocol on Finance and Investment came into force in 2010 to foster harmonisation of the financial and investment policies of member States to make them consistent with objectives of SADC and ensure that any changes to financial and investment policies in one member State do not necessitate undesirable adjustments in other member States' investment policies and laws.

In the RISDP, SADC Member States agree to restrict inflation to stable levels, maintain prudent fiscal stances with minimal deficits, maintain sustainable balances in current accounts, and minimize market distortions. More precisely, SADC has set itself macroeconomic convergence benchmarks of 3-7 per cent range of inflation rate, a budget balance deficit of 3 per cent as an anchor within a band of 1 per cent of GDP, public debt less than 60 per cent of GDP, import cover to be not less than 3 months and a GDP growth not less than 7 per cent. These benchmarks are used to assess macroeconomic convergence for member States.

To monitor the implementation of the macroeconomic convergence programme, SADC established a Macroeconomic Convergence Surveillance Mechanism in 2013 and a Peer Review Panel comprising Ministers of Finance and Central Bank Governors from SADC Member States to monitor implementation of the programme. Member States peer review each against the indicators and set targets. The first round of peer review was launched in 2013 and ended in 2019. The second round was launched in July 2019 and will end after four years.

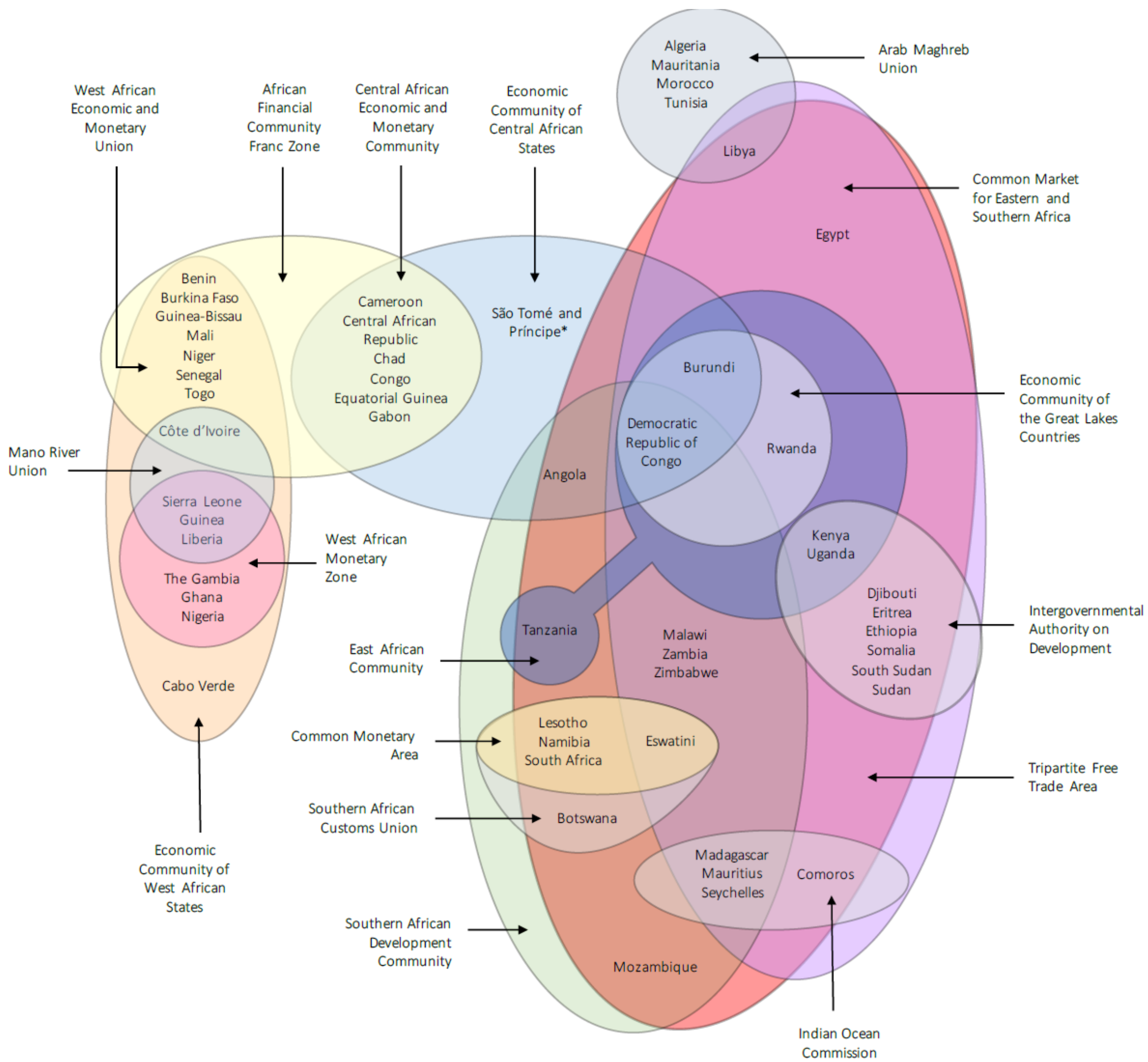
Generally, Member States' performance against the macroeconomic convergence set targets was satisfactory prior to the financial and economic crisis of 2008-09. Since the financial and economic crisis, performance against set targets has been problematic as indicated with worsening fiscal deficits and rising public debt. The weak economic global recovery as a result of the financial and economic crisis of 2008-09 as well as climate-related factors such as droughts and floods have been the main factors behind the unsatisfactory performance. With the current COVID-19 pandemic, performance against the targets in the short to medium term is going to be problematic with rising debts being expected.

In support of this initiative, the Bank has proposed a programme for Coordination on Macroeconomic Stability and Financial Market Development. A key component of this project includes Macroeconomic Convergence - Support and enhance the programme on macroeconomic stability and convergence. Currently strong variations in levels of macroeconomic stability between countries, as reflected in variations in inflation rates, public debt levels, current accounts and government debts limit cross-border and foreign investment within the region. Therefore, the aim of this project is to:

- Strengthening tools to monitor progress in convergence. This will include the rationalization of definitions (notably by preparing guidelines for convergence programmes) as well as the setting up a common web-based database to follow the progress achieved by member states in this area.

- Capacity building for analysts, assistance in preparing annual peer reviews, and formulation of Member States' macroeconomic convergence plans.
- Support the SADC Secretariat's Macroeconomic Monitoring, Surveillance and Performance Unit (MSPU) by enhancing its capacity.
- Assist Member states in harmonizing their statistics for peer review purposes.
- Assist RMCs to improve their governance on macroeconomic issues, which include management of debt, fiscal balances and inflation.

Annex 15: Regional Arrangements in Africa and Southern Africa in Particular



Source: Adapted from *Economic Integration in Africa*, Figure 3.1, www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/2019AEO/AEO_2019-EN-CHAP3.pdf.

Annex 16: Financing Mix to be Deployed by the Bank and RMCs

4.1 Introduction

African Development Bank can effectively contribute to financing regional infrastructure and industrial projects using available instruments currently at its disposal. Key among these instruments include:

4.4.1 Debt Instruments

Even though the resources currently available in the region from financial transactions, imports, pension and insurance funds are relatively huge, only a small percentage of these resources is currently invested in the region. The reason for this is partly due to lack of financial instruments which can be used to mobilise resources for regional projects. Thus, with assistance from Bank, the following debt instruments can be used by Southern African RMCs to immediately tap into these resources.[42]

4.4.1.1 Infrastructure Bond

Infrastructure bonds (IBs) are borrowings made by the private sector for investment/finance of public infrastructure projects. IBs are normally subject to concession contracts with the public sector (PPP) whereby, financing is through project finance. Consideration of IBs usually requires public guarantees. Provisions of public guarantees may allude to aspects such as concessions (PPP) being a substitute of debt financing as well as concessions contracts that involve provision of public guarantees, among others. However, IBs remain rare because (i) project finance (PF) is relatively new concept for many African sovereigns and markets, (ii) design of concession contracts is a challenge due to limited expertise, and (iii) the level of development of the capital markets is low.

For the issuance of infrastructure bonds to be successful, the following reforms need to be undertaken: (i) fiscal and monetary policies need to be stabilized; (ii) public securities markets should be put in place; (iii) citizens need incentives to contribute into pension and insurance schemes; (iv) infrastructure and industrial projects need to become a policy priority; and (v) bankable projects need to be identified so that appropriate bond instruments that are suitable for such project financing can be designed.

4.4.1.2 Sovereign Bonds

A sovereign bond is a debt security issued by a national government to fund infrastructure or industrial projects. Sovereign bonds can be denominated in a foreign currency or the government's own domestic currency. The ability to issue bonds denominated in domestic currency tends to be a luxury that most African governments do not have, the less stable a currency denomination, the greater the risk the bondholder faces.

While a number of sovereign bonds have been issued by African countries, there has been no coordinated and concerted strategy to obtain the best terms and conditions from international markets. Ways of attaining this should be explored with the assistance from MDBs and AfDB in

[42] RMCs will be required to identify the projects on which specific financial instruments can be developed. For instance, infrastructure bonds.

particular. A unified approach to issuing sovereign bonds in international markets is likely to assist Africa to achieve (i) a better risk profile; (ii) improved pricing; (iii) longer maturities; (iv) wider distribution of the paper; (v) lower financing costs; and (vi) larger volumes.

To this end, important technical and operational considerations need to be considered for successful issuance of a sovereign bond. Given these prerequisites, it will take time - at least one year to issue a first-time bond, if all advisable best practice processes are followed.[43] The following steps can help build favourable terms and avoid excessive issuance costs. The issuer should (i) select legal and financial advisers and lead managers with an established presence in the targeted markets and investors' bases; (ii) ensure that the process of receiving a sovereign rating is completed as a basis for guiding financial markets in pricing the bond; and (iii) conduct road shows in key markets as part of a broad campaign to build a wide investor base and a robust demand book. The financial characteristics of the sovereign bond instruments could also contribute to mitigating the potential risks involved.

4.4.2 Syndicated loans

A syndicated loan consists of a structure in which a financial institution exercises leadership in a credit operation and brings together a group of banks and/or other institutions to respond to the needs of a client under the umbrella of a single loan. The participants of a co-financing arrangement can agree on common financial conditions (joint financing) or structure the loans independently (parallel financing).

Syndicated loans can be attractive to co-lenders and participants because painstaking administrative tasks, such as servicing responsibilities, fall on the lead lender. Additionally, co-lenders and participants are able to invest in loans without the burden of the administration required to originate the loan on their own. This also allows lenders to invest in transactions too large for them to take on by themselves. Also, co-lending and loan participations allow a small lender to take advantage of a larger lender's expertise and gain access to a new market.

However, loan participations pose risks that may not have been initially apparent to a participant. While loan participations may pose an economic benefit to a lender, the lender must be aware of pitfalls associated with such an arrangement. Proper due diligence and selection of a financially secure lead are crucial factors in any decision to participate or co-lend. Typically, in a participation arrangement, the participant does not have a direct claim against the underlying borrower. Rather, the participant only has a contractual relationship with the lead lender, which can be established and circumscribed by the terms of the agreement. Thus, the participant may be at risk in the event the lead leader becomes insolvent unless the participation agreement has been properly prepared for this risk. A court will consider whether the participant purchased an undivided interest in the loan in a "true sale" or whether the participation is really a disguised loan. If it is a true sale, was the participation interest purchased subject to the security interest in favour of the lead lender's secured lender?

Under A/B syndicated loan structure, an MDB may offer the A portion of the loan from its own resources, and another or several other financial institutions provide the B loans. The development bank holding the A loan is the Lender of Record and acts as Administrative Agent for the entire

[43] For an in-depth description of operational issues, see Das, Papaioannou, and Polan (2008a, 2008b, and 2011) and Pedras (2012).

facility. MDBs usually enjoy special privileges granted by their shareholder governments, such as immunity from withholding taxes and preferred creditor status, which helps mitigate transfer and convertibility risk. Financial institutions participating as B Lenders benefit from the same status. This reduced risk translates into lower borrowing costs for all participants. The A/B structure can help attract new financing partners, particularly commercial banks, to private sector infrastructure projects in non-investment grade countries and promote longer borrowing tenors.

4.4.3 Credit Guarantees

A guarantee is an undertaking by a third party (guarantor) to fulfil the obligations of a borrower to a lender under an agreement, in the event of non-performance or default by the borrower of its obligations under the agreement. The underlying causes of default are defined *ex ante* as either commercial or political risks. These guarantees can be applied to many different types of infrastructure and industrial projects, and come in two main forms, but in general are tailored to meet the requirements of specific projects:

- Full credit guarantees (FCG) (wrap guarantee) cover the entire amount of debt service in the event of default, or the entire value of specific tranches of debt. Such guarantees are useful to increase the credit quality of a project's debt financing package; and

- Partial credit guarantees (PCG) may cover a portion of debt service, up to a certain predetermined amount, or certain targeted instruments in the capital structure of a project Special Purpose Vehicle. Also called *pari-passu* guarantees, private lenders and public-sector guarantors share in credit losses up to the amount guaranteed. Partial coverage promotes risk sharing and can reduce moral hazard.

Advantages of credit guarantees include reduction of investment risk for third party investors, low management costs, and access to new resources with reduced risk to lenders. Despite these advantages, credit guarantees also pose challenges such as complex administration for recovery of assets in the event of default.

Guarantee mechanisms can be set up in a number of different ways, involving direct commitments from public budgets or through a separate guarantee fund. Commitments in turn can be funded or unfunded. The extent to which the public entity guarantees repayment can also vary. While PCGs only cover a limited amount of debt, an FCG or wrap guarantees all debt commitments. Both these guarantees can be useful in mitigating refinancing risks, covering bullet payments at maturity. They may also be useful to help extend maturities of issues, or to help project companies raise debt through market channels such as project bonds. To the extent that revenue streams are not completely smooth, and that forecasting long-dated cash flows can be difficult, guarantees can help to mitigate these risks. Furthermore, governments or MDBs can also provide standby letters of credit.

4.4.4 Equity

Equity finance refers to all financial resources that are provided to a project for an ownership interest. Investors may sell their shares in the project, if a market exists, or they may get a share of the proceeds if the asset is sold. They are crucial in the financing of infrastructure and industrial investments as the providers of risk capital to initiate a project or refinancing. Listed shares are indirect participation rights in corporations, projects and other entities; some investors hold minority positions with limited ability to influence management. Unlisted shares often confer direct ownership, control, and operation of the corporate entity or project asset due to concentrated shareholder positions and closer ties to managers.

Some key advantages of equity have been identified in the literature and include (i) suitable form of financing for projects that have high growth potential but lack cash inflows necessary to borrow from conventional creditors (e.g., banks); (ii) because it does not have to be repaid, equity financing provides capital needed to bring a concept to market to be able to then generate cash flows that will lead to pay-out for investors; and (iii) external investors may also bring considerable skills, experience and contacts that can support the development of projects and/or round out management and operational weaknesses that exist prior to the investment. An additional benefit of equity is that is adds to the capitalization of the firm, which may then be pivotal in bringing in other forms of non-equity financing (e.g., bank loans, bond issuances, subordinated debt, hybrid instruments).

Despite these advantages, there are also disadvantages to using equity instruments. These can include (i) heavy dilution of original ownership stakes, reducing the returns of the original investors in favour of others who came into the venture at a later stage; (ii) loss of control by the original management team, as new investors may want to asset influence to ensure their investment is protected and optimized; and (iii) equity investors often ask for too much of the burden to be assumed by creditors or others with limited up-side for them, such as the requirement of sovereign guarantees and/or legal provisions in contracts that provide equity investors with protections that may drain dividend income without retaining earnings for long-term growth, or trigger moral hazard and other forms of behaviour that can leave behind losses and costs to sovereigns, creditors and other (preferred) shareholders.

4.4.5 Public Private Partnerships

A PPP is a long-term contractual arrangement for the delivery of public services where there is a significant degree of risk sharing between the public and private sectors. Thus, a contract wherein both the public and private sectors have a significant stake, and consequently share the risks in delivering the infrastructure services, is a PPP.

Governments and MDBs around the world have used PPPs because the PPP concept has significant advantages for resource mobilisation. These include (i) producing required returns for investors and, thus, attracting both domestic and international resources; (ii) relieving the treasury from obligating resources for capital expenditure (thus releasing tax revenues to other economic and social sectors); and (iii) reducing the funding gap for infrastructure development.

Despite these benefits, PPPs can only be effectively achieved if the project is properly designed and structured from the outset. In addition, there are very few PPP projects announced in Africa that have reached the implementation stage. The reasons for this limited success of PPPs in Africa is partly due to insufficient policy and legislative frameworks, insufficient knowledge on how to design and prepare bankable PPP projects, and at times the lack of sufficient government support or incentives.

Although PPPs may not be a panacea, they can substantially complement DRM for infrastructure development. Regardless of the PPP structure employed, what is important for Africa is to achieve infrastructure rollout. Given the colossal sums required for infrastructure development, the best way of funding PPPs is through “project finance

4.4.6 Regional Development Fund

Southern Africa’s large infrastructure deficit hinders intra-regional trade. As indicated in the preceding paragraphs, infrastructure financing can be supported by maximizing the use of public–private partnerships and tapping into national resources using regional development funds and innovative financing tools. Thus, financing of the IOP will also be facilitated by the current ongoing support to SADC to operationalise the Regional Development Fund with estimated authorised capital of US$12 billion.