AFRICAN DEVELOPMENT
BANK GROUP

ADB GROUP REGIONAL INTEGRATION STRATEGY, 2009-2012

8 FEBRUARY 2009

TABLE OF CONTENTS

		Page
	LIST OF ABBREVIATIONS...	**ii**
	EXECUTIVE SUMMARY…...	**iii**
I	**BACKGROUND**...	**1**
1.	**INTRODUCTION**..	**1**
2.	**OPPORTUNITIES AND CHALLENGES TO REGIONAL INTEGRATION IN AFRICA**...	**2**
2.1	Opportunities..	2
2.2	Challenges..	2
3.	**EXPERIENCE OF ADB GROUP AND DEVELOPMENT PARTNERS IN SUPPORTING REGIONAL INTEGRATION**...	**4**
3.1	Overview...	4
3.2	ADB Group Experience..	4
3.3	Focus of Development Partners...	5
3.4	Lessons Learned and Implementation Issues...	7
II	**STRATEGY**...	**8**
4.	**OUTLINE OF NEW ADB GROUP STRATEGY**..	**8**
4.1	Objectives...	8
4.2	Outcomes..	8
4.3	Guiding Principles..	8
5.	**PILLARS OF THE STRATEGY**...	**9**
5.1	Strategic Pillars..	9
5.2	Pillar 1: Regional Infrastructure..	9
5.3	Pillar 2: Institutional Capacity Building...............................	11
5.4	Areas of Strategic Partnership and cross-cutting issues....................................	13
III	**IMPLEMENTATION PLAN**..	**15**
6.	**OPERATIONAL MODALITIES**...	**15**
6.1	Sequencing..	15
6.2	Bank Instruments..	15
6.3	Implementation Arrangements...	17
6.4	Resource Implications..	19
6.5	Risks and Mitigation...	20
6.6	Results Framework...	20
7.	**RECOMMENDATION**..	**20**

ANNEX 1 **RESULTS FRAMEWORK**
ANNEX 2 **CURRENT BANK INITIATIVES**
ANNEX 3 **BUDGET PROJECTIONS**
ANNEX 4 **MOSAIC OF REGIONALISM IN AFRICA**
ANNEX 5 **IMPLEMENTATION CHALLENGES**
ANNEX 6 **AU REGONIZED RECs & THEIR STRATEGIES / MISSIONS**
ANNEX 7 **STRATEGIES OF KEY PARTNER INSTITUTIONS**
ANNEX 8 **COUNTRY AND RECs GROUPINGS FOR RISPs**
ANNEX 9 **RANKING CRITERIA**

LIST OF ABBREVIATIONS

ADF:	African Development Fund
ADF XI:	African Development Fund Eleventh Replenishment
ADB:	African Development Bank
AfT:	Aid for Trade
AGOA:	African Growth and Opportunities Act of the USA
APRM:	African Peer Review Mechanism
AU:	African Union
AUC:	African Union Commission
BEAC	Banque des Etats de l'Afrique Centrale
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest
CAADP:	The NEPAD Common African Agriculture Development Program
COMESA:	The Common Market for Eastern and Southern Africa
EAC:	The East African Community
EC:	European Commission
ECOWAS:	Economic Community of West African States
EU:	European Union
EUR:	Euro (currency unit)
FTA:	Free Trade Agreement
FDI:	Foreign Direct Investment
FTA:	Free Trade Area
GDP:	Gross Domestic Product
ICA:	Infrastructure Consortium for Africa
IPPF:	NEPAD Infrastructure Project Preparation Facility
MLTSF:	The NEPAD Infrastructure Medium to Long-term Strategic Framework
NEPAD:	New Partnership for Africa's Development
ODA:	Official Development Assistance
OIVP:	Vice Presidency Complex covering Infrastructure, Private Sector, NEPAD, Regional Integration and Trade
ONRI:	The NEPAD, Regional Integration and Trade Department
PPI:	Private Provision of Infrastructure
PPP:	Public-Private Partnership
RECs:	Regional Economic Communities
RI:	Regional Integration
RISP:	Regional Integration Strategy Paper
RMC:	Regional Member Country
SADC:	The Southern African Development Community
SDIs:	Spatial Development Initiatives
SMEs:	Small and Medium-size Enterprises
STAP:	The NEPAD Short-Term Action Plan for infrastructure development
TICAD:	Tokyo International Conferences on African Development
UA:	Unit of Account
UEMOA:	Union Monétaire des Etats de l'Afrique de l'Ouest
UN:	United Nations
UNCTAD:	United Nations Conference on Trade and Development
UNDP:	United Nations Development Program
UNECA:	United Nations Economic Commission for Africa
USD:	United States Dollar
WCO	World Customs Organization
WTO:	World Trade Organization

EXECUTIVE SUMMARY

1. BACKGROUND

1.1 Since the early years of Africa's independence, the imperative of regional integration has been central to the political and economic vision of the continent's leadership. Over the past two decades, the forces of globalization have brought this imperative ever more sharply into focus as Africa has grappled with the challenges of globalization. Notwithstanding political commitment and efforts to bring Africa's regional integration vision to fruition, progress has not proceeded apace with other developing regions.

1.2 The burgeoning global demand for commodities, amongst others, presents a major opportunity for the continent to accelerate its efforts towards achieving economic integration, to realize its economic and global trading potential, and to make major inroads in its battle against poverty. Continental and regional initiatives, in particular, those of the African Union and NEPAD, have over recent years provided further momentum for regional integration efforts. However, a number of significant challenges remain.

1.3 Challenges to regional integration include 'soft' constraints, such as underdeveloped financial markets, the overlapping memberships and mandates of the RECs, the lack of harmonization of policies, regulations and procedures governing investment, trade and infrastructure development at regional and continental level, as well as 'hard' physical infrastructure constraints, such as the lack of transport, energy and ICT infrastructure. Alongside 'hard' and 'soft' infrastructure constraints, cross-cutting issues such as institutional capacity, governance and co-ordination present significant challenges.

1.4 Regional integration is at the core of the ADB Group's mandate, and it has attached priority towards this since its establishment. The ADB Group has invested significant resources, both financial and non-financial in supporting regional integration initiatives throughout the continent. Reviews of Bank experience in supporting regional integration provide important lessons of experience for the future, including the importance of selectivity, strategic partnerships, a clear working arrangement with the RECs that supports the overall AU integration agenda, as well as the need for a more purposeful and integrated approach. The need for a more focused strategy was also highlighted in the report of the High Level Panel in 2007: "*The ADB's engagement in promoting economic integration will have to be selective, guided by a clear and explicit strategy and policy framework*". Regional integration is also highlighted as an area of increased focus in the Bank's Medium Term Strategy for 2008-2012.

2. A NEW REGIONAL INTEGRATION STRATEGY

2.1 The Bank's vision is of an empowered and prosperous continent, which is integrated regionally, and into the global economy. It is supportive of the African Union strategic vision of building a united and integrated Africa underpinned by political, economic, social and cultural integration. It proposes a bolder, yet more focused and co-coordinated set of interventions by the ADB Group, and closer collaboration and partnership with key stakeholders. The strategy builds on the Bank Group Regional Integration and Cooperation Policy developed in 2000 and the ADF XI Regional Operations Framework. It emphasizes a triple role of catalytic financier, knowledge broker and partner, and builds on the Bank's key comparative and competitive advantages as Africa's premier development finance institution.

2.2 The new strategy builds on the achievements and lessons of experience of past efforts. and takes into consideration the constraints of implementing regional operations, including challenges at regional, country and project levels, In view of the cross-cutting nature of the Bank's regional integration mandate, the strategy emphasizes the need for co-coordinated and purposeful action throughout the organization. It also uses as key building blocks existing sectoral and thematic strategic frameworks, including Regional Operations Framework and the Bank Group strategies on Governance, Private Sector, Knowledge Management, Fragile States, and Middle Income Countries.

2.3 The strategy articulates three strategic objectives:

- To support the establishment of an effective and efficient continental and regional institutional framework and related capacity to promote trade and manage the integration process;
- To facilitate an enabling policy framework for investment on the continent; and
- To provide investment, technical assistance and knowledge to facilitate delivery of priority regional infrastructure.

2.4 The strategic outcomes to be pursued are:

- Increased competitiveness of the continent in attracting foreign direct investment (FDI) flows, enhanced depth of private sector involvement, and increased economies of scale;
- Enhanced African presence in the global marketplace, and increased intra-regional trade;
- The establishment of a more effective African "voice" on issues of development and regional integration; and
- More efficient provision of regional public goods.

2.5 The strategy is underpinned by two mutually reinforcing pillars, which reflect priority areas in which the Bank has specific competencies, and where it is strategically well-placed to intervene. These are: (i) regional infrastructure; and (ii) institutional capacity building; including for trade facilitation. Support to trade and the provision of regional public goods cut across the two pillars and will be mainstreamed in Bank operations. Even so, these activities will be carried out in close partnership with other donors.

2.6 The Bank will program its regional integration activities in Regional Integration Strategy Papers that will also inform the development of regional operations in the CSPs. Four such RISPs will be prepared covering North, West, Central, East and Southern Africa. The preparation of the RISPs, which will involve consultations with the relevant RECs, to ensure ownership and enhanced participatory process, will be led by the Regional Departments, in collaboration with ONRI and Sector departments. Country and Regional Teams will ensue that the RISPs and the CSPs are harmonized and complementary in the issues addressed. In addition, the Bank will ensure that regional dimensions of all the projects it is financing are considered in the Appraisal Reports. The Bank will also ensure that each RISP promotes the implementation of flagship projects such as key missing links in the infrastructure network.

2.7 The financing requirement of bankable multinational projects is huge, and the Bank will play a catalytic role in mobilizing resources to assist in meeting the needs and enhance its co-financing role. The Bank will, therefore, continue to examine the possibility of introducing innovative instruments. Meanwhile, the Bank will use its own financial contributions to projects and programs as leverage for funding from other sources. In this regard, the Bank will utilize the ADF Country resources, the ADF Multinational Operations window, the ADB resources and a number of facilities such as the AWF, the IPPF, the MIC Trust Fund, and other multilateral and bilateral trust funds. Special attention will also be given to the promotion of private sector, especially through the financing of SMEs, which would also promote diversification and intra-African trade. Other key instruments that will be deployed to support the implementation of the strategy include: advocacy, policy dialogue, knowledge intermediation, capacity building, and strategic partnerships

2.8 While the Bank will work with AU-designated RECs, it will assess its partner regional organizations for the strength of commitment and support of their member countries, program implementation capacity and governance structures in order to ensure the sustainability of programs. There is also the problem of fragile states, other low income countries and middle income countries involved in some common integration programs. The strategy, therefore, proposes for the Bank to provide special capacity building support to fragile states that have very weak institutions and to develop innovative instruments to help address the problem of the middle income countries that have to borrow at market rates to participate in regional operations with the low income countries benefiting from concessional resources.

2.9 While the strategy seeks to focus and streamline the Bank's support for regional integration, the scope and complexity of its task remains enormous. Key success factors will be to ensure that its activities are co-coordinated and prioritized, and that the requisite resources are mobilized, both internally and externally. A further critical success factor for the implementation of the strategy will be to ensure that the imperative of regional integration and trade is reflected in all facets of the Bank's operations. This will require alignment of sector and spatial strategies and operational programs of relevant organizational units across the Bank, with the strategy. The NEPAD, Regional Integration and Trade Department will monitor the implementation of the Strategy. More detailed implementation arrangements are outlined in the paper.

ADB GROUP REGIONAL INTEGRATION STRATEGY

I. BACKGROUND

1. INTRODUCTION

1.1 Since the early years of Africa's independence, the imperative of regional integration[1] has been central to the political and economic vision of the continent's leadership. Over the past two decades, the forces of globalization have brought this imperative ever more sharply into focus as Africa has grappled with the challenges of globalization, and associated challenges in the spheres of international trade and in attracting flows of foreign direct investment to the developing world.

1.2 Regional Integration has been a part of the Bank's Charter (see Article 2.1. (a) – (c)) since its establishment in 1964, reflecting the continent's aspiration. In 2000 the Bank adopted a formal policy on integration and began to take a more concerted approach to the subject when it adopted a Strategic Plan for 2003-2007, which among others, placed emphasis on regional infrastructure development as one of its central pillars. It also approved the annotated format for regional integration strategy papers (RISPs) to guide the preparation of a regional response to complement the country strategy papers (CSPs).

1.3 Furthermore, the ADF XI Replenishment process resulted in a new *Strategic and Operational Framework for Regional Operations* (RO paper) which has an operational focus largely targeted at infrastructure, and proposes criteria for project selectivity towards effective delivery and maximization of ADF resources. The RO framework is, therefore, a critical input in the Regional Integration Strategy, which provides a comprehensive framework for the regional integration agenda of the Bank, identifying the major pillars of intervention, while spelling out the institutional arrangements for moving forward the agenda. Nevertheless, the two documents build synergy.

1.4 More recently, the strategic importance of the Bank Group's role in supporting regional integration was reaffirmed by the High Level Panel (HLP): *"Economic integration should be a prime policy of the Bank and a distinguishing feature of its programs"*.[2] In addition, the HLP also applies the principle of selectivity to propose that the pillars of intervention should comprise infrastructure, capacity building and skills development, and private sector promotion. Regional integration is also highlighted as an area of increased focus in the Bank's Medium Term Strategy (MTS) for 2008-2012. The HLP and the MTS, therefore, provide the guiding framework for the Regional Integration Strategy. In line with the MTS, the strategy covers the period 2009-2012.

1.5 The Strategy has also benefited from Bank-wide and public consultations. In particular, it has benefited from inputs from RECs at a workshop organized in Tunis in March, 2007 during preparation of the ONRI business Plan as well as comments from Board Committees (CODE/AMBD) that discussed the draft ONRI Business Plan. Subsequently, drafts of the Strategy were enriched through presentations at a conference of experts and Ministers of Regional Integration, held in Abidjan in May 2008 as well as internal Bank and CODE reviews. The climax of these reviews was a seminar with the RECs, other African regional organizations and international financial institutions at the level of experts and REC Chief Executive Officers.

---

[1] For the purposes of this strategy, "regional integration" refers to the outcome of processes, including co-operative arrangements, the implementation of intergovernmental treaties and market-led processes, through which economies of countries in a region become more closely interconnected.

[2] *"Investing in Africa's Future: The ADB in the 21st Century"*: Report of the High Level Panel, 2007

1.6 The Strategy paper is cast in seven sections. After this introduction, the next section briefly outlines the regional and global context of the Bank's strategy, the opportunities that it seeks to build upon and the challenges to regional integration in Africa that should be addressed. The third section presents the Bank Group's past experience in promoting regional integration, and the lessons from that experience. The strategy and its pillars are presented in sections four and five. The sections outline the rationale for the Bank Group's continuing support to Africa's regional integration efforts; the key guiding principles for the Bank's engagement; and the main pillars around which the Bank Group intends to focus its support to regional integration in the continent. The sixth section outlines implementation and monitoring arrangements for the strategic framework; and the seventh section provides a brief concluding summary and recommendation.

2. OPPORTUNITIES AND CHALLENGES TO REGIONAL INTEGRATION IN AFRICA

2.1 Opportunities

2.1.1 The continent's diverse and rich natural resource base underlines the continent's interest in the global demand for commodities. For most part of this decade, the rise of Asia presented Africa with greater opportunities and options for development of its natural resources and infrastructure, and for establishing new development partnerships. This spurred economic growth on the continent. Although the unfolding global crisis has momentarily dampened demand for commodities, longer periods of industrialization in the emerging economies should bode well for Africa when the global economy begins to recover.

2.1.2 The emergence and evolution of the New Partnership for Africa's Development (NEPAD) under the auspices of the African Union (AU) heralded a renewed and revitalized vision and political commitment by the continent's leadership for Africa to chart a new course in the quest for economic and social prosperity, and to share equitably in the benefits of globalization.

2.1.3 Global solidarity and goodwill towards the continent have strengthened considerably since 2000. Following the adoption of the NEPAD framework by the African Union Heads of State at their summit in Lusaka in July 2001, the 2002 G8 Kananaskis Summit adopted the G8 Africa Action Plan. Under the stewardship of the United Kingdom, at Gleneagles in July 2005, the G8 agreed a comprehensive package of support to Africa, and committed, amongst others, to a doubling of aid by 2010, cancellation of debt for the poorest countries in Africa, an end to export subsidies, and to reduce trade-distorting domestic subsidies. The 2007 G8 Summit held in Germany recommitted to the undertakings made at Gleneagles. These commitments were reaffirmed and strengthened at the 2008 TICAD IV meetings and the G8 Summit held in Japan.

2.1.4 Emerging initiatives under the AU/NEPAD, such as development corridors offer promising potential to promote regional integration and trade. In addition, the positive governance and democratization trends in the continent and the determination of African leaders to be more assertive in dispute resolution as well as the reductions in the numbers and intensity of cross-border conflicts impact favourably on the implementation of regional programs.

2.2 Challenges

2.2.1 The challenges to regional integration and to realizing Africa's trade potential are complex and diverse. A key dimension is the wide-ranging and pervasive 'soft' infrastructure constraints that hamper the regional integration process and discourage investment and trade. These include: poorly developed financial markets; complex procedures regulating investment and business activity; complex customs arrangements; and lack of harmonization of policies, regulations and procedures governing investment, trade and infrastructure development at regional and continental level. In addition, poor physical infrastructure and connectivity remains a key constraint[3] to Africa's business, investment and trade competitiveness and challenge to benefiting meaningfully from globalization and regional integration.

2.2.2 Alongside 'soft' and 'hard' infrastructure constraints, cross-cutting issues such as institutional capacity, governance and co-ordination present significant challenges. Continent-wide, more than 30 Regional Economic Communities (RECs) exist (see Annex 4), some with overlapping memberships and mandates, and many of which suffer from significant resource constraints. At the continental level, there is recognition that Africa's flagship NEPAD program requires further clarification, and the NEPAD Secretariat needs to be strengthened and its mandate refocused. Beyond that, there is also the need to harmonize regional commitments with external bilateral and multilateral trade and cooperation agreements of RMCs in a mutually reinforcing way.

2.2.3 At the REC level, limited institutional and financial capacity to assist member countries design and implement regional programs also poses a significant challenge to scaling up investment. The capacity shortages in RECs are particularly significant in the area of project preparation as most African countries do not have the internal capacity to prepare and package large investment projects and expect the RECs to assist them.

2.2.4 While strong political support exists for the regional integration imperative, at the national levels, a major challenge remains to translate this commitment into action by ratifying protocols and affording greater attention to regional integration in national development plans. This gap between commitment and action is further indicative of a variety of challenges at the national level, including capacity and budgetary constraints and the resultant tension in the prioritization of national and regional programs as well as difficulties of garnering ownership from the variety of stakeholders.

2.2.5 There are, however, also challenges that need to be tackled at the level of donors. The systems and practices of development partners may not be fully aligned with the African integration agenda or the NEPAD priorities or sufficiently adapted to support the continental integration agenda and the efficient and effective implementation of NEPAD programs. The Bank will have to manage outcomes in situations where in-puts from partners are unmanageable and it will need to ensure that it has appropriate human and financial resources to be able to carry out its mandate.

2.2.6 The unfolding impact of the global financial situation on the ability of countries, private sector and other partners to mobilize resources for projects has emerged as a serious threat to the implementation of regional operations. The drying up of resources is expected to affect particularly the preparation and delivery of infrastructure projects, which are important in integrating the continent.

2.2.7 The multiple challenges of regional integration are further exacerbated by the existence of fragile states, which continue to grapple with challenges of reconstruction and transformation. There are also the island economies as well as enclaves of Middle Income Countries, which also require innovative instruments to support their participating in regional programs.

2.2.8 These issues, which are covered in detail in Annex 5, will be further elaborated in a paper that will be prepared for the ADF XI Mid-Term Review. The paper will, among other things, highlight all possible options to address the challenges.

[3] The Commission for Africa estimated that Africa needs to invest USD20 billion per year in infrastructure if it is to meet the Millennium Development Goals (MDGs). The ADB Group's own preliminary estimates suggest that a minimum of USD24 billion is required to connect 'missing' regional infrastructure links in the transport, energy and ICT sectors alone.

Box 1: Project-level challenges in Financing and implementing Regional Projects

The implementation and financing of ***the Benin-Togo Ghana Electricity Interconnection Project*** involved resolving project level challenges that included legal issues, safeguard issues, procurement and financial management issues, and monitoring and evaluations issues such as:

- meeting the special interests and requirements of each country in the project;
- coordinating the involvement of different donors and financiers as well as civic societies;
- aligning relevant policies in the project countries;
- guaranteeing the safety of the project in each country in line with the long term security situation of the countries;
- ascertaining energy supply security;
- meeting individual country environmental requirements;
- establishing joint management of the project during and after completion; and
- putting together a financing package that takes into account differential country financial situation.

3. EXPERIENCE OF ADB GROUP AND DEVELOPMENT PARTNERS IN SUPPORTING REGIONAL INTEGRATION

3.1 Overview

3.1.1 In line with the growing continental emphasis on regional integration, increased organizational focus and resources have been allocated to regional integration and trade support over recent years at the ADB and by other development partners. In 2000, an Economic Cooperation and Regional Integration Policy to provide overall guidance to the Bank's interventions was approved by the Boards. In addition, the Bank's internal capacity has been strengthened over time, culminating in the establishment of Country and Regional Departments as well as the NEPAD, Regional Integration and Trade Department in 2006. The Bank's field presence has also been increased to buttress support to country and regional integration programs.

3.2 ADB Group Experience

3.2.1 Non-Lending Activities

- The ADB Group has provided extensive technical assistance, policy advice, advocacy and a range of knowledge products for regional integration and trade initiatives at continental and regional levels.
- The Bank has been instrumental in the establishment of key regional organizations. As a strategic partner to the NEPAD process, the Bank has also been designated as lead agency for infrastructure development, and banking and finance standards. In the latter role, the Bank participated in the design of the Africa Peer Review Mechanism (APRM), which the Bank continues to support. As lead advisor to the AU/NEPAD on the infrastructure development program, the ADB Group has provided significant support for the development of the Short Term Action Plan (STAP) and ongoing Program for Infrastructure Development in Africa (PIDA). In response to the many challenges facing the continent in the transformation of priority NEPAD projects into bankable projects, in 2004, the Bank facilitated the establishment of the NEPAD Infrastructure Project Preparation Facility (IPPF), which it is hosting.
- The ADB has forged strong partnerships with the UNECA and the AUC, and contributed to the study, which formed the basis of the streamlining of the RECs. The Bank has also and provided extensive technical support and policy advice to RMCs and regional economic communities on approaches to building and strengthening regional cooperation, trade and economic integration, including the processes towards the establishment of the African Economic Community. Strong partnerships have also been forged with multilateral and bilateral partners seeking to assist African countries to strengthen cooperation and deepen regional integration as well as participation in the WTO processes.

- In the sphere of knowledge creation, mobilization and dissemination, the Bank has conducted and published extensive research and statistical analysis on key topics related to regional integration and trade, including an African Development Report in 2000. The Bank is also finalizing a study on regional financial integration and on macroeconomic convergence.

3.2.2 Lending Operations

- The ADB Group has provided financing for multi-country, sub-regional, and continental initiatives since the early 1970s. Over this period it has financed more than 200 multi-country operations involving virtually all African countries. These operations span project/sector investment, capacity-building, project preparation support, technical assistance, and participation in risk-taking investment funds.

- Earmarked resources for regional operations from the ADF have progressively increased, from 10 percent under ADF-VIII to 17.5 percent (UA980 million) in the current ADF-XI cycle. From January 1996 to December 2007, the Boards of Directors approved multinational and regional financing operations amounting to a total of UA1.4 billion. Of these, UA365 million was from the non-concessional ADB window (including non-sovereign guaranteed operations through the private sector window). The remaining UA1.07 billion was in the form of loans and grants from the concessional ADF window. Investments in regional infrastructure, totaling UA567.5 million, represent almost 50 percent of total approvals between 1996 and 2006.

3.3 Focus of Development Partners

3.3.1 The lessons reported by other major development agencies, notably the World Bank,[4] Asian Development Bank,[5] and Inter-American Development Bank[6] generally validate expectations of high returns from regional operations and greater effectiveness in the delivery of regional public goods (RPGs). In the five year period 2003-08 alone, the World Bank's support to regional operations in Africa totaled about USD2.26 billion. In regional infrastructure, this support almost doubled in 2007, increasing from USD490 million in 2006 to USD910 million. The support from the ADB Group for regional infrastructure in 2007 amounted to USD228 million and USD65 million for the ADF and ADB respectively. Support from other donors is also high or has been increasing. In 2007, the commitments reached USD508 million for the EIB, USD386 million for France, USD254 million for Japan, USD205 million for DBSA and USD66 million for UK.[7]

3.3.2 In view of the lessons and experience and emerging issues in regional operations, some of the donors are refocusing their support.

- For example, the World Bank, which is emerging as an important facilitator of regional integration in Africa, has focused its new Regional Integration Strategy on three pillars, namely: (a) regional infrastructure; (b) institutional cooperation for economic integration; and (c) coordinated interventions to provide regional public goods. The strategy also aims to assist Africa with the important cross-cutting challenge of strengthening regional strategic planning and connections with national development plans.

---

[4] Independent Evaluation Group of the World Bank: "The Development Potential of regional Programs: An Evaluation of World Bank Support for Multi-Country Operations", Washington, DC, 2007.
[5] Asian Development Bank: "Regional Cooperation and Integration Strategy", Manila, July 2006.
[6] Inter-American Development Bank: "Regional Integration: Strategy Document", Washington, DC, August 2003
[7] ICA: 2007 Annual Report, Tunis, Tunisia.

- The EU's regional integration strategy has five pillars, namely: strengthening regional institutions; building regional integrated markets; supporting business development; connecting regional infrastructure networks; and developing regional policies for sustainable development

3.3.3 However, the regional integration agenda in Africa is driven by the NEPAD program of the African Union, which focuses on selected pillars and seeks to deliver results by fostering partnerships at global, regional and national levels (see Annex Table 7). The Bank has been designated as lead partner to support infrastructure development.

3.3.4 The RECs, which were designated as building blocks for the implementation of NEPAD, have also drawn up strategies towards facilitating integration through the various stages from FTA to Common Markets (see Annex 7). The pillars reflect with varying emphasis those identified for the NEPAD.

3.4 Lessons Learned and Implementation Issues

3.4.1 The Operations Evaluation Department (OPEV) is currently conducting an evaluation of the ADB Group's regional operations to identify key lessons from the Bank Group's extensive interventions. Preliminary indications from the reviews of the Bank's experience in supporting regional integration are that, in terms of project performance, only 53 percent were rated satisfactory, while most were rated unsatisfactory in terms of institutional development and impact[8]. Generally, regional projects are riskier, costlier and require substantially more resources and time to prepare than country specific ones. Therefore, their preparation and implementation invariably involve significant additional challenges compared to standard country operations.

3.4.2 Key lessons learned by peer development finance institutions and validated by the Bank's experience include the need to ensure:

- *Strategic Alignment and Design in a regional context:* Many of the early regional integration activities in which the Bank participated were predominantly project-driven, with narrow objectives, with the likelihood of inadequate economic and risk analysis that overestimated the benefits or insufficiently estimated and mitigated the risks arising from regional dimensions. The Bank will, therefore, ensure that regional operations are designed and implemented within a strategic framework that ensures a holistic view of regional development and its complementarity with national development strategies.

- *Regional Ownership and Strong Country Commitment*: It is critical that regional projects are locally owned and demand driven or they risk not getting enough attention from the national bureaucracies. It is also important to ensure, right from the design stage, that all parties clearly perceive the benefits for their respective countries. This task is normally facilitated if a solid feasibility assessment of the project is conducted in agreement with all parties. Ownership is also enhanced if there is a regional champion and/or a platform (such as has been established within NEPAD) for negotiating agreements and resolving conflicts among participating countries.

- *Effective Coordination Mechanisms:* Regional programs face complex coordination challenge, and they have been more successful where clear delineation and coordination of responsibilities among national and regional institutions have been established. What is practical and has generally worked best from past experience is reliance on national institutions for execution and implementation of programs activities and on regional institutions for coordination. Even so, successful regional programs have adapted their scope to available resources and national and regional capacities. Thus the Bank will seek

[8] This compares with the institutional average of 76 percent

to ensure that capable structures are in place to help design and implement regional integration programs, and will provide support to enhance the capacity of such structures as effective partners.

- *Harmonized Procurement systems:* Experience indicates that procurement issues are common sources of implementation delays or even failure, which are not only large, but also implemented at national levels, and therefore, in a fragmented way. There are also difficulties of dealing with multiple donor and country procurement systems and division of responsibility, and the time and effort required to harmonize them. The Bank will promote harmonization of procurement systems and seek to encourage some flexibility, including consideration of advancement of procurement processes, which has been found to be helpful in the case of big ROs.

- *Accountable Partnership Arrangements*: Past programs did not always accord recognition to the need for cross-donor coordination and management of regional programs. Consequently, opportunities to mobilize additional resources and create synergy with the intervention of other development partners were missed. Given the huge resource needs, the very demanding analytical and implementation capacity requirements and the diversity of development partners involved, the Bank will work closely with the relevant development partners, and seek to ensure that adequate resources are mobilized and the resulting programs are better managed and coordinated.

- *Leveraging Private Sector Involvement*: Private sector involvement in regional infrastructure has been limited. Promoting private sector participation raises the need to improve the investment climate (policy and regulatory frameworks) and develop appropriate financial instruments, using the domestic, regional and international capital markets to enhance the participation of private sector as effective partners in regional integration.

- *Appropriate Financing instruments*: Challenges that have usually proven difficult to resolve concern the financing modalities. Many donors have not designed appropriate instruments to meet the requirements of regional operations. Although the ADB Group has provided for some specific instruments both for project preparation and implementation, and their policies have evolved over time, experience indicates that there is merit in periodic review of these instruments and the addition of new ones to respond to emerging regional needs and country constraints.

- *Bank Organization, Resources and Skills*: Regional projects require more resources for preparation and supervision than single-country projects for obvious reasons. It is essential that appropriate budget and time be allocated for their quality preparation, implementation, and supervision. Reflecting their difficult and complex nature, regional projects also require appropriate skills. Regional teams should include appropriate staff numbers and skills mix. Additional incentives will be built into performance management to encourage staff with desired skills to manage and work on regional projects.

3.4.3 These lessons of experience serve as important building blocks for the new strategy outlined in this paper.

II. STRATEGY

4. OUTLINE OF NEW ADB GROUP STRATEGY

4.1 Objectives: The strategy proposes a framework to enable a more focused approach by the Bank, closer collaboration and partnership with key stakeholders towards achieving the goals of accelerated and effective regional integration, and strengthening Africa's competitive position in the global marketplace. The strategy encompasses the triple role of catalytic financier, knowledge broker and partner, and builds on the Bank's key comparative and competitive advantages as a leading development finance institution on the continent.

4.2 **Outcomes:** The strategic outcomes to be pursued are: (i) Increased competitiveness of the continent in attracting foreign direct investment (FDI), enhanced private sector involvement, and increased economies of scale; (ii) Enhanced African presence in the global marketplace, and increased intra-regional trade; (iii) The establishment of a more effective African "voice" on issues of development and regional integration; and (iv) More efficient provision of regional public goods.

4.3 Guiding Principles

4.3.1 From a macro perspective, the strategy takes cognizance of, and is aligned with, the key principles guiding African integration such as open regionalism, which, in addition to creating a system of preferences among participants also seeks to promote integration of regional groupings with global markets; variable geometry, which provides for varying timeframes for meeting integration objectives, reflecting the special circumstances of member states; and subsidiarity, which infers that activities and programs should be undertaken at the most appropriate levels[9].

4.3.2 From the perspective of implementation by the Bank, the strategy is underpinned by the following key principles:

Ownership and Enhanced Participation: Bank support for regional integration initiatives will be conditional upon commitment and ownership at continental, regional and national levels to both the process and objectives of regional integration. ADB Group interventions will also seek to empower beneficiaries, through advocacy, policy dialogue and capacity building support, to participate in the design of projects and to take the lead in managing the integration process.

Selectivity: The ADB Group has limited resources in relation to the magnitude and complexity of regional integration challenges. The Bank will concentrate its efforts and resources in areas where it has clear comparative advantage, and where it expects to make substantial contributions to development impact.

Focus on Development Effectiveness and Results: The Bank Group will strive to achieve tangible results in the ROs that it supports. Greater attention, therefore, will be paid to monitoring the implementation process and providing necessary technical support to the executing agencies on a timely basis to keep project/programme implementation on track.

Strategic Partnerships: The Bank is one of many institutions and donor organizations that are actively pursuing strategies to promote regional integration. Partnerships are key to effecting co-ordination, efficient use of scarce resources, as well as mutual learning and knowledge exchange. The strategy seeks to build and cement focused partnerships, and to align and co-ordinate Bank interventions with key stakeholders, including multilateral and bilateral donors; regional organizations such as the AU, NEPAD, UNECA, RECs (see Section 6.3), and regional development finance institutions[10]; RMCs, research institutions, advocacy groups, and the private sector. The Bank will forge these partnerships based on its comparative advantage and overall strategic focus, including its AU/NEPAD mandates, to deliver on its work program and enhance its role as catalytic financier, knowledge broker and strategic partner.

---

[9] Within the context of this strategy, the principle of subsidiarity has both internal and external dimensions. From an external perspective, the Bank will target its support for specific initiatives to those institutions that are best placed to plan and manage their implementation. Internally, the responsibility for programs and projects will be vested with organizational units in accordance with the subsidiarity principle

[10] A summary of strategies and programs of RECs, as well as other key stakeholders, is provided in Annexes 3 and 4

5. PILLARS OF THE STRATEGY

5.1 Strategic Pillars

5.1.1 The selection of the pillars in the Strategy is strongly guided by (a) the Bank's NEPAD mandate; (b) comparative advantage, based on its past experience and the regional integration focus of other Development Partners; (c) its corporate strategy and orientation, as defined in the MTS, and (d) the recommendations of the HLP. The major focus of the Bank Strategy will be on the development and financing of regional infrastructures and building capacity to support delivery of regional infrastructure.

5.1.2 The selected pillars of the Strategy are, therefore, (i) regional infrastructure development; and (ii) institutional capacity building. The enhanced implementation of these pillars would also require attention to certain cross-cutting activities, including trade facilitation and regional financial infrastructure that are best implemented through strategic partnerships. These cross-cutting activities will also enable to address the challenges of connectivity and supply-side issues. Other cross-cutting areas that will be mainstreamed in regional operations include economic, social and environmental sustainability that will be addressed mainly through the mainstreaming of regional public goods and gender. It should be noted that a focus on the two pillars, including the cross-cutting areas, is mutually reinforcing, and requires an integrated and co-coordinated approach.

5.2 Pillar 1: Regional Infrastructure

5.2.1 The provision of infrastructure represents a key foundation for regional integration. Appropriate infrastructure is crucial in supporting intra-regional and global trade as well as market integration[11]. The ADB Group has established itself as the leading financier of regional operations in Africa, primarily through the ADF window. Increased emphasis is also being placed on mobilizing non-concessionary finance for regional operations. The Bank will, therefore, take advantage of its emerging niche and support regional infrastructure development through:

5.2.2 <u>Support to the Formulation and Review of Strategic Frameworks and Project Prioritization</u>: The Bank will continue to help shape Africa's regional infrastructure development through its knowledge products. In this regard, the Bank will

- undertake periodic reviews of STAP to identify implementation challenges and make appropriate recommendations. Technical support will be provided to address shortcomings identified in the STAP process, including weak definition of projects and programs, the need for improved leadership and ownership as well as the lack of enabling policy and regulatory frameworks;
- expedite the development of the medium- to long-term strategic Program for Infrastructure Development in Africa (PIDA), in collaborating with the AUC and the NEPAD Secretariat, and on its completion, will provide support towards implementation;
- provide advice and technical support and collaborate with the NEPAD Secretariat, RECs and RMCs to facilitate alignment of national, REC, STAP and PIDA infrastructure priorities as well as prioritize infrastructure projects for funding and implementation. In this regard, prioritization of projects will be based on criteria already agreed with the RECs and RMCs[12]; and

---

[11] While infrastructure is key in facilitating trade and regional integration, it is understood that it cannot cause trade in the absence of tradable goods.

[12] The criteria include development impact and strategic alignment (including number of countries impacted as beneficiaries, regional needs and gaps, project readiness for implementation, investment climate to attract private partnership, and institutional capacity for implementation (see Annex Tables 8 and 9)

- provide support to the harmonization of regulations, procedures and standards that affect cross-border connectivity.

5.2.3 Support for Development Corridors: The development corridor approach holds significant potential. However, the Bank proposes to validate the identified development corridors by investigating linkages and economic potential within, and adjacent to, the proposed development corridors. This process would need to assess individual development corridors in terms of growth, development impact opportunities, indicative infrastructure requirements, investment potential and ability to support regional integration. The Bank will combine the development of the corridors with parallel investments in trade facilitation. In this regard, the Bank will promote and support private sector activities along the corridors, especially small and medium enterprises (SMEs), by promoting the implementation of favourable policy and regulatory frameworks and facilitation of trade (see Box 2 for examples of possible corridor-related activities). Support to SMEs will also help to promote economic diversification and exports.

Box 2: The North-South Corridor

The North South Corridor, a key trading route, has been identified (in full collaboration with DFID) as a pilot programme under the Aid-for-Trade initiative to help reduce transport and transit costs and transform trading opportunities in southern and eastern Africa. The corridor traverses the vast area from the copper-belt of Southern DRC and Northern Zambia to the port of Dar es Salaam in the North-East, and to the South African ports in the South. Its development, therefore, involves the Secretariats of COMESA, EAC and SADC, which have already set up a joint Task Force to harmonize infrastructure and trade programmes in East and Southern Africa towards enhancing implementation of the program and its benefits. The aim is to:

- Remove main bottlenecks to trade flows and target areas of intervention along the Corridor.
- Address the Corridor's development in a holistic manner looking at regulatory, administrative and infrastructural constraints to transport and transit systems as a whole.
- Ensure that interventions to reduce costs and time are done in a sequential manner to generate a "knock-on" effect in terms of savings along the entire route.
- Allow all information to be looked at together on a GIS database (www.rtfp.org) to help informed decision-making.
- Support regional trade policy regulation and trade facilitation initiatives.

Significant progress has already been made, including preparation of financing proposals, identification of transport networks and bottlenecks, mapping of existing and planned investments, and development of ways to strengthen trade facilitation measures. Some Development Partners, including DFID, are providing support. The challenge is now to take the pilot to the next phase and secure more support.

5.2.4 Project Preparation: Bringing projects to a 'bankable' stage represents a major challenge. Many projects identified in the NEPAD STAP and in the project lists of the RECs still lack a detailed cost-benefit analysis or sustainability assessment. The Bank provides support to project preparation through ADF grants and the MIC Trust Fund, and bilateral Trust Funds. In addition, as host of the NEPAD IPPF, the Bank will help to prepare and package high quality and viable infrastructure projects ready for investment. Within the limitations of resources available through the IPPF, the Bank will ensure focus on infrastructure projects that demonstrate strong potential to facilitate regional integration. Ongoing efforts will also be made to secure additional funding for the IPPF, and fostering collaboration with other sources of support for project preparation.

5.2.5 Investment: The ADB Group has emerged as one of the lead financiers of regional operations in Africa, primarily through the ADF window, accounting for nearly a quarter of all regional investments in Africa in 2005. In this connection, the Bank's lending activities will continue to focus on regional infrastructure projects and programs: transport, including railways, energy, ICT, and trans-boundary water resources; national infrastructure projects that have regional or cross-border dimensions[13]. In this regard, on an ongoing basis, the Bank will encourage and support the RECs to prioritize regional projects and programs and to take cognizance of specific priorities already identified in the NEPAD Short Term Action

[13] Involving costs or benefits to at least two countries.

Program (STAP). The Bank will encourage and support regional infrastructure projects that also support agriculture (such as in the NEPAD CAADP).

5.3 Pillar 2: Institutional Capacity Building

5.3.1 The successful attainment of the continent's regional infrastructure development relies on capable institutions as well as harmonized legal and regulatory frameworks, and sound organizational underpinning. The ADB Group is well-positioned and has the necessary expertise to focus its activities on the areas outlined below in addressing the diverse and complex institutional challenges faced by the continent.

5.3.2 Support to the Rationalization process: Rationalizing the many and overlapping regional integration and regional co-operation organizations in Africa is political and very difficult, and one that is best handled at the AU level.

- A number of scenarios have been proposed, and some progress is being made at the REC levels [14]. In particular, the decision of the November 2008 Tripartite Summit of COMESA, EAC, and SADC to merge the three RECs is an encouraging example. Within ECOWAS also criteria for harmonizing and streamlining project selection and implementation has been established. However, for various political reasons, it may take time to resolve fully the rationalization issue.

- Meanwhile, the Bank, in collaboration with AU, has set up a mechanism for prioritizing and selecting regional infrastructure programs. The Bank will also (I) provide technical support to undertake the cost-benefit analysis of the various scenarios; (ii) take into consideration the overlapping membership in the design of its programmes of support, and provide technical support to the RECs to harmonize and prioritize their programs; (iii) support programs, including capacity building and best practice dissemination, to help bring RECs to similar levels of integration; (iv) support the development and implementation of corridors that link various RECs; and (v) support progress towards customs unions with a view to eliminating the overlapping of RECs.

- While the Bank will pay attention to the AU-recognized RECs, it will also, for operational purposes, find ways in which overlapping membership can be used as an advantage such as where certain regional bodies or countries can provide impetus to fostering regional integration by acting as growth poles.

Box 3: The COMESA, EAC, SADC Tripartite Arrangement

To address the problem of overlapping membership, COMESA, EAC and SADC set up a Tripartite Task Force at a technical level that reports all the way to the Heads of State level. The objective is to provide a platform for the three RECs to discuss and make decisions on areas that enhance integration among them. The Heads of State provide strategic and policy direction relating to cooperation on trade and economic liberalization including a Road Map for establishing a pan-regional Free Trade Area encompassing the three RECs and a joint programme for infrastructure development. At a recent meeting of the Tripartite Summit, it has been decided to advance the arrangement towards the merger of the three RECs. This harmonization arrangement will help mitigate challenges of multiple memberships being faced by some of the member states as well as pave the way for accelerated inter-regional economic integration.

[14] These scenarios include maintaining the status quo and allowing the dynamics of economics (budgetary constraints) and progress in integration (say move towards customs and monetary unions, since a country can belong to only one customs union) to sort out memberships; rationalizing through division of labour (with the AU-recognized RECs coordinating programs, while other RECs and REC institutions implement programs; rationalization by merger and absorption; rationalizing around rooted communities; and rationalizing through harmonization of policies and instruments.

5.3.3 Strengthening Institutions: The Bank will provide knowledge and capacity building support (including support in the sphere of governance) to key institutions at continental, REC and national levels, including:

- support to the AU to carry out its mandate of implementing the regional integration agenda, including the coordination of regional infrastructure programs and in its efforts to further clarify the NEPAD agenda. The Bank will also assist with the restructuring and institutional strengthening of the NEPAD Secretariat, in line with a more focused mandate.
- assistance to the RECs that form the building blocks for regional integration towards strengthening their capacity to rationalize, coordinate and manage regional programs.
- support to the specialized institutions such as the River Basins and the Power Pools to strengthen their capacity to implement regional programs. Special effort will also be made to assist national authorities to incorporate regional dimension into national programs.

5.3.4 Trade Facilitation and Capacity Building: Traditionally, the Bank has provided regional infrastructure without building into it trade facilitation programs, which helps to minimize cross-border transactions costs and the complexity of international trade for businesses, thereby enhancing the benefits of regional infrastructure[15]. Research shows that trade facilitation can have significant impact on economic development, contribute to export growth, and improve competitiveness of countries' goods and services in global markets. It will also help attract much needed foreign direct investment and increase participation of SMEs in international trade. The streamlining of trade procedures and improved transparency in the application of trade regulations reinforce the benefits of trade liberalization.

5.3.5 The strategy, therefore, marks a shift towards a more balanced approach, and will include capacity building to the RECs in the soft areas of trade facilitation in addition to development of trade-related infrastructure. During the current strategy period the Bank's support to trade facilitation and capacity building in RECs and RMCs will, therefore, aim at:

(i) assistance and capacity building to develop trade facilitation strategies and implement trade facilitation audits;

(ii) promoting the harmonization and coordination of regional trade policies, with a view to eliminating tariff and non-tariff barriers (NTBs) to cross-border flow of production factors, goods and services;

(iii) harmonization of environmental standards and regulations; and

(iv) streamlining cross-border infrastructure regulation and removal of public procurement bottlenecks as well as support towards implementation of customs unions.

5.4 Areas of Strategic Partnerships and Cross-cutting Issues

5.4.1 In addition to enhancing partnerships in various areas and working with institutions, a special attention will call for strategic partnership in certain areas, but the Bank's focus in

---

[15] Regional operations in trade facilitation should include hardware: quality and quantity of trade-related infrastructure (roads, corridor ports etc) and software (simplification of international trade procedures aimed at minimizing obstacles to movement of goods across borders): regulation of transport services, border procedures and regulations as well as customs modernization.

these areas will be limited and will take into consideration its capacity. In particular, while it has become increasingly evident that attention to trade supply side issues and financial integration enhances implementation of regional infrastructure, some of the activities involved are new to the Bank, and would best be implemented through partnerships. These include activities related to Aid-for-trade and regional financial infrastructure.

(a) ***Aid for Trade Program (AfT) for Africa***: AfT is a multilateral initiative led by WTO to address supply-side trade issues, and the Bank, like other regional development banks, has been requested by the WTO to collaborate with the UNECA and the WCO to provide support to African countries to enable them benefit from the initiative[16]. However, the Bank's support will be limited to

(i) Identification, prioritization and financing of bankable regional infrastructures, including roads, railways, one-stop border posts, and corridor ports; and

(ii) trade facilitation, including support to regulation of transport services, simplification of trade procedures, customs modernization; and

(iii) monitoring and evaluation of these AfT programs at the sub-regional levels.

(b) ***Regional Financial Integration (RFI):*** Apart from being important for improving connectivity and enhancing the benefits of regional infrastructure, these RFI programs also have an upstream benefit of strengthening the implementation of other regional programs, especially by facilitating the mobilization of resources regionally and enabling the participation of private sector. However, the Bank's support to financial integration programs of the RECs will be very limited, and will focus on improving macroeconomic convergence, harmonization of financial governance and standards and building or strengthening regional financial infrastructure, including financial sector regulation; regional payments systems and regional credit rating mechanisms. In this connection, the Bank will seek to build partnerships with other donors such as the IMF, World Bank, and the FIRST Initiative as well as regional and national stakeholders. Such partnerships will be built both through the Bank's ongoing collaboration with these institutions and in the context of the Partnership for Making Finance Work for Africa, whose Secretariat is hosted by the Bank.

Box 4: Study on Regional Financial Integration

Given the new focus on RFI at the RECs, and its importance for growth and poverty reduction, the Bank will provide targeted support to RFI at the continental and regional levels. In this regard, the Bank has conducted a review of the RFI programs and their implementation in various African RECs. The findings of the report will provide input towards developing a "roadmap" for further financial integration for each sub-region, that should both accommodate the current moves towards financial and trade integration, and help to promote private sector development. The findings will also provide inputs in the development of Bank business plans and RISPs towards support in fostering RFI in Africa, including providing technical support in mobilizing local and regional financial resources (for example via the development of the regional, and eventually African, bond markets); supporting harmonization of financial regulation, banking and financial standards and regional efforts towards improved financial governance; improving intra-regional dialogue; and strengthening monitoring and surveillance mechanisms.

5.4.2 Regional Public Goods[17] and Other Cross-cutting Issues: While improved cross-border physical connectivity and integrated markets bring several benefits, they also have cross border costs on the environment and people that can best be tackled on regional basis. The

[16] Aid for Trade (AfT) refers to flows of development finance to trade-related activities from resources pledged during the WTO Ministerial Meeting in Hong Kong in 2006. AfT aims to enhance developing countries, particularly the LDCs, participation in the global trading system. The WTO task force on AfT defined six categories of AfT focus: (1) trade policy and regulation, (2) trade development, (3) trade-related infrastructure, (4) building productive capacities, (trade related adjustment and (6) other trade-related needs.

[17] The typical regional public goods incorporates three essential properties: non-rivalry, excludability, and aggregation of contributions.

Bank's support to the provision of regional public goods (RPGs) will be mainstreamed in Bank operations, particularly on issues of gender, environment and climate change. Within each of the pillars of the strategy, the Bank will (i) make available capacity building support and knowledge products as well as centre's of excellence, in line with Bank Group Strategy on Higher Education and Science and Technology, and (ii) finance regional public goods to create positive spill-over effects (i.e., promotion of positive externalities or mitigation of negative ones) for countries belonging to a geographical region (see Box 5 for examples of RPGs).

5.4.3 The Strategic Framework for Regional Operations articulates the criteria and modalities for Bank investment in projects involving RPGs, and gives the criteria, including the nature of *public dimension, regional dimension, and Bank's role for Bank support.* While it is understood that ADF resources for projects of this nature are limited, and therefore necessitates a highly selective approach, it is expected that these criteria will be applied with flexibility and pragmatism. The Bank will also collaborate with other donors in mobilizing additional resources for this purpose.

5.4.4 Another cross-cutting area of importance to the Bank relates to the gender dimension of regional operations, including in areas of trade facilitation, cross-border linkages of micro-enterprises, standards and financial integration. The Bank will pay attention to such areas in the implementation of the Strategy. In accordance with the existing guidelines, the Bank will mainstream gender dimension in all regional operations.

Box 5: Examples of Regional Public Goods

- Inter-country and regional coordination of national development planning and poverty reduction strategies; and harmonisation of economic and social policies.
- Regional cooperation in support of good governance, peace and security: e.g., support for the African Peer Review Mechanism.
- Cooperation in the formulation of regional trade policy and its implementation;
- Regional measures for food security;.
- Establishment of border posts
- Promoting regional financial and monetary integration through establishment of common financial and banking standards.
- Collaboration in the management of environment (such as pollution, desertification and other effects of climate change) and shared natural resources, including trans-boundary river and lake basins.
- Collaboration in science & technology, research and development, knowledge generation and dissemination.
- Establishment of regional Early Warning Systems to monitor specific risks and threats, e.g., climate variability,

III. IMPLEMENTATION PLAN

6. OPERATIONAL MODALITIES

6.1 Sequencing

While the strategy seeks to achieve enhanced focus, the scale and complexity of challenges that it addresses are enormous. In most instances, interventions by the Bank will not yield tangible results over the short term. It will therefore be essential to disaggregate objectives and outputs into specific action steps and milestones in order to assist in monitoring and measuring performance. An incremental approach is also essential in view of limited internal resources and capacity, and can be ramped-up over time in line with increased resources earmarked towards priority focus areas.

6.2 Bank Instruments

6.2.1 The Bank will deploy the full range of instruments at its disposal to support the implementation of the regional integration strategy. These have been outlined in the strategy, and include:

6.2.2 Programming Instruments: Many country level challenges have regional dimensions that cannot be effectively addressed at the national levels alone. The Bank will, therefore, identify and address regional dimensions in all the projects it supports. The Appraisal Report format will be adjusted accordingly. In addition, implementation of regional programs can benefit from synergy of coordinated national programs.

The Bank will, therefore, develop the Regional Integration Strategy Papers (RISPs) as the main instrument for delivering the Bank's support to RI, and to complement the Country Strategy Papers, which address country level development constraints. The recent decision to merge COMESA, SADC and EAC, makes it possible to develop REC-based RISPs that are also sub-regional. Four RISPs will, therefore, be prepared namely: Northern Africa, covering the AMU countries, Western Africa, covering the ECOWAS countries, Central Africa, covering the ECCAS countries, and Eastern and Southern Africa, covering the COMESA, SADC and EAC countries[18].

The arrangements for the preparation of the RISPs as well as their content will include the following:

- The preparation of the RISPs would be launched immediately following the approval of the Regional Integration Strategy and would be expected to complete within a year:
- The RISP preparation would be led by the Regional Departments covering that area, and would be supported by ONRI and the Sector departments. It would also involve consultations, possibly including stakeholder workshops, with a number of RECs and REC institutions (see Annex Table 8).
- It is also important to ensure consistency and alignment in regional activities identified in the RISPs and the CSPs. The coordination of the Country Teams and Regional Teams is important in ensuring that the two documents are harmonized and complementary in the issues addressed.
- As in the case of CSPs, Management will provide guidelines, including the format, for the preparation of the RISPs, but it is understood that they would identify and include support to the implementation of at least one flagship project in the RECs.

6.2.3 Financing Instruments: The financing requirement of bankable multinational projects is huge, and the Bank will play a catalytic role in mobilizing resources to assist in meeting the needs and enhance its co-financing role. The Bank will, therefore, continue to examine the possibility of introducing innovative instruments. Meanwhile, the Bank will use its own financial contributions to projects and programs as leverage for funding from other sources, including the private sector. In this regard, the Bank will utilize the following financing mechanisms:

- *ADF Country Resources:* ADF countries can access financing from the concessional window (using a percentage of their country allocations) to implement regional programs and projects in line with the ADF Regional Operations Framework.

- *The ADF Multinational Operations Window*: The Bank began with ADF VIII to earmark a fraction of the ADF resources to regional activities, including for infrastructure projects and capacity building[19]. The proportions have progressively increased, reaching 17.5 percent under ADF-XI. The use of the resources is guided by the *Strategic and Operational Framework for Regional Operations,* which was developed in connection with the ADF XI negotiations. In line with the Framework, the Bank will ensure better quality

[18] The only country that will overlap two RISPs will be DRC in the Central and the Eastern and Southern strategies.
[19] These have previously been called Multinational Operations (or MNO).

projects at entry, greater country ownership and best practice in project analysis and implementation to address the technical and institutional complexities of regional projects. The eligibility criteria, which emphasize development impact and alignment, will guide the selection and prioritization of regional operations. The Framework also emphasizes country ownership, commitment and performance, which are reinforced through the financing modalities, including cost-sharing and front loading.

- *ADB Resources:* The lack of appropriate institutional and financing mechanisms to facilitate the participation of Middle Income Countries in regional programs and projects remains a challenge. The Bank will utilize resources from the ADB window to finance the participation of these countries. However, the scale of investment requirements for regional infrastructure in these countries necessitates the Bank to fulfill the role of catalytic financier. As a catalytic financier, the Bank will, in partnership with other development finance institutions, develop innovative ownership and management structures (e.g. special purpose vehicles) and financing instruments to facilitate project delivery and mobilize funding from other sources (see under Other Financial Resources, below). The Bank will also play an advocacy role to engage stakeholders in these countries.

- *Private Sector Window:* The Bank has an important role to play in mobilizing private sector resources for regional infrastructure, and supporting the involvement of local and regional private sector groupings in regional infrastructure projects. In line with the Bank Group Private Sector Strategy, the Bank will support the financing of SMEs, which are key in Africa's diversification efforts. In this regard:

i The Bank will support private sector participation in the implementation of regional programs through its current instruments, including loans, lines of credit, guarantees, equity and quasi-equity investments.

ii The Bank will also utilize public-private partnerships to catalyze private participation in infrastructure delivery (PPI).

iii The Bank is currently working towards development of trade financing, particularly in the light of the impact of the recent global financial crisis and trends in economic liberalization and globalization. The Bank will provide lines of credit and develop other appropriate instruments to finance trade and provide trade finance guarantees towards alleviating trade constraints, and will collaborate, in this regard, with the Afreximbank and other DFIs.

Box 6: The NEPAD IPPF

In partnership with Canadian and Danish donors, the ADB has established a USD10 million multi-donor fund - the NEPAD IPPF – to support regional project preparation in Africa. Additional funding of USD22.5 million has been committed to the facility by the UK's DFID, Germany and Norway. Indications of further support have been received from Sweden, Italy, Spain and Japan. The facility can be accessed for grant resources to prepare viable regional infrastructure projects in either the ADB or ADF countries or both. Preparation of private sector projects that involve government participation (PPPs) can also benefit from the facility,

- *Co-financing, Other Financing Instruments, and Mobilization of Other Financial Resources*: The implementation of the strategy will require substantially new resources than can possibly be provided through ADF replenishments and the ADB window. Therefore, the Bank will step up co-financing and seek to explore various avenues (including utilization of trust funds such as the NEPAD IPPF and AWF, the MIC Trust Fund, and mobilization of financing from the Gulf States and emerging donors such as India, China and Russia as well as from the not-for-profit NGOs, and use of instruments such as guarantees, and other credit enhancement mechanisms) to secure other concessional and semi-concessional resources that can also benefit the ADB-only countries to facilitate implementation of the Strategy.

6.2.4 Other Instruments: The Bank will also use a range of other instruments, including:

- *Advocacy:* As an African 'voice' on development issues, the Bank will further the cause of African integration in key international, continental and regional fora.
- *Policy Dialogue:* The Bank will actively engage in policy dialogue with key stakeholders to address policy and regulatory constraints, and facilitate and enable regional integration on the continent. The Bank will enhance the usefulness of the CSPs and develop RISPs to facilitate dialogue.
- *Knowledge Products:* including applied research, statistics and data analysis. Knowledge-sharing will be facilitated through partnerships and convening conferences and seminars on pertinent topics related to regional integration and trade.

6.3 Implementation Arrangements

6.3.1 The cross-cutting nature of the strategy necessitates co-coordinated and purposeful implementation with the RECs and across the organization. As an overarching strategic focus of the Bank, it will be essential to ensure that specific sector and thematic strategies and frameworks, are aligned with the Regional Integration Strategy. The strategy will, therefore, be reflected in the business plans of ONRI and other concerned departments.

6.3.2 Working Arrangements with the Regional Organizations: The RECs are the building blocks for African integration, and they will be the core partners for the Bank's regional integration activities. However, the multiplicity of RECs and their overlapping nature complicate building partnership with them. While the Bank would like to work with the AU-designated RECs and other IGOs such as the Power Pools and the River Basin Authorities, a major challenge remains the weak capacity of the RECs and the IGOs. The challenge is exacerbated by the fact that some of the AU-designated RECs have even weaker capacities than some non-designated RECs. Therefore, the Bank will assess the RECs for the strength of commitment and support of their member countries, program implementation capacity and governance structures in order to ensure the sustainability of the programs. In the case of investments and grants for project preparation these assessments would take into consideration such factors as:

- *Implementation Capacity:* Key indicators would include existence of a viable multi-country institutional arrangement sponsoring the RO; relevant professional staff strength and skills-mix; functioning IT structure necessary to implement a program,
- *Financial Sustainability:* A significant part of the administrative budget of a regional organization implementing an operation financed by the Bank Group should be supported by subscriptions and other contributions by member countries of the organization. Indicators of financial sustainability would, therefore, include: overdue financing obligations by member states; existence of any viable self-financing mechanisms; organization's credit rating with credit markets, if any, etc.
- *Fiduciary Controls:* The Bank will need assurance that MRO sponsors or their implementing agencies have in place adequate fiduciary control mechanisms that meet international standards, as well as effective functioning of appropriate procurement policies and capacity, in terms of human resources and policies/procedures.
- *Clear Mandate to Implement a Project or Programme:* The Bank Group, along with the AUC and ECA, is committed to minimizing the duplication and overlapping of mandates among regional organizations – a cause of chronic financing difficulties and weak operational capacity among African regional organizations. Consideration shall be given to whether a programme or project proposed for financing by the Bank Group falls under the traditional core mandate of the regional organization or it is an expansion of its range

of activities, and whether no other organization is pursuing a competing programme within the sub-region that would result in a duplication of efforts.

The assessment of suitability of the REC or REC institutions as partners in investment program implementation would be different from the eligibility of the program for support, the criteria of which is provided in the RO framework paper[20]. Thus a regional operation does not have to involve all the countries in the REC or regional organization[21]. However, the Bank will encourage such a subset of REC member countries, including the non AU-designated RECs, to align their programs to those of the designated RECs towards strengthening the AU integration agenda. Where capacity is lacking, the Bank will help to build the necessary capacity to make the RECs effective partners.

6.3.3 Addressing Country Specificities: The reality of unequal and uneven development among RMCs requires that there should be flexibility for accommodating special circumstances and particular arrangements between participants in regional integration initiatives. Moreover, the issue of mixed neighbourhoods presents challenges, including for trade, capital, and labour movement agreements that need to be addressed.

The *Middle Income Countries (MICs)* have the potential to serve as catalysts for regional integration, and in line with the Bank's Middle Income Countries Strategy, opportunities will be identified to exploit the strengths of the MICs as growth poles and for experience sharing. However, there could be implementation constraints when some MIC neighbours are unwilling to borrow at market rates to finance regional integration programs. The Bank will enhance dialogue with these countries to strengthen their interest in regional integration issues and will also help MICs to prepare projects, using the MIC Trust Fund and the IPPF. The Bank will also play a catalytic role by mobilizing resources, especially from donors that can provide financing on concessionary terms, to support ROs in MICs.

Island Countries: In these countries, the promotion of financial integration and the development of some infrastructure projects such as airports, harbours and certain key hinterland roads have regional dimensions and impact, especially on trade. These areas will, therefore, be targeted in the CSPs and RISPs that involve island countries. In addition, the Bank will examine how some of the conditions of existing instruments, such as the ADF window and the IPPF, could be adapted to support programs in island countries.

Fragile States will also be given special capacity building support and other assistance through grants and technical assistance to facilitate their participation in regional integration initiatives, including preparation of bankable projects. The Bank will also continue to provide assistance for arrears clearance on a case-by-case basis under the Fragile States Facility.

Countries in Arrears: The Bank will maintain its sanctions policy for countries falling into arrears. In this regard, it is worth noting, however, that recent international actions on debt, including the HIPC program and the application of the Debt Sustainability Framework as well as the Multilateral Debt Relief Initiative (MDIR) have helped to provide significant debt-relief and abated the incidence of debt overhang. As indicated above, the Bank will continue to provide assistance for arrears clearance to Fragile States,

6.3.4 Internal Arrangements:

NEPAD, Regional Integration and Trade Department (ONRI): In view of the increased emphasis on regional integration, the Bank has established a dedicated Department, ONRI, to champion the Bank's regional integration and trade activities. ONRI fulfils a number of roles in

---

[20] See Sections 4.2 and 4.3 of the RO framework paper.

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

the management, implementation and monitoring of the strategy. These roles have both externally and internally-focused dimensions, and are outlined below.

Internal responsibilities include:

(i) prioritizing regional operations, including RPGs, to be financed by the Bank and assessing their development impact and strategic alignment;
(ii) monitoring alignment of Bank operations as well as complex, departmental and divisional business plans with the strategy and regular reporting on progress;
(iii) ensuring that regional dimensions are reflected in the CSPs and in Appraisal Reports of Bank operations;
(iv) mobilizing Bank resources to support regional integration activities, particularly for project preparation and capacity building; and
(v) provision of technical expertise relating to regional integration and trade aspects of programs and projects managed by other departments.

External responsibilities include:

(i) serving as the primary interface between the Bank and continental and regional bodies mandated with regional integration and trade;
(ii) managing the Bank's advocacy and policy dialogue agenda with external stakeholders;
(iii) engaging multilateral and bilateral DFIs and other members of the donor community on matters of co-ordination, knowledge exchange and resource mobilization;
(iv) discharging the mandate provided by the AU in respect of NEPAD; and
(v) managing trust funds and special purpose initiatives related to regional integration for which the Bank has been contracted.

Field Offices: The Bank has boosted its field presence by establishing field offices in about half of its RMCs. These field offices will play an important role in helping to program, coordinate and monitor implementation of ROs. The Bank plans to strengthen the capacity of the regional FOs with the placement of Regional Integration experts.

Communication: The Bank will use various communication channels to popularize its Regional Integration Strategy and to inform stakeholders about key activities. The Bank will also sensitize the public on the benefits and other aspects of regional integration. Staff will also be sensitized towards mainstreaming regional integration in Bank operations

6.3.5 Implementation Responsibilities

The Results Matrix (Annex Table 1) highlights the responsibilities of individual organizational units in respect of specific elements of the strategy.

6.4 Resource Implications

- Over time, the Bank will establish adequate internal expertise and capacity in a number of mission-critical areas, such as regional infrastructure, private sector development, and regional integration and trade policy.

- As indicated above, the implementation of the Bank Group Regional Integration Strategy will be mainstreamed in various departments across the Bank. Therefore, each Department will need to assess specific staffing and other resource gaps and ensure that these are addressed through recruitment, the budgetary process and targeted training. In addition, the Bank will provide incentives for staff to work on regional operations.

- The implementation of the Regional Integration Strategy will require an incremental scaling-up of the administrative budget resources to provide the Bank with the means and capacity to deliver in terms of professional competencies, skills mix, knowledge base, and staff numbers.

- As far as ONRI is concerned, the 2009 budget already includes three staff and resources to enhance skills-mix through consultancies (see Annex 3 for budget estimates for implementing the role of ONRI for the period 2009-2012). However, for the IPPF, which is a special fund supported by the donors, the Bank has committed to provide three staff, and this would be included in the mid-term budget review.

- For the 2010 financial year, outputs will be further scaled up in accordance with available resources. Within the confines of the staffing levels and budgets, however, amendments to business plans and work programs will be effected to align outputs wherever possible to identified priorities.

- In addition, the Bank will seek to leverage specialized expertise through technical assistance and secondments, aligned with the priorities of the strategy.

6.5 Risks and Mitigation

6.5.1 The implementation of a bolder strategy to accelerate the process of regional integration and provide impetus to unlocking Africa's trade potential is accompanied by a number of risks. The key risks, as well as mitigation measures, are summarized in the Results Matrix (Annex Table 1).

6.6 Results Framework

6.6.1 Results Matrix

The objectives, high-level actions, results and indicators associated with each strategic pillar are outlined in Annex 1.

6.6.2 Monitoring and Evaluation

At the level of individual initiatives and financing operations, the responsible departments will assume responsibility for monitoring progress with preparation and implementation. At program level, e.g. multinational and regional operations, governance, etc., the prescribed monitoring frameworks will be applicable.

OPEV will undertake periodic evaluations of selected initiatives, programs and projects supported by the Bank in the sphere of regional integration and trade, with a view to measuring the development effectiveness of Bank interventions and extracting lessons of experience to enhance future efforts by the Bank and other stakeholders. There will be a mid-term evaluation of the implementation of the strategy towards the end of 2011.

ONRI will prepare periodic (semi-annual) progress reports in respect of overall strategy implementation. ONRI will also prioritize regional operations to be financed by the Bank by assessing their development impact and strategic alignment. ONRI will also examine RPGs in the light of the agreed eligibility criteria and will be reporting to OpsCom.

7. RECOMMENDATION

7.1 The Boards of Directors of the African Development Bank Group are invited to approve the Regional Integration Strategy.

ANNEX 1: RESULTS FRAMEWORK

	Inputs & Activities	Responsible (Bank Lead* & Support Depts)	Short-term results	Benefi-ciaries	Indicators of immediate outputs	Bank's Indicative Target	Risks (R) and Mitigating Measures (M)
1	**Pillar I: Physical Infrastructure**						
1.1	Review of the STAP for project prioritization	ONRI*, OINF, OWAS, OPSM & OSGE	Implementation problems identified and Clarified	RECs and RMCs	One STAP Review every two years	Improve the quality of the review and monitoring process	R: Lack of appropriate financial instruments M: Develop appropriate financial instruments
1.2	Finalize PIDA (MLTSF)	ONRI*, OINF & ECON	PIDA Strategic Framework completed and adopted	RMCs, RECs and Continental Institutions	Report completed and buy-in of all stakeholders	Define the Strategic Framework for Infrastructure	R: Paralell initiatives by the RECs M: Increase cooridnation under the Coordination Mecanism for Infrastructure under the AU
1.3	Mobilize resources to support project p-reparation	ORPU*, ONRI	Adequate resources mobilized; IPPF replenished	RMCs, RECs, Regional	Amount of resources mobilized	Facilitate project preparation	Lack of donor interest to replenish IPPF
1.4	Bring projects to bankability stage through IPPF support	ONRI*,OINF, OWAS & OPSM	Priority projects financed and implemented	RMCs, RECs and Continental Institutions	Annually, four projects prepared per year; At least three projects reaching financial closure	Facilitate the implementation of key priority regional operations	R:Lack of countries ownership and capacity to interact M: Strengthen capacity of the RMCs and RECs
1.5	Assess feasibility and implement development corridors	ONRI*, ECON, OSAN, OINF & OWAS	Development corridor approach implemented;	NEPAD	One feasibility study completed per year; Start implementation of two corridor projects per year with Bank support	Promote corridor development	Risk: Non-priotization of the corridors by RECs and national governments M: Prioritize viable corridors; Capacity of RMCs strenghened; Skills developed and resources mobilised
1.6	Appraisal and financing of regional infrastructure projects	OINF,* OWAS*, OPSM* & OSAN	Projects approved and implemented as per processing schedule; and project objectives successfully achieved	RMCs, RECs and Continental Institutions	70% of projects approved per schedule; 60% of projects implemented and completed on schedule; and 100% achievement of project objectives	Facilitate the implementation of key priority regional operations	R: Lack of appropriate financial instiruments for regional projects; Lack o private investments in projects M: Develop appropriate financial instiruments for regional projects; Prioritization of regional projects; Use of more private investments through PPP

	Objectives	Responsible (Bank Lead* & Support Depts)	Expected Impact & Results	Reach	Performance. Indicators (means of verification)	Bank's Indicative Target & Timeframe	Assumptions, Risks (R) & Bank Mitigation (M) Measures
2	**Pillar II: Capacity Building**						
2.1	Support NEPAD Secretariat restructuring process	ONRI*, OSGE, ECON & OINF	Strengthened implementation of NEPAD programs	RECs and RMCs	Number of priority initiatives implemented	Enhanced capacity of continental and regional bodies charged with promoting regional integration	R: Lack of AU and NEPAD collaboration M: Enhanced dialogue with AU and NEPAD
2.2	Support RECs rationalization process and harmonization of programmes	UNECA* & ONRI	Effectively implemented RECs integration and trade mandates.	RECs and RMCs	Number of programs harmonized with Bank support	Enhanced capacity of continental and regional bodies charged with promoting regional integration	R: Lack of buy-in in some RECs to restructure - fear of loosing own M: Manage fears of REC staff through a participative restructuring process and possible rationalisation in future
2.3	Build capacity of RECs and Regional organizations	ONRI*, Sector derpartments	Capacity of RECs and Regional organizations to design and implement regional projects	RECs, Regional organizations	No of trained professionals at RECs and regional organizations	RECs and Regional organizations effectively delivering regional projects	R: Lack of resources; M: mobilize resources
2.4	Mobilize resources to support capacity building	ONRI* & ORPU	Partnership initiatives result in enhanced effectiveness of RECs	RECs and RMCs	Number of initiatives implemented. Percent of objectives achieved	Enhanced capacity of continental and regional bodies charged with promoting regional integration (continued)	R: Bank has limited resources available for multi-national operations; Capacity building at such a limited level that its impact very low or non-existent M: Ensure that resources are well-placed. Co-fund projects with other donors to maximize impact
3	**Areas of Strategic Partnerships**						
3.1	Provide capacity building through trade policy training & skills in negotiations of trade officials of Trade Ministries	ONRI*, ECON, JAI & WTO	Increased trade volumes amongst RMCs and btween African counties and the rest of the global economy	Africa	Two of capacity building initiatives implemented i.e. two training courses for two sub-regions	Strengthen trade capacity of RMCs and enhance negotiation skills of RMCs	R: Trade officials might attend courses but not be able to apply knowledge & "wrong" officials attend training M: Ensure that course content is well-developed and applicable. Confirm participation of people working on trade issues daily

	Objectives	Responsible (Bank Lead* & Support Depts)	Expected Impact & Results	Reach	Performance. Indicators (means of verification)	Bank's Indicative Target & Timeframe	Assumptions, Risks (R) & Bank Mitigation (M) Measures
3.2	Establish an Aid for Trade (AfT) Network including interactive website, database of trade practitioners & electronic newsletter	ONRI*, ECON & UNECA	Improved access to information by national governments, RECs, NGOs. Donors on AfT bankable projects, exchange information, lessons learnt on trade and regional integration issues	RECs and RMCs	AfT Network established, with active participation and usage statistics on website visitors (200 hits per day after I year), number of contacts on data-base (800 updated contact detail mid-2009), Four of electronic newsletters published per annum.	Strengthen trade capacity of RMCs	R: AfT pratitioners do not utilise website to access information; RECs have own AfT Agenda; Newsletter not being read by AfT practioners M: Make sure website is updated on regular basis, promote it amongst RECS as helpful tool; Get buy-in from RECs on all AfT activities; Get AfT practioners to contribute to Newsletter
3.3	Support establishment of regional macroeconomic and governance mechanisms	OSGE* & ONRI	Improved macroeconomic convergence & management	RECs and RMCs	Seven Bank interventions concluded i.e. convergency assessments per annum		R: Lack of progress on agreement on covergence M: Improve dialogue with RECs; Enhance support for economic reforms
3.4	Assist in strengthening regional payment mechanisms	ONRI* OSGE, & OPSM	Increased and more efficient capital flows	RECs and RMCs	_____ Bank initiatives concluded	Enhanced business environment	R: Lack of progress on agreement on covergence M: Improve dialogue with RECs; Enhance support for reform of payment systems
4	**Managing Implementation of the Regional Integration Strategy**						
4.1	Develop Regional Integration Strategy Papers (RISPs)	Regional Depts.* ONRI and Sector Departments	Alignment of Bank opera-tions to RI	RMCs and RECs	Four RISPs finalized	Mainstreaming RI in Bank operations	R: Absence of shared RI vision in the Bank M: Ensure a strong drive to promote RI and trade in the Bank
4.2	Align sector strategies and business plans to RI strategy	ONRI*	RI strategic objectives achieved	RMCs and RECs	Individual business plans reflect RI objectives and action plans	Mainstreaming RI in Bank operations	R: Absence of shared RI vision in the Bank M: Ensure a strong drive to promote RI and trade in the Bank
4.3	Finalize ONRI skills gap analysis and implement HR Action Plan	CHRM* & ONRI	RI expertise scoped and gaps identified	RMCs and RECs	HR action plan drafted and approved	Equip the Bank to implement the RI strategy	R: Delayed process to appoint staff in the Bank M: Expedite the process with CHRM and use consultants in the intrim

ANNEX 2: BRIEF ON CURRENT BANK INITIATIVES IN SUPPORT OF REGIONAL INTEGRATION

INITIATIVES	OBJECTIVES	ACHIEVEMENTS	TIMELINE
PILLAR 1: REGIONAL INFRASTRUCTURE			
1) NEPAD-Short Term Action Plan (STAP)- Review and Update	*To fast track the implementation of NEPAD flagship projects*	▪ *46 Projects financed by AfDB at US$ 2.1bn (2002-2008)* ▪ *Two reviews undertaken so far (2003 and 2004)*	▪ *Third Review to be completed on 2009*
2) Program for Infrastructure Development in Africa (PIDA)	*To develop:* ▪ *a strategic framework for regional and continental infrastructure- Transport, Energy, Trans-boundary water & ICT* ▪ *an investment program to 2030; and* ▪ *an implementation strategy and process.*	▪ *Term of reference under finalization* ▪ *Concept note prepared*	▪ *Short listed consultants- mid Feb. 09* ▪ *Study commencement – May 09* ▪ *Completion March. 2010*
3) NEPAD-IPPF Special Fund	▪ *Assist African countries, RECs to prepare viable regional/ continental projects to attract public and private financing* ▪ *Support enabling environment for private sector.* ▪ *Support targeted capacity building initiatives.* ***Established in 2004: Amount mobilized so far: US$ 36 m*; Current membership: Canada, Denmark, Germany, Norway, UK & AfDB***	▪ *27 Regional projects financed for a total commitment of USD 17,1m* ▪ *12 projects approved in 2008 for a total commitment of USD 8,8m* ▪ *3 projects under physical implementation* ▪ *6 projects reaching financial closure by end 2009* ▪ *ADB contributed financially in 2008 from Net Income*	On-going

* Using current exchange rates US$ and contributing countries' currencies.

INITIATIVES	OBJECTIVES	ACHIEVEMENTS	TIMELINE
<u>PILLAR 1: REGIONAL INFRASTRUCTURE</u>			
4) Coordination Mechanism for Infrastructure Development (CM)	▪ *Harmonize approaches and strategies of different actors intervening in infrastructure development.**(Paris Declaration)*** ***<u>Expected results</u>*** ▪ *Infrastructure Development process streamlined* ▪ *Role of different institutions fully clarified* ▪ *Sectoral process for projects prioritization is established* ▪ *Donors alignment to regional priority is achieved.*	▪ *Several meetings held* ▪ *Concept note prepared*	*Operationalization to begin by March 2009*
5) Prioritization Approach to Regional Operations (ROs)	▪ *To define sound criteria for selection of regional projects* ▪ *To harmonize selection process and sequencing implementation of cross-border infrastructure*	*Broad criteria are being developed and* will be detailed in the approach paper	▪ *Interim criteria to be finalized and presented in April 09 at the ICA Annual Meeting* ▪ *Final continent wide criteria for ROs will be determined by the PIDA early 2010.*
6) Development Corridors	▪ *Identify ongoing and planned corridors (transport, and development …)* ▪ *Prioritize and sequence the implementation* ▪ *Build capacity for countries and institutions involved* ▪ *Address common development challenges (geographical handicaps, island, …)* ▪ *Address crosscutting issues (climate change, gender,)* ▪ *Catalyze down-the-line Public Private Partnerships investments*	*Concept note being finalized*	▪ *Work commencement : 2nd Half of 2009* ▪ *Completion by 2010.*

INITIATIVES	OBJECTIVES	ACHIEVEMENTS	TIMELINE
PILLAR 1: REGIONAL INFRASTRUCTURE			
7) Review and Update of the AU/NEPAD African Action Plan	▪ *To develop a strategic framework for the AAP;* ▪ *To prioritize program/projects and sequence the implementation;* ▪ *To establish processes and mechanism for resource mobilization.*	▪ *Review launched in January 09.*	▪ *The reviewed AAP to be ready by March 09* ▪ *Presentation at the next APF Meeting April 09.*
8) Resource mobilization for NEPAD projects	▪ *To mobilize adequate resources for NEPAD programs/projects from private sector, sovereign funds, and new potential Development Banks.*	Preparation under way	▪ *Joint NEPAD/ADB mission planned for March 2009 to the Gulf States* ▪ *Missions and road shows planned for 2009-2012* ▪ *Resource mobilization strategy for NEPAD program to be implemented by end of 2009.*
9) Infrastructure Consortium for Africa (ICA)	▪ *To make its members more effective by pooling of efforts together in order to finance key areas in infrastructure* ▪ *Promoting partnership for resource mobilization for implementation of infrastructure projects* ▪ *Coordinate and harmonize their interventions* ▪ *Reduce duplication and transaction costs.*	▪ *Annual reports which indicates the flows of commitments prepared* ▪ *Efforts to engage emerging partners (China, India, Russia…)undertaken*	*On-going*
10) ADF XI Multinational Window	▪ *To finance multinational projects qualified for the ADF XI (17,1% of ADF Operation)* ▪ *To promote regional integration by increasing its financing* ▪ *To encourage countries to commit to regional projects*	▪ *More than US$ 400m for regional infrastructure in 2008;* ▪ *Growing regional projects pipeline; 2009 US$ 915 m*	*To be fully utilized by 2010*

INITIATIVES	OBJECTIVES	ACHIEVEMENTS	TIMELINE
PILLAR 2: INSTITUTIONAL CAPACITY BUILDING			
1) Capacity Building for the RECs	▪ *Establish a platform to support capacity development of RECs in achieving regional integration through:* ▪ *Institutional Development (ID);* ▪ *Organizational Development (OE);* ▪ *Knowledge and Skills development (KS)* ▪ *and the utilization of the NEPAD-IPPF window* ***"Infrastructure Capacity Building"***	*Concept note being finalized*	▪ *Prepare Regional Program : June 09;* ▪ *Regional Donor Meetings 2009-2010 (each RECs separately)*
2) Capacity Building for the NEPAD Secretariat	▪ *Enhance NEPAD Secretariat Technical capacity for better operation* ▪ *Provided targeted capacity for the Secretariat* ▪ *Assist with the processes and internal organizational systems*	▪ *Recruitment of 3 experts launched in December 2008*	▪ *Enhanced support to be provided after AU been agreed on the future of NEPAD.*
3) A joint Secretariat (AUC, UNECA and ADB)	▪ *Facilitate meetings between policy organs of AUC, UNECA, and AfDB.* ▪ *Enhance definition, and implementation of joint projects & programs*	▪ *Documents finalized*	▪ *Establishment of the Secretariat: mid 2009* ▪ *Board paper March-April 09*
4) Aid for trade	▪ *Increase countries productive and trading capacity to fully benefit from new trade opportunities, diversify production and exports.* ▪ *Identify prioritized projects for financing under AfT (AfDB pipeline, RECs)* ▪ *WTO,ECA and AfDB to create "Aid for Trade Network"* ▪ *Monitoring and evaluation* ▪ *Prepare AfT plans at national and regional level* ▪ *Prepare a Business Plan for Trade finance program*	▪ *Africa Aid for Trade Network started by capturing contact detail of 900 AfT practitioners on database. achieved* ▪ *Five bankable projects have been identified.* ▪ *Donors questionnaires partially completed* ▪ *Contact points identified for Recipients questionnaires.* ▪ *Sub regional meetings are being prepared.*	▪ *Global review: Mid 2009;* ▪ *Trade finance Business Plan: Mid 2009; on-going.*
5) Support to AU	▪ *Provide technical support to AU Summit organization* ▪ *Support the AUC with knowledge and programs* ▪ *Institutional support to AU for Infrastructure Development*	▪ *12th AU Summit Organized* ▪ *Concept note is prepared and reviewed* ▪ *Expecting approval date of Board June 09*	*Completed*

INITIATIVES	OBJECTIVES	ACHIEVEMENTS	TIMELINE
AREAS OF STRATEGIC PARTNERSHIPS AND CROSS-CUTTING ISSUES			
1) Support to Financial Integration	▪ *Enhance Financial system's ability to mobilize and allocate resources* ▪ *Support private sector development, regional and International trade* ▪ *Support ultimately growth and poverty reduction*	▪ *Stakeholder's conference organized to validate the Study.* ▪ *Study being revised for publication*	▪ *Specific projects to be identified with RECs -April 09* ▪ *Sensitization of donors-June 2009* ▪ *Implementation of identified projects 2010.*
2) Macro-economic Convergence Study	▪ *Suggest appropriate revision of convergence criteria* ▪ *Propose regional institutional framework to manage convergence*	*Paper completed, to be circulated for comments*	▪ *Way forward agreed with RECs and donors-August 2009*

ANNEX 3: THE MEDIUM-TERM BUDGET PROJECTION OF THE NEPAD, REGIONAL INTEGRATION AND TRADE DEPARTMENT

ONRI Estimated Budget Requirements (UA)*

Program Element	2009	2010	2011	2012
Regional Assistance Strategies	167,640	-	-	-
RECs Capacity Building and Rationalization	432,211	475,433	522,976	549,125
NEPAD-IPPF	900,836	990,919	1,078,780	1,174,866
STAP	315,157	-	-	-
PIDA	715,000	715,000	-	-
Development Corridors	232,618	168,351	174,992	192,491
NEPAD African Action Plan	219,562	-	-	-
Technical Meetings	104,811	115,293	126,822	139,504
Coordination Mechanism	27,829	27,829	27,829	27,829
Joint Secretariat	-	451,773	406,596	447,255
Other Activities:				
Financial Integration	106,799	112,139	123,353	135,688
Aid-for-Trade	228,823	251,705	276,876	304,564
Human Resources (New Staff Salaries)	236,285	968,825	-	-
Total	**3,687,571**	**4,277,267**	**2,738,224**	**2,971,322**

*The Budgetary projections are based on the following assumptions:

General Assumptions

- In implementing the Regional Integration Strategy, the department will undertake a higher number of missions each year, including project identification, preparation, supervision, stakeholder consultations, information sharing workshops, capacity building workshops, and other ad hoc missions as deemed necessary.
- Assumptions for missions (number of staff and consultants as well as mission duration) have also been calculated based on historical experience.
- Consultation missions are also envisaged to facilitate work.
- Adequate human resources remain a challenge, and additional staffing may be proposed following the mid-term review. Meanwhile, consultants will be used to fill important gaps and to attain the right skills mix.

- Additional staff recruitments are expected to complete by 2010. Major and expensive programs, including the last STAP Review and the formulation of PIDA are expected to be completed in 2010, reflecting in lower budgets for 2011 and 2012.
- Increases in costs have been built in based on historical trends

Additional assumptions underlying the budget requirements for specific programs and initiatives in the department's 2009 – 2012 Work Program are briefly summarized below.

RECs Capacity Building and Rationalization

- Programs of support (with individual Action Plans for human and institutional capacity building) will be developed for AU, NEPAD, SADC, COMESA, EAC; and IGAD in 2009 and for ECOWAS, CENSAD, UMA, and ECCAS in 2010. In 2011, support programs will be developed for Power Pools, including EAPP, WAPP, SAPP, and CAPP.
- Meetings will also be organized to mobilize support of other donors

Regional Integration Assistance Strategies (RIAS)

- Four Regional Integration Strategy Papers for the four sub-regions will be finalized in 2009. ONRI costs include only staff missions. It is assumed Regional Departments will bear cost of organizing stakeholder workshops and for involvement of consultants

NEPAD-IPPF

- Minimum assumptions for Annual activities include missions and consultancies for 4 new project identification; 5 project preparation/information activities; 5 supervision missions; 5 Project Completion reports.
- From 2010, the project supervision rate is expected to rise to 1.5 and to 2 in 2011. This will result in a target of two supervision missions per project per year.
- Budget provisions are also made for resource mobilization missions; and for organization of Oversight Committee and Donor Coordination Meetings;
- An independent evaluation of the Fund will be carried out in late 2009. A website and quarterly newsletter will also be launched in 2009.

NEPAD Short-Term Action Plan (STAP)

- The exercise will be completed in 2009 with no further budget requirements.

Program for Infrastructure Development in Africa (PIDA)

- Resources already mobilized for this project include: UA 1.67 million from ADF X; $1.40 million from the NTCF; and EUR 2 million from the AU Commission.
- Projections only reflect the financing gap for this project.

Development Corridors

- Budget provisions for 2009 relate to staff and consultants costs for consultations with RECs, formulation of Bank Action Plan and prioritization of Corridors;
- Capacity building activities envisaged from 2010

NEPAD African Action Plan

- Review to be undertaken and finalized in 2009, in line with the request of the Africa Partnership Forum (APF).
- Consultancy costs and Staff missions to review the Action Plan. Other participating organizations (AUC, NEPAD; ECA) to bear own costs. Consultant to finalize the plan in 2009.
- Two APF meetings envisaged in 2009.
- No further budgetary allocations are expected beyond 2009.

AUC Coordination Mechanism

- Includes only staff participation in coordination meetings.

Joint Secretariat

- Includes Bank's share of financial commitment for the support of the activities of the Joint Secretariat. It is assumed that the resources will come from ONRI's budget.

Additional Activities

I Financial Integration and Aid-for-Trade

- Implementation of programs will be mainstreamed in the Operations budgets of the relevant departments;
- Budget reflects ONRI staff missions for consultations with donors and RECs as well as other technical meetings;

II. Aid-for-Trade

- Includes budgetary provisions for sub-regional review missions; dissemination; and M & E activities

Technical Meetings

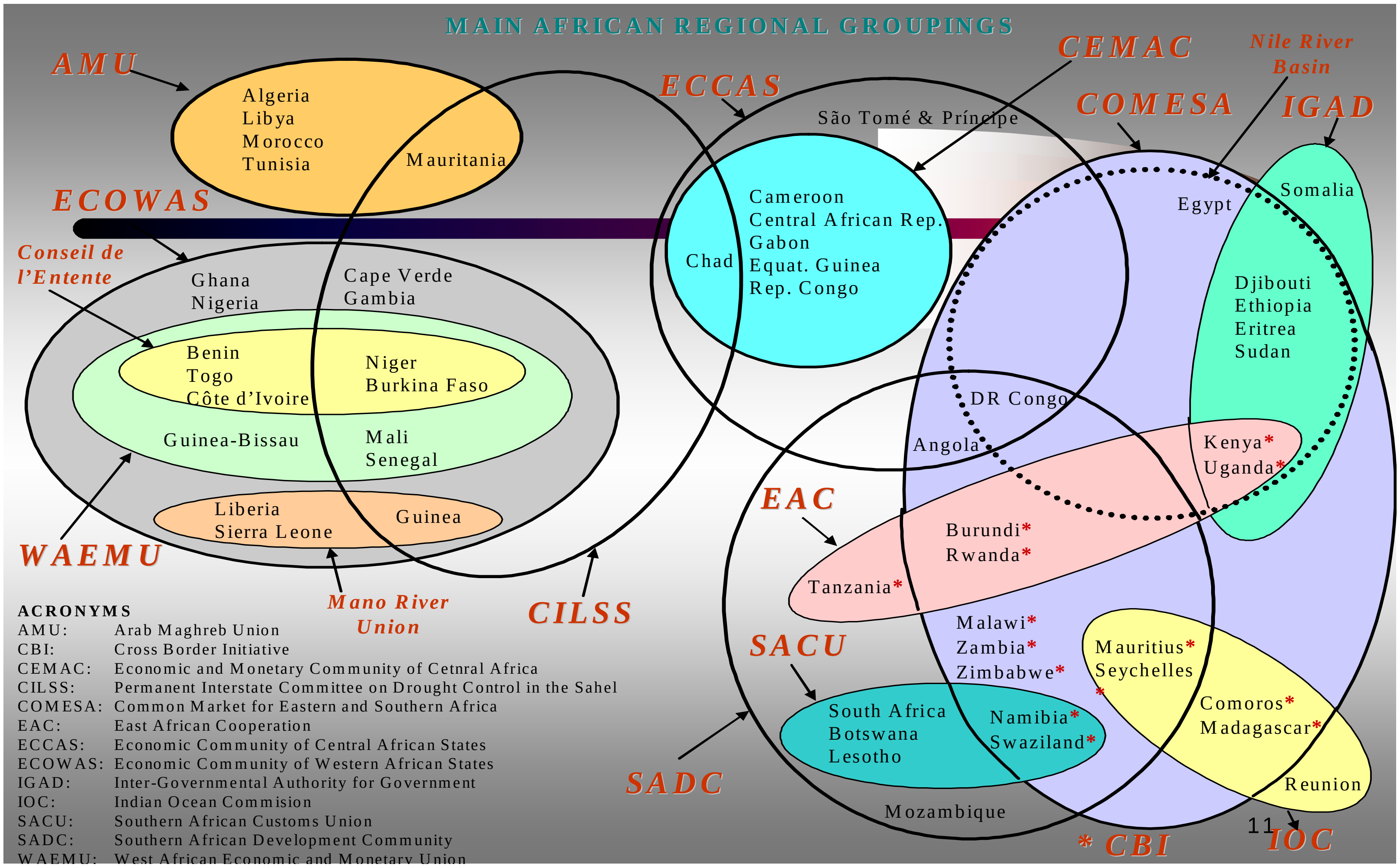
- The Department also participates in Technical Meetings and donor consultations on invitation

Human Resources

- Excludes positions already approved

- Additional projected staff requirements, include:
  - For 2009: 3 PL positions for Departments and 2 additional positions for IPPF. Requests for these additional IPPF positions to be made during the mid-term budget review;
  - For 2010: 1 PL position for the Department and 2 additional PL positions for IPPF

ANNEX 4: MOSAIC OF REGIONALISM IN AFRICA



ANNEX 5: IMPLEMENTATION CHALLENGES OF REGIONAL OPERATIONS

The major implementation challenges of multinational operations in the African environment relate to a number of factors exogenous to the Bank and other development finance institutions. However, recent reviews, both of the ADB and the World Bank's regional operations, have revealed that there are also weaknesses in the internal organization and financing modalities of these institutions that could be addressed to enhance implementation performance.

I Challenging Environment

The exogenous factors that beset the implementation of multinational programs range from the level of the RECs to the RMCs, and may be summarized as follows:

A. At the Continental and REC level

- The proliferation of RECs, with overlapping mandates, and which are under-capacitated and under-resourced
- Low capacity of the RECs and other regional institutions.
- Differential capacity of the RECs, which is reflected in ability to mobilize resources as well as to design and implement programs.

B. At the Country Level:

- ***Country ownership***
- Garnering ownership from the variety of stakeholders requires significant time and resources.
- There is need for Development Plans of RMCs to afford greater attention to regional and economic integration.
- There is also need for RMCs to ratify protocols of agreement on key regional integration policies of intra-and inter-regional trade, the legal and regulatory reform necessary to open up borders for free movements of people as well as goods and services.
- ***Other challenges at the national level include***
- Budgetary constraints
- Limited absorptive capacity
- Limited project preparation and implementation capacity
- Lack of harmonized frameworks
- For island countries, definition of operations with regional impact that could be considered eligible for financing under the Multinational window.

C At the Project Level

- Coordination problems within regional projects are significant because of involvement of several stakeholders at REC and national levels as well as different civil society organizations, multiple donors, and sometimes different internal Bank Group departments.

- Legal issues could involve need to negotiate legal frameworks between countries, factor in existing international legal relationships, define legal status of regional organizations, and cover also compliance issues.
- Safeguards issues have to be negotiated for national and regional level concerns not only during project implementation but also after implementation.
- Procurement and financial management issues could involve reconciling multiple procurement and financial management systems and complex arrangements to ensure appropriate division of responsibilities. These challenges are exacerbated by the typically large and complex nature of multinational projects.
- Monitoring and evaluation systems across countries and regions are often very different, and in some cases very difficult.

D Additional Challenges for Private Sector Projects

- Unfavorable investment climate, as several investment promotion policies do not have regional dimensions;
- Capacity to define a clear role and opportunity for private sector within the regional setting is weak;
- The local financial and capital markets do not also favor the mobilization of resources for regional projects; and
- The capacity of regional project sponsors to design framework for PPPs in regional projects is weak.

II Challenges at Bank Level

A. Organizational Challenges

In view of the challenging environment for and complications of regional projects, the operations have to be organized and financed differently from those of national projects, and in recent years, the Bank has undertaken reforms to improve its implementation of multinational programs, including the establishment of relevant Vice Presidencies and Departments. Some challenges, however, remain. In particular,

- CSPs should improve their coverage of regional integration issues and thus encourage the formulation and implementation of regional programs.
- The Bank's Field Offices also need to be reinforced with the requisite capacity to assist in designing and implementing regional operations. For example, the Ethiopia Office does not have a dedicated officer to deal with regional matters despite being at the location of the AU Commission and the ECA.
- Regional projects require more resources for preparation and supervision than single-country projects for obvious reasons, and it is necessary to scale up allocation of budget and time to facilitate their quality preparation, implementation, and supervision. The required resources will be determined in the business plans of various departments.
- Reflecting their difficult and complex nature, regional projects also require appropriate skills**.** Country and Regional teams will be reinforced to include appropriate staff numbers and skills mix.
- Incentives should be built into performance management system to foster a regional operation culture and to encourage staff with desired skills to manage and work on regional projects.

B. Financing Challenges

There are also challenges regarding the financing modalities. Under the ADF XI, the following aspects of the financing policy can be flagged:

Cost-sharing: The cost sharing policy in regional operations was introduced to underline the need for good performance and to build ownership and commitment, but there are also some emerging difficulties in the implementation of the policy:

- Cost-sharing is not the only measure for ownership, and other measures should also be considered such as national budgetary allocations for regional programs.
- The cost-sharing formula is more linked to country performance allocation rather than to the regional performance. Therefore, it makes regional development hostage to non-performance of possibly a single country in the region for an operation involving several countries.
- The policy can easily cause absorption of a significant portion of PBA-derived allocations of countries involved in several regional operations, and can be an additional source of tension in the prioritization of national and regional projects.
- The tension in the prioritization of national and regional projects is particularly acute in the fragile states, which have to meet huge financing needs from their normally small allocations. They also suffer as orphan states as far as external donor funding is concerned, further constraining their margin for maneuver in resource allocation.
- The issue of cost-sharing is further constrained by the front-loading policy under the PBA, which may limit the availability of resources even for those countries willing to contribute.

Arrears: The current sanctions policy on arrears has the consequence of preventing the implementation of a regional program if one country is under sanction.

Financing of RPGs: In the case of operations in support of regional public goods (RPGs) involving multiple countries and/or RECs, the Framework provided that these may be "proposed on a selective basis. However,

- There are difficulties in the definition of RPGs, which, for example, may exclude border posts.
- The envelop of RPGs is limited, yet there is an increasing demand for projects of a RPG nature due to the severe effects of climate change, past negative natural resources management practices, conservation of water resources (for example Lake Victoria), and for one-stop border posts that is proving difficult to ignore.

Blending: Differences in Bank Borrower status (ADB, ADF, grant-eligible) among member countries also impact country incentives to sponsor a project. The Bank has experienced such difficulties while processing the Kazungulu Bridge study and the OMVG Hydropower project.

REC financing: Under the current ADF XI Framework, regional organizations are eligible to draw on ADF loan resources to finance multinational operations. However, the loans to these organizations have to be guaranteed by their ADF-eligible member states. It is difficult to secure such guarantees. In such circumstances where a guarantee cannot be legally provided, grant funding may be provided, on a case by case basis, subject to Board approval. However, since the provision of guarantee is likely to continue to be an exception, the flexibility introduced will tend to become the rule.

The Way Forward

Organizational: The Bank must continue to reform the organization of its support to regional integration, in line with the lessons learned, including ensuring strategic alignment and design in a regional context, fostering regional ownership and participatory approach, ensuring that effective coordination mechanisms and accountable partnership arrangements are in place, encouraging adoption of harmonized procurement systems, leveraging private sector involvement as well as allocating appropriate and adequate financial and human resources to deliver programs.

Financing and instruments: The paper to be prepared for the ADF XI Mid-Term Review will consider, among others, the following possible solutions on which no decision has yet been taken:

- Introduce flexibility in the cost-sharing requirements and have special consideration for Fragile States
- On RPGs, the Bank must endeavor to be pragmatic in the application of the eligibility criteria and explore the possibility of increasing the size of the RPG envelop as well as the financing of all RPGs through grants
- Regarding blending, the Bank must (i) play a catalytic role to mobilize concessional resources to encourage Middle-Income countries to participate in multinational operations; (ii) enhance the utilization of the MIC Trust Fund and the IPPF for project preparation; and (iii) consider the possibility of setting up a Supplementary Financing Facility from net income allocation to blend ADB resources for Middle Income countries.
- On front-loading issue, the Bank must introduce flexibility and allow frontloading for countries that have a good track record of past performance.
- The Bank must explore the possibility of introducing flexibility in financing from the ADF Multinational Window to accommodate island countries for certain infrastructure projects on the basis of their regional impact.

ANNEX 6: AU RECOGNIZED RECs & THEIR MISSIONS / STRATEGIES

NAME	REC MEMBERSHIP	Year Est.	REC MISSION/STRATEGY
CEN-SAD	Benin, Burkina Faso, Central African Republic, Comoros, Cote d'Ivoire, Djibouti, Egypt, Eritrea, Gambia, Ghana, Guinea, Guinea-Bissau, Libya, Liberia, Mali, Morocco, Niger, Nigeria, Senegal, Sierra Leone, Somalia, Sudan, Chad, Togo, and Tunisia	1998	• Establishment of a global Economic Union that complements the national development plans • Ensure the removal of all restrictions hampering the integration of the member countries • Free movement of persons, capital, services, goods and nationals of member States; • Right of establishment, ownership and exercise of economic activity; • Free trade among member States; and promotion of external trade through an investment policy
COMESA	Burundi, DRC, Comoros, Djibouti, Egypt Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan Kingdom of Swaziland, Uganda, Zambia and Zimbabwe	1994	• Promotion of economic and social prosperity for the benefit of the populations of the Community. • Trade liberalization and facilitation and creation of a conducive environment for investment, • Development of ICT, transport infrastructure and consolidation of macro-economic stability, • Creation of Free Trade Area followed by a Customs Union and a Common External Tariff • Strengthening of relations with development partners.
EAC	Burundi, Kenya, Rwanda, Tanzania and Uganda	1997 (after disbanding in 1977	• Enhance the region's competitiveness through ever deeper integration – starting by a Customs Union, followed by a Common Market, a Monetary Union and ultimately a Political Federation of East African States
ECCAS	Angola, Burundi, Cameroon, Central African Republic, Gabon, Republic of Congo, DRC, Equatorial Guinea, Sao Tome & Principe and Chad	1983	• Creation of a Central African Common Market; • elimination of import and export taxes, duties and all forms of levies between the member states; • abolition of quantitative and other restrictions on intra-community trade; • creation of a sustainable and autonomous financing mechanism • Physical integration to open up totally or partially landlocked countries; • Promotion of peace, security and stability in Central Africa

ECOWAS	Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo	1975 Treaty amended in 1993	• Promotion of economic and monetary union and social and cultural integration; • Maintenance of economic stability; • Enhancement of living standards of populations and sound relations between states • Policy and program harmonization and regulation.
IGAD	Djibouti, Eritrea, Ethiopia, Kenya, Somalia, Sudan and Uganda	1996	• Promotion of regional cooperation + integration for sustainable development, peace and security • Sectoral policy coordination with respect to trans-boundary operations with regional relevance, particularly agricultural, food security, environmental protection and Trade and Infrastructure • Close collaboration among its Member States on the utilization of shared resources • Pragmatic and progressive approach of issues in line with available resources.
SADC	Angola, Botswana, DRC, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe	1992	• Achievement of economic integration and development to improve the well-being, standards of living and quality of life of the peoples of Southern Africa; • Creation of a Free Trade Area (FTA) by end 2008 • Finalization of a Customs Union by 2010 and Common Market by 2015 • Efficient and sustainable utilization of resources of the region and environmental protection
The Arab Maghreb Union (UMA)	Algeria, Libya, Mauritania, Morocco and Tunisia	1989	• Economic and policy harmonization and integration in all areas to ensure, *inter alia*, economic, industrial, agricultural, trade and social development • Free movement of persons, goods, services and capital among the member states; • Establishment of an FTA and a customs union, subsequently, for the well-being of the UMA populations.

ANNEX 7: STRATEGIES OF KEY PARTNER INSTITUTIONS AND INTERNATIONAL ORGANIZATIONS

NAME	MEMBERSHIP	Year Est.	STRATEGY AND MISSION
African Union	Pan-African	2002	• Attain political and economic integration of the continent • Promote the sustainable economic development of African countries • Create an African common market, central bank and monetary fund, and ultimately, an African Economic Community with a single currency by 2023. • Promote democracy, human rights, peace and security on the continent.
New Partnership for Africa's Development (NEPAD)	Pan-African	2001	• A program of the African Union and soon-to-be specialized agency. Its objectives: • eradicate poverty, promote sustainable growth and development, facilitate Africa's integration into the global economy and step up the empowerment of women; • Focus on selected pillars: political, economic and corporate governance; infrastructure development; market access and agriculture; human development, including health, education and poverty eradication; and resource mobilization, including domestic resources, private flows, ODA, and debt reduction; • Deliver results by fostering partnerships at three levels: (i) global level, between African and its external partners; regional level, among African countries; and national levels, between African Governments and their citizens, private sector and civil society; • Established structures to set implementation policy and monitor progress: (i) for NEPAD -- the Steering Committee, the Heads of State and Government Implementation Committee; (ii) for APRM: the Panel of Eminent Persons, the Forum of Heads of State and Government; and (iii) with External Partners: The Africa Partnership Forum • Designated Technical Institutions as Strategic Partners • Ongoing Active Programs include: (i) the African Peer Review Mechanism and conflict resolution; (ii) implementation of the short-term action plan for regional infrastructure development, and formulation of the medium and long-term strategic Program for Infrastructure Development in Africa; (iii) implement the food security and agricultural development program; and (iv) international advocacy and dialogue on Market Access, debt relief and ODA reforms.
World Bank	185 member countries	1944	• Develop regional infrastructure - coordinated approaches to create regional and sub-regional transport, energy, and communication networks • Foster institutional cooperation for economic development - support to RECs to implement and harmonize customs unions and FTAs and assist with ongoing trade negotiations. • Coordinate interventions aimed at creation of regional public goods • Link regional and national planning and develop capacity in RECs to attain this objective – hence ADB/WB REC capacity development initiative
European Union			• Support regional political stability as a precursor for economic development • Support creation of larger and more effective markets; and • Help tackle regional challenges (RPGs) such as AIDS, protection of natural resources and migration. • Strategy delivered through Political partnerships; Development Policy; and Trade Policy
DBSA	South Africa		• Generate hard and soft asset investment that support broad-based wealth creation (infrastructural and productive capital) to step up sustainable socio-economic development • Create, mobilize and disseminate knowledge in support of greater development effectiveness, innovation and setting up of an enabling development environment;

BCEAO	Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal, Togo	1961	• Pooling of foreign exchange reserves; • Management of the monetary policy of WAEMU member states; • Keeping of the accounts of the member states Treasury; • Definition of the banking law applicable to banks and financial establishments.
BOAD	Same as BCEAO	1973	• Promote economic integration and balanced development among the member states of WAEMU. • Provide project financing in various sectors including rural development, road infrastructure, telecommunications, energy, industry, transport, rural development and tourism.
BEAC	Cameroun, CAR, Chad, Republic of Congo, Equatorial Guinea, and Gabon	1972	• Pooling of foreign exchange reserves; • Management of the monetary policy of CEMAC member states; • Keeping of the accounts of the member states Treasury; • Definition of the banking law applicable to banks and financial establishments

ANNEX 8: COUNTRY AND REC GROUPING FOR SUB-REGIONAL RISPs

REGION	COUNTRIES	AU-DESIGNATED RECs	OTHER RECs & REGIONAL INSTITUTIONS WITH VESTED INTERESTS	ORVP DEPARTMENTS CONCERNED
North Africa	Algeria, Libya, Mauritania, Morocco and Tunisia	AMU, CEN-SAD,	COMESA	ORNA, ORNB
West Africa	Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo	ECOWAS, CEN-SAD	WAEMU, BCEAO, WAMZ, WAPP, MRU, BOAD,	ORWA, ORWB
Central Africa	Cameroon, Central African Republic, Gabon, Republic of Congo, DRC, Equatorial Guinea, Sao Tome & Principe and Chad	ECCAS	CEMAC,	ORCE
Eastern and Southern Africa	Angola, Burundi, Comoros, DRC, Djibouti, Egypt Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan Kingdom of Swaziland, Uganda, Zambia and Zimbabwe	COMESA, EAC, SADC, IGAD	SACU, EAPP,	OREA, OREB, ORSA, ORSB

ANNEX 9: Proposed Criteria for Ranking of Regional Projects for Implementation- A two-level approach

Studies Stage	Investment Stage
Member States • The member states sponsoring the project must have it as a priority reflected in their own national plans • The member states must be prepared to make a contribution as and when necessary • The states must also commit to establish a special purpose vehicle should the study indicate the project viable • The states must consider harmonization of their legal, policy and regulatory frameworks	• The member states must have the project reflected in their national plans as a high priority • The member states must have their budget ready for contribution to the implementation • The states must have a special purpose vehicle established with necessary legal powers to implement the project • The legal, policy and regulatory frameworks harmonized for the project
RECs • The project must be on the priority list of the REC, or regional institution concerned • The REC must be ready to commit some resources to the study as may be necessary • REC should take the lead in ensuring harmonization of policies, legal and regulatory environ met to facilitate project objectives	• The project is prioritized by the regional institutions concerned • The RECs have budgeted for their component of resources requires for the project • RECs ensure that the policies, legal and regulatory environment is harmonized • RECs to confirm the establishment of the Special Purpose Vehicle for implementing the project with necessary powers.
Development Partners • The potential must exist for raising funds for the study • The potential for the project to go to implementation • Support by partners in line with African priorities	• The investors with interest identified and resources for investment mobilized • The viability of the project fully established • The project is in line with African priorities in contributing to reduction of poverty on the Continent

DRAFT BANK GROUP REGIONAL INTEGRATION STRATEGY REVISIONS MADE SINCE THE SEMINAR WITH THE REC CEOs

Executive Summary: New: para 2.6. 2.7. and 2.8, reflecting changes made in the document.

1. Introduction

- ***Para 1.3*** Write up on the Strategic and Operational Framework for Regional Operations (RO paper) made more focused.
- ***Para 1.5 (New):*** A paragraph on the consultation process which informed the formulation of the Strategy.

2. Opportunities and Challenges to Regional Integration

Opportunities

- Para 2.1.1 Reference to Africa benefiting from the burgeoning demand for commodities modified to reflect just the continent's interest in global demand for commodities.
- Also added that: *Although the unfolding global crisis has momentarily dampened demand for commodities, longer periods of industrialization in the emerging economies should bode well for Africa when the global economy begins to recover.*

Challenges

- **Para 2.2.6 (New):** The global financial crisis flagged as an emerging challenge to the implementation of regional operations
- **Para 2.2.8 (New):** Indication that a paper being prepared for the ADF XI Mid-Term Review will provide further treatment of the challenges.
- ***Box 1 (New):*** An example and a summary of project-level challenges to the financing and implementation of regional projects

3. Experience of the ADB Group and Development Partners

ADB Group Non-Lending Activities

Para 3.2: The following added:
- Bullet 3: *The ADB has forged strong partnerships with the UNECA and the AUC, and contributed to the study, which formed the basis of the streamlining of the RECs.*
- Bullet 4: *The Bank is also finalizing a study on regional financial integration and on macroeconomic convergence.*

Para 3.4.1 Results from OPEV's review of Bank Group ROs are indicated to be preliminary.

ADB Lending Operations: Data quoted made more focused.
Focus on Development Partners: Moved from Para 3.5 to 3.3

4. Outline of the New ADB Strategy

Deleted: Sections on Vision and Rationale
Section on outcomes revised to include: *The establishment of a more effective African "voice" on issues of development and* regional integration *(instead of trade) outcomes,*

5. Pillars of the Strategy
Most paragraphs presented in bullet format to make more reader friendly

The rationale or the selection of pillars recapped

5.2 Regional Infrastructure
5.2.1 A footnote inserted to explain that *'While infrastructure is key in facilitating trade and regional integration, it is understood that it cannot cause trade in the absence of tradable goods'*
5.2.2 No substantive changes, except last bullet added Bank to support '*the harmonization of regulations, procedures and standards that affect cross-border connectivity'*
Box 2 on the North-South Corridor: Added *'Some Development Partners, including DFID, are providing support'*

5.2.3 Added: *Bank Group to promote and support private sector activities along the corridors, especially small and medium enterprises (SMEs), by promoting the implementation of favourable policy and regulatory frameworks and facilitation of trade.* Also added: *Support to SMEs will also help to promote diversification and exports.*
5.2.4 Added: Indication that Bank also provides support to project preparation through ADF grants and the MIC Trust Fund, and bilateral Trust Funds.

5.3 Institutional capacity Building (Dropped 'and Governance')
- Added: '*Rationalizing the many and overlapping regional integration and regional co-operation organizations in Africa is political and very difficult,, and one that is best handled at the AU level'*
- Progress on the rationalization process updated to include indication that *'Within ECOWAS also criteria for harmonizing and streamlining project selection and implementation has been established'*

5.3.2 Support to the AUC added to the first bullet.
5.3.3 ***(New)*** Brief rationale for Bank involvement in trade facilitation.
5.3.4 Deleted Section on Economic and Corporate Governance (including the APRM)

5.4 Areas of Strategic Partnerships and Cross-cutting Issues:
Added: Indication that *'the Bank's focus in these areas will be limited and will take into consideration its capacity'*.
(a) ***Bank Group Aid for trade Activities***
Included for emphasis: support to railways, collaboration with WCO.
Deleted: Support to Sanitary and Phyto-Sanitary Services (SPS).

5.4.3 Regional Public Goods and Other cross-cutting Issues

- Added: Indication that *'The Bank's support to the provision of regional public goods (RPGs) will be mainstreamed in Bank operations, particularly on issues of gender, environment and climate change'.*
- Included as one of the examples of RPGs to be supported by the Bank: *'…centre's of excellence, in line with Bank Group Strategy on Higher Education and Science and Technology'.*
- ***Box 5:*** Included as examples of RPGs: Centres of excellence; border posts

6. Operational Modalities

6.2.2 ***Programming instruments:*** Added that

- the *'Bank will identify and address regional dimensions in all the projects it supports. The Appraisal Report format will be adjusted accordingly.'*

  The arrangements for the preparation of the RISPs as well as their content will include the following:

  - *The preparation of the RISPs would be launched immediately following the approval of the Regional Integration Strategy and would be expected to complete within a year:*

  - *The RISP preparation would be led by the Regional Departments covering that area, and would be supported by ONRI and the Sector departments. It would also involve consultations, possibly including stakeholder workshops, with a number of RECs and REC institutions (see Annex Table 8).*

  - *It is also important to ensure consistency and alignment in regional activities identified in the RISPs and the CSPs. The coordination of the Country Teams and Regional Teams is important in ensuring that the two documents are harmonized and complementary in the issues addressed.*

6.2.3 As in the case of CSPs, Management will provide guidelines, including the format, for the preparation of the RISPs, but it is understood that they would identify and include support to the implementation of at least one flagdship project in the RECs.

Financing Instruments

Added that *'the Bank will continue to examine the possibility of introducing innovative instruments'*

Private Sector financing summarized in one bullet as follows:

- <u>*Private Sector Window:*</u> *The Bank has an important role to play in mobilising private sector resources for regional infrastructure, and supporting the involvement of local and regional private sector groupings in regional infrastructure projects. In line with the Bank Group Private Sector Strategy, the Bank will support the financing of SMEs, which are key in Africa's diversification efforts. In this regard:*

i The Bank will support private sector participation in the implementation of regional programs through its current instruments, including loans, lines of credit, guarantees, equity and quasi-equity investments.

ii The Bank will also utilize public-private partnerships to catalyze private participation in infrastructure delivery (PPI).

iii The Bank is currently working towards development of trade financing, particularly in the light of the impact of the recent global financial crisis and trends in economic liberalization and globalization. The Bank will provide lines of credit and develop other appropriate instruments to finance trade and provide trade finance guarantees towards alleviating trade constraints, and will collaborate, in this regard, with the Afreximbank and other DFIs.

Under Co-financing, list of possible partners expanded to include *the Gulf States and emerging donors such as India, China and Russia*

6.3.3 ***Addressing Country Specificities:*** The *specificity of Island Countries* added to the issues already flagged concerning MIC Countries, Countries in arrears, and Fragile States

6.3.4 ***ONRI functions.*** Included (new) Ensuring that regional dimensions are reflected in the CSPs and in Appraisal Reports of Bank operations.
***(New paragraph on** Communication)*: *The Bank will use various communication channels to populize its Regional Integration Strategy and to inform stakeholders about key activities. The Bank will also sensitize the public on the benefits and other aspects of regional integration. Staff will also be sensitized towards mainstreaming regional integration in Bank operations*

6.4 ***Resource implications:*** Included (new) that the implementation of the Bank Group Regional Integration Strategy will be mainstreamed in various departments across the Bank.
Reference to ONRI 2009 -2012 budget added.

Annexes

Annex 1 on results framework, simplified and harmonized with revisions in text.
New: Annex 2 Bank Initiatives in Support of Regional Integration
Annex 3: Medium Term Budget Projection for ONRI
Annex 5 : Implementation Challenges of Regional Operations
Change: Annex 7 BEAC added as one of the key partner institutions.