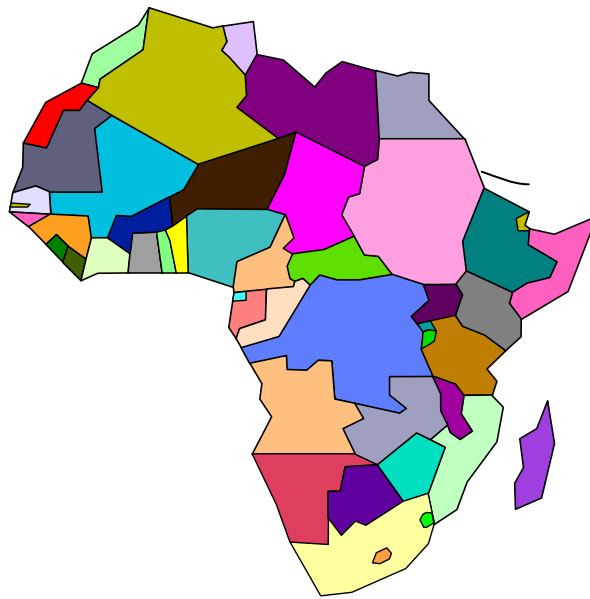


**TOWARD A SYSTEMATIC APPROACH TO
REGIONAL INTEGRATION IN THE AFRICA REGION**

PRELIMINARY LESSONS FROM EXPERIENCE



**The World Bank
Africa Region
February 5, 2004**

REGIONAL INTEGRATION IN SUB-SAHARAN AFRICA

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1. Introduction

1. Despite the mixed results achieved in regional integration, there has been a recognition that, if properly implemented, outward looking regional integration could significantly contribute to growth and poverty reduction in Africa. This could be achieved through: (i) economies of scale and enhanced competition, thus lowering costs and improving global competitiveness for export diversification and growth; (ii) viability as an investment target through “joint commitment” to improved macro-stability and lower country-risk, (iii) greater weight in international negotiations through more effective collective bargaining in world forums; and (iv) contribution to peace and security through joint commitment to promote democracy, prevent and resolve conflicts. The importance of regional integration and cooperation is largely acknowledged by the New Partnership for Africa’s Development (NEPAD) initiative which places regional integration as one of its eight key priorities to establish the conditions for sustainable development and reduce poverty. It is also recognized in the Bank’s strategy framework for IDA assistance to Africa which encourages regional initiatives to mitigate the fragmentation of the continent and promote greater private investment.

2. It was in recognition of the above and in response to an explicit demand by African governments for a more systematic and coordinated support for regional integration from the Bank, that the Africa Region decided, at the end of 2000, to deepen the Bank’s support to regional integration in Africa and appointed a program manager with the following objectives: (i) develop operational programs capable of mobilizing IDA resources; (ii) develop a solid dialogue with our clients; and (iii) build a strong relationship with the donor community, particularly those already involved in regional integration. In line with these objectives, the program manager developed a strategic approach and institutional mechanisms to guide the Bank’s work in this area and to strengthen the dialogue with the various regional economic institutions in Africa. This framework was presented to the Board at an informal technical meeting on April 2, 2001 and was subsequently implemented over the past few years. The objective of this note is to review the experience to date and to make recommendations to improve the Bank’s effectiveness in this area.

II. Review of the Implementation and Lessons Learned

2.1 Strategic Approach

3. It is important to note that the Bank’s greater emphasis on regional integration focus on problems whose solutions lie in a regional approach rather than on problems that are common to a group of countries but whose solutions remain essentially national responsibilities. Thus, a two-pronged approach was proposed, namely: (i) to reinforce the country work, which will remain the bulk of Bank intervention, while making sure that sub-regional implications are adequately taken into account in country programs, and (ii) formalize a framework in the form of regional integration assistance strategies (RIAS) aligned with the priorities of the relevant sub regions. Four main sub-regions were identified, namely: (i) West Africa: covering ECOWAS and WAEMU; (ii) Southern Africa: SADC but taking into account the implications of COMESA, given the fact that

nine countries are members of both SADC and COMESA); (iii) Central Africa: CEMAC, and (iv) Eastern Africa: EAC.

4. RIAs help define Bank's priorities for regional activities/programs and complement CASs. They have become the main support to define the regional lending portfolio. The design and implementation of the RIAs are guided by the principles of open regionalism, subsidiarity, pragmatism and participation of the private sector. Depending on the level of integration of a sub region, main activities cover, at different levels, areas of deep integration and areas of cooperation. Activities that support the formation of a common economic space, such as harmonization of macroeconomic policies, trade policies, financial sector reform, business environment and competition form the domain of integration; whereas integration of infrastructure networks, forestry, water, environment, health-HIV/AIDS, and human resources are all in the domain of regional cooperation. Institutional issues straddle both categories.

2.2 Institutional mechanisms

5. **Coordination Unit.** A small coordination team has been set up comprising the Program Manager, an operation officer, a program assistant, and specific strategic support, as appropriate.

6. **Regional Teams.** A team for each of the sub-regions have been established. The regional teams help in the design and implementation of RIAs: they are involved in the identification of regional activities, the definition of regional priorities, the design and implementation of regional operations, in regional ESW and in dialogue with partners and clients. The respective regional teams, which typically comprises members from all sector families benefit from strong support from the macroeconomic units in which a person is dedicating substantial time to regional trade issues. The program manager leads all four teams and, together with the program support staff, is responsible for administrative and operational aspects of the respective sub-regional program. Country directors are consulted as appropriate and at least once a year on the overall regional program.

7. **Information and Communication Strategy.** A Regional Integration website has been developed in order to centralize information on integration in the region, establish linkages with regional websites in Africa and provide online information on current events.

8. **Budget.** The Regional Integration and Cooperation unit (RIC) has received, on average, an annual administrative budget of about US\$ 2.4 Million as follows:

Sub Region	FY02	FY03	FY04
SADC	685	665	525
EAC	120	222	215
CEMAC	420	390	390
ECOWAS	700	767	1139
COORDINATION	260	380	161
TOTAL	2185	2424	2430

* Note that in FY04, the RI received US\$430,000 under the Line of Credit for the WAPP and the WAGP

2.3 Achievements

9. **Implementing the RIAS.** Two RIAS were prepared and discussed by the Board for West Africa (August 2001 for the period FY02-04) and Central Africa (February 2003 for the period FY04-08); respectively. A strategy is currently being prepared for Southern Africa and is expected to be presented to the Board in the first half of FY05. It was agreed that a formal strategy would not be prepared for East Africa but an internal white paper has been prepared to guide the preparation of the CASs for the three countries.

10. **Regional Lending Pipeline.** Implementing the strategies has helped develop a solid pipeline of regional IDA operations particularly in the area of regional infrastructure (power and transport) and finance (regional payment systems). More specifically, three operations have already been presented to the Board in the financial sector and one regional power operation. Several operations are being prepared in the power sector (West Africa Power Pool and Gas pipeline); transport sector (trade and transport facilitation in West, Central and Eastern Africa), finance (West Africa Capital Market Project in West Africa and Micro-finance in Central Africa) and other operations are being considered in the area of telecommunications. Most of these operations involve the Bank, IFC and MIGA (see Regional Portfolio).

11. **Advisory Services and Technical Assistance to Regional Institutions.** In addition, the Bank is involved in providing support in key sector work, particularly in the area of trade (trade integration, EPA negotiations with the EU) and helping the regional institutions in building capacity in policy harmonization in a number of critical areas to build an effective common market. Despite limited grant resources, the Africa Region has succeeded in mobilizing IDF resources in support of regional institutions. This has been very useful in a number of areas: (i) strengthening the capacity of UEMOA to develop a trade surveillance unit of the customs union, (ii) helping EAC develop a regional PSD strategy, (iii) promoting the harmonization of policies in a number of areas (public procurement policy in UEMOA, water resource management in the Senegal River Basin, payment systems, Strengthening of planning capacity of ministries of education and statistical capacity in SADC).

12. **Lending Instruments.** An initial achievement is the establishment of a pilot regional IDA allocation of US\$450 Million which will benefit mainly the Africa Region. However, the question of financing regional institutions, which are not creditworthy, to undertake their coordination functions of developing common policies and building consensus on a number of issues, is still pending, except for HIV-AIDS for which an IDA allocation has already been granted for the Abidjan – Lagos corridor.

13. **Donor Coordination.** The Bank is now recognized as an effective partner in regional integration in Africa. It is recognized for bringing a strategic dimension through the RIAS process, which has also helped in mobilizing bilateral partners, particularly in West Africa to support ECOWAS and similar support is emerging in Central Africa and Southern Africa. The Annual Meetings have proved to be real opportunities to build the dialogue among both RECs and donors. The Bank is also enhancing its collaboration with major partners namely, the European Commission and the African Development

Bank. It is important to note that this is still work in progress: there is more consultation but greater collaboration is still to be achieved.

14. **Regional PRSP.** The Bank has been instrumental in helping the RECS in West Africa develop the concept of a regional poverty reduction strategy; which aims to make sure that regional policies are poverty-focus, and address some specific cross-border issues which have a significant impact on poverty reduction. This is also work in progress but other RECs are now seeking similar support from the Bank (EAC and SADC).

2.3 Operational Experience

15. While the Bank can be credited with positive results, a number of issues need to be addressed, if it is going to make a significant impact on the integration of the continent. These issues lie on two levels, (i) those over which the Africa Region does not have full control and which are indicated below; and (ii) those where internal Africa Region approaches and re-organization would make a difference in the Bank's work on regional integration. The latter set of issues are dealt with in section III, together with associated recommendations or suggestions.

16. **Financial Instruments:** (a) How to support institutional building/ technical work especially in regional institutions? The RI program is benefiting from an IDF allocation of about US\$1 million for regional integration activities. However, these resources are limited in view of the capacity needs and the transaction costs are high since each IDF is processed as a new operation and the threshold is US\$500,000 per grant. The need remains therefore to make and promote the case for IDA grants to support regional institutions in their activities that have the characteristics of regional public goods. (b) Extent of cross-country conditionality when financial support is provided to participating countries rather than to regional institutions? (c) Possible introduction of a government's regional financial obligations as part of the dialogue on fiscal issues and related IDA programmatic support? Finally, the question is to determine whether the Regional IDA allocation will be confirmed under the IDA 14 Replenishment.

17. **Relationship with Regional Institutions:** As a result of myriad sub-regional arrangements, there is substantial duplication of efforts (see chart). This has led to substantial waste of resources and also increases the complexity of the Bank's work. Hence there is a need to bring the issue of rationalization of institutions to the attention of political leaders without being perceived as interfering in areas where we should not

18. **Donor Coordination:** The relationship with donors has improved and partners have started to establish contacts and exchange information on their respective programs. On the other hand, not much has been done to effectively streamline portfolios of activities and eliminate duplications of tasks. How to organize and facilitate this is an on-going process of donor collaboration and consultation.

III. The Way Forward

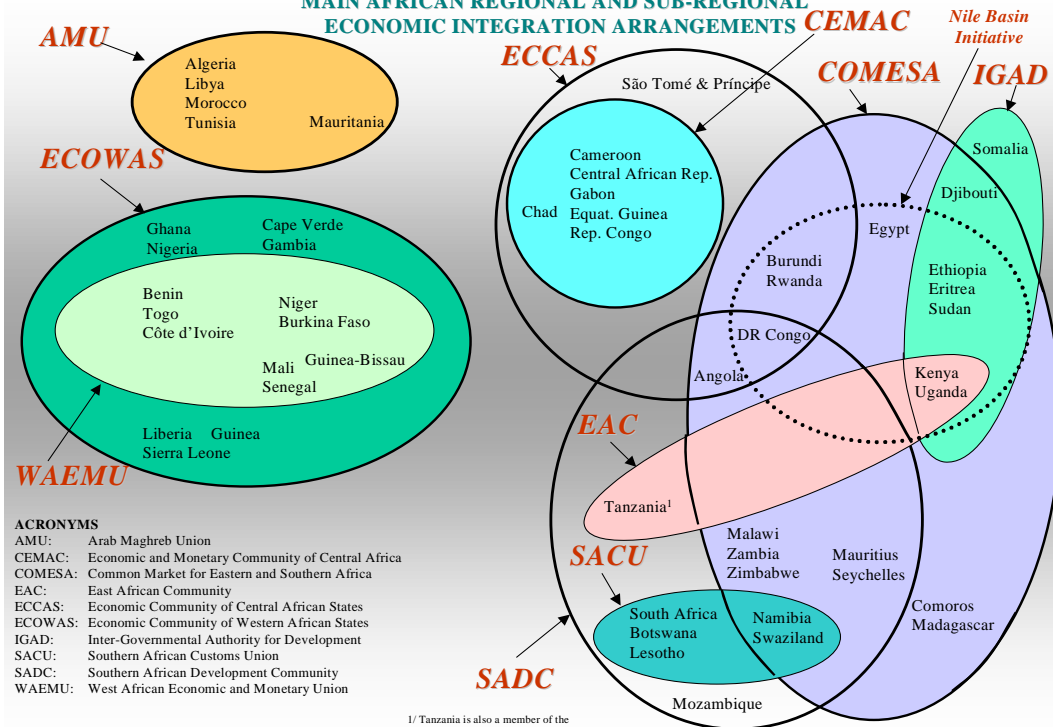
18. The Regional Integration Unit is de facto functioning as a CMU unit in having a similar portfolio of activities: lending activities, advisory services and intense dialogue with other partners and with external clients. There is a need to strengthen its position in giving it full CMU status, which would bring the regional integration work additional visibility and authority both inside the Bank and with the partners. This would not require excessive new staffing since the Unit is already organized along the lines of a country unit. In moving forward, it is suggested that the following be taken into consideration:

- Clarify the role and responsibilities of the unit and give it the required authority to address regional integration issues;
- Organize the dialogue with clients in developing an explicit decentralization strategy (as for the CMUs). This could be done in providing explicit mandate to the Country Directors / Managers to promote regional integration in their countries (a request that has been made by the regional institutions) and in coordination with relevant Sector Managers / Directors identify a specific person to deal with integration in the capitals which are hosting or responsible for the main regional institutions (Dakar, Abidjan, Ouagadougou, Abuja, Yaounde, Pretoria, Lusaka, Dar Es Salaam and Nairobi). Currently, the experience with decentralized focal points is that both Sector Managers and Country Directors / Managers are regarding such responsibility as additional to primary country work rather than an integral part of the relevant person's work program. In this regard, it is important to note that most countries are now formally accrediting ambassadors to the regional institutions and as in the PRSP process, regular consultations on regional issues are taking place in the region;
- Promote coherence between regional integration and country work: How could the regional integration agenda be better integrated into country work, while respecting the principle of subsidiarity? There is a need to mobilize the country directors and teams in order that country work is designed to be more consistent with the regional strategies and takes into account cross-border effects. The development of the regional strategies has provided a framework for country teams in assessing the regional dimension of macro and sectoral issues for their respective countries. However, more efforts need to be made to ensure that regional issues are properly addressed in individual CASs and PRSPs.
- Allocate the Budget: There should be an explicit discussion on the size of a reasonable administrative budget for the RI program. This could be assessed in comparing the RI activities with an average CMU and in relation with the IDA allocation being annually mobilized by the Region. There is a need to discuss the allocation of the administrative budget of regional operations (e.g. preparation *versus* supervision – up until now, preparation resources come from the RI budget and supervision resources are shared with CMUs when an operation is an explicit multi-country activity. While the benefit of ensuring commitment from CDs is important it should be done in a way to reduce transaction costs for TTLs
- Assess the organizational implications of the regional integration program: There is recognition that support on fiduciary activities should explicitly take into

account this program (financial management, procurement, etc.), but up until now, support to the RI program is done in an ad hoc way.

- Enhance coherence and synergy among programs:
 - The region has decided to allocated significant resources to trade. It has now become very clear that the trade integration agenda is an important part of the broad African trade agenda. Synergies between the RI and the trade programs should be improved both in the allocation of resources to specific activities and the selection of priority tasks (e.g. selection of country IFs should be done within the regional framework; involvement of regional institutions would help build capacity and greater ownership).
 - Specify the role of ACT Africa in the funding of regional HIV-AIDS operations
- Improve allocation of staff: In view of overlapping regional integration arrangements, there is a need to consider the allocation of scarce staff resources among these institutions, which each covers similar themes.
- Address multi-sectoral issues: The RI has even further demonstrated the need to improve cross sector work. Recent activities in the area of agriculture have demonstrated that most regional issues pertain to transport, trade or finance.
- Clarify the way in which the NEPAD agenda is coordinating within the Bank: Given the important multi-country/multi-sector dimension of the NEPAD programs, it would be acceptable to give the RIC unit the responsibility to coordinate Bank's intervention and interactions with NEPAD at an operational level.

MAIN AFRICAN REGIONAL AND SUB-REGIONAL ECONOMIC INTEGRATION ARRANGEMENTS



ANNEX 2

Regional Lending Portfolio and Pipeline
April 30, 2004
(US\$ Million)

Activities	Countries	FY01-02	FY04	FY05	FY06
Financial Sector					
Reg. Trade. Fal		110			
BCEAO Payments		10			
BEAC Payments		15			
West Africa Cap. Markets (1)			100		
Energy					
SAPP (APL1)			180		
SAPP (APL2)				62	
SAPP (APL3) (2)					200
WAPM				100	
WAGP				75	
Transport					
West Africa Transp. Facilitation				100	
Central Africa Transp.				10	
East Africa Transp.				80	
West Af. Air Transp (3)				40	
HIV-AIDS					
Abidjan-Lagos			16		
Great Lake Initiatives				15	
ARCAN (Kenya, Uganda, Tanzania)				10	
TAP (Moz. Burk, Gha)			200		
TOTAL		235	496	313	200

Note:

- (1) in addition, two guarantees (IDA – MIGA) for US\$140 Million plus Euro 70 from the AFD (equiv. US\$87.3)
- (2): Depending on results on feasibility study of interconnection between Tanzania and Zambia
- (3): Need to discuss possibility of IDA Grant for regional component