



Report of the Workshop

on

**Meeting the Challenges of
Regional Integration, Intra-African
Trade and Economic Growth in Africa**

*Hotel Intercontinental
Nairobi, Kenya
January 31 – February 1, 2007*

Introduction

The World Bank (WB), African Development Bank (AfDB), Joint Africa Institute (JAI), African Economic Research Consortium (AERC), Economic Commission for Africa (UNECA) and the New Partnership for Africa's Development (NEPAD); agreed to jointly sponsor a series of annual workshops on strategic themes that impact on Africa's development efforts.

Broad Objectives of the Workshop Series

The series of Workshops aims at creating a conducive environment and platform for informed dialogue on strategies that would best support Africa's development efforts as well as enhance partnerships that support such strategies. Workshop delegates included policymakers, experts, private sector leaders, representatives of international and regional development institutions and civil society activists. Delegates were expected to exchange views on selected themes that are critical to Africa's development agenda, recommend priority areas for action, and as appropriate, provide feedback on the World Bank's own strategy.

The Dakar Pilot Workshop

The first in these series of Workshops entitled: "*Facing the Challenges of African Growth*" was held in Dakar, Senegal in January 2005. Delegates to the Dakar Workshop generally agreed that export growth rates in Africa could rise if, among other ways, member states diversified trade towards manufactured exports, processed their primary commodities and to a limited extent, increased services exports. However, delegates identified important constraints associated with 'behind-the-border' trade policies, market access, capacity to export, among other challenges.

The Tunis Workshop

The second in the series of Workshops, took place in Tunis, Tunisia, on October 20-21, 2005 and focused on: "*Accelerating and Diversifying Export Growth in Africa*". Delegates to the Tunis Workshop built on the conclusions reached at the pilot workshop in Dakar, and discussed concrete actions that were necessary in order to build a robust platform for export growth and diversification in Africa. The Tunis Workshop discussions focused on the following main areas:

- removing remaining disincentives to trade and investment policy;
- addressing supply-side constraints associated with lack of infrastructure and institutions of trade; and
- addressing barriers to market access in key trading partners.

Specifically, delegates examined the role of government and considered whether the major task is to remove obstacles that impede private sector activity, or whether there is a role for proactive government policy that would provide the necessary infrastructure and institutions

for trade, to enable Africa's exports to be competitive in increasingly complex international markets.

The Nairobi Workshop

The Africa Economic Research Consortium (AERC) hosted the third in the series of Workshops on January 31 – February 1, 2007 in Nairobi, Kenya. The joint sponsors provided assistance with logistical arrangements and agreed on the content development. The theme of the Nairobi Workshop “*Meeting the Challenges of Regional Integration, Intra-African Trade and Economic Growth in Africa,*” was motivated by the need to:

- discuss obstacles that impede the integration process in Africa;
- prioritize towards addressing economic reforms in order to achieve optimum results as well as take full advantage of existing opportunities;
- share experiences with other regions of the world;
- arrive at strategies that effectively address these obstacles.

Opening Ceremony

Welcome Remarks from Joint Sponsors

The African Economic Research Consortium (AERC)

The Executive Director of the African Economic Research Consortium (AERC) Prof. William Lyakurwa led the sponsors in welcoming delegates to the Nairobi workshop, which he pointed out was the third in a series of joint workshops. Prof Lyakurwa stressed that the focus of workshop would be to examine opportunities and obstacles to regional integration in Africa where some 14 regional economic groupings already exist, although African leaders have agreed in principle to an optimum number of 8 RECs. He observed that economic performances in Africa are diverse, with the mineral rich and coastal countries performing better than landlocked ones. Against this background, therefore, supply capacity issues assume a very important role in Africa's economic performance. Similarly, the need to move goods and services efficiently from one place to another, especially linking the poor rural producers to local and global markets is essential, thereby making infrastructure, a key factor in Africa's economic performance. Prof. Lyakurwa identified several factors that slow down Africa's regional integration processes including:

- protectionist tendencies among some African countries;
- conflict between national and regional interests;
- lack of clear mandates for the RECs; and
- lack of expertise in specialized or technical issues

Prof. Lyakurwa welcomed the creation of line ministries responsible for managing regional integration issues in most African countries, but suggested that thought be given to what needs to be done to accelerate the process. Would the establishment of inter-ministerial committees charged with enforcing protocols and regional agreements, for example, not work better than a single line ministry or department?

Economic Commission for Africa (ECA)

The Acting Deputy Executive Secretary for the ECA, Mrs. Josephine Ouedraogo, welcomed delegates, applauding the timely nature of the Nairobi workshop coming as it did, hard on the heels of the African Union Summit a week earlier where Heads of State discussed regional integration.

African leaders, she said, reiterated this commitment to use regional integration to pool capacity and transform their economies. Mrs. Ouedraogo recognized that some progress had been made with the establishment of some free-trade zones, customs unions (e.g. SADC, UEMOA, and CEMAC), common passports in West Africa, one network for mobile phones in the East African community and efforts to achieve uniformity in some sectoral policies. However, much is yet to be done to strengthen African trade.

Transport costs she said, remain very high and many roads, air and railway networks require substantial investment to improve or rehabilitate them. Rationalisation of RECs is urgently needed in order to bring them in line with overall regional integration objectives. She regretted that the Doha Round dashed many of the expectations it had raised at the beginning of the trade talks, especially among African farmers. She advised that at the rebirth of Doha, Africa needs to re-think her strategy to expand trade, create employment, and improve infrastructure including inland waterways. ECA, she informed the delegates, has just created a NEPAD and RECs department in the regional offices.

African Development Bank (AfDB)

The Chief Economist of the AfDB, Dr. Louis Kasekende joined co-sponsors in welcoming delegates directing his remarks towards how the discussions should lead to potential takeaways. He said Regional Integration should be seen as a means of achieving increased trade, investment, employment, higher levels of growth and poverty reduction. Regional integration, measured this way has not performed well. He went on to highlight several issues:

- infrastructure challenges also face coastal countries;
- transit obstacles make trucks spend too much time just crossing borders;
- regional groupings should give way to those that promote regionalism;
- shared interests should lead to collective action;
- growth poles (e.g. Africa's four largest economies, South Africa, Algeria, Nigeria and Ethiopia) have a real potential for positive spill-over effects on other African countries.

New Partnership for Africa's Development (NEPAD)

The Advisor, Water and Sanitation (Infrastructure) at NEPAD Secretariat, Mr. Reatile Mochebele's in his brief welcoming remarks agreed with co-sponsors that for sustainable economic growth to happen, intra-African trade will have to grow significantly. According to an ongoing NEPAD study conducted with WB and AfDB, Africa needs to allocate 9% of

total investments towards infrastructure with perhaps 5% to new infrastructure and 4% towards maintenance. He suggested that maintenance investment has become most urgent.

Mr. Mochebele agreed that Africa's largest economies are real engines of growth, with important spill-over effects on smaller countries. He concluded by stating that lack of capacity and resources make the role of MDB's, especially the World Bank and AfDB, extremely crucial, because among other things, they are honest brokers and investments in Africa will be greatly enhanced by their active participation.

The World Bank Group (WB)

Mr. Hartwig Schafer, acting Vice President, Africa Region joined the other co-sponsors in welcoming delegates and agreed that this was a timely workshop. He said that the workshop was also important because the workshop brings together senior government officials, policy makers, academics, researchers, multilateral donors, financial institutions, the private sector and indeed all stakeholders involved in Africa's regional integration.

Admitting that the objectives of the stakeholders gathered may be diverse; he said it was possible to focus on areas where common ground exists. Mr. Schafer pointed out that the World Bank is a late comer to regional integration, but stressed that the bank is fully on board. This workshop was helpful in the World Bank's efforts to improve country programs, power pool, economies of scale, learning from research in agriculture, provide regional public goods especially to river basins like the Nile, Senegal and the Zambezi. Mr. Schafer disclosed that the Bank has set up a Regional Integration Department with a mandate to prepare and present projects as well as conduct analytical work. He highlighted several challenges that discussions might focus upon:

- Need to balance the tension between the magnitude of regional integration and the solid bottom-up approaches;
- Need to balance regional interests with national ones – regional projects require that sometimes political leaders give up some sovereignty;
- Need to retool existing country-focus support instruments to accommodate regional development initiatives;
- Finance is a major challenge because demand outstrips supply.

Mr. Schafer concluded his brief remarks by reiterating the WB's support for Africa's regional integration initiatives, but emphasized that Africa must drive the agenda.

The Road Map of the Workshop

The Chief Economist, Africa Region of the World Bank, Mr. John Page presented a road map of the meeting. This series of workshops, he said, was originated by Gobind Nankhani, who has since retired. He paid great tribute to Mr. Nankhani who, he said, was now head of the Global Development Network. This Nairobi Meeting, the third in the series, like previous ones, had brought together diverse stakeholders, who would look at new

perspectives and new ideas about regional integration, a pressing concern for Africa. Regional integration, he stressed, was more important for Africa than any other region because geography is a major constraint. 40% of Africa's population live in landlocked countries whose access to global markets depends on their neighbours. While recognizing Africa's pioneering efforts towards common currency areas, functioning regional central banks for regional trade and that people generally move easily across borders, even before colonisation; much needs to be done in today's Africa to facilitate flows of finance, services and investments. Regional integration, Mr. Page said, is about trade; and went on to put forward a number of thoughts:

1. Africa needs to become more competitive in global markets and intra-African trade must grow;
2. More trade among Africans will lead to more African trade with the rest of the world;
3. In the world's most fully integrated region, ASEAN, economic integration preceded politics and money followed opportunity, and not the other way round;
4. How might regional integration fit into Doha and what sort of relationships might develop between bilateral programs such as EPAs of the EU and Africa's regional groupings;
5. What institutional designs do we need, to move beyond current boundaries towards perhaps a Paris Agenda that incorporates regional integration initiatives?

In summary the stage was thus set for delegates to deliberate on what they think should be done in Africa's approach to regional integration, with Africa firmly in the driving seat. How do African political leaders reconcile national priorities with regional interests? Should RECs become legal entities mandated to enter into agreements on behalf of their member states? Regional integration, it was agreed, should be seen as a process rather than an end in itself. The emphasis, throughout the discussions, would be to hear from the participants. This was done in five successive sessions, guided by the following corresponding topics:

- Session I:** *Challenges of Regional Integration and Trade in Sub-Sahara Africa and Lessons from Other Regions.*
- Session II:** *How can Sub-Sahara Africa maximize the benefits of Economic Integration, Regional Infrastructure and Trade?*
- Session III:** *What are the implications of bilateral trade agreements for Regional Integration and Intra-African trade? Complements or trade-offs*
- Session IV:** *Meeting the Challenges of Financing Regional Integration: Organizations and Projects*
- Session V:** *Moving from Principles to Practice*

In each of these sessions, formal presentations were followed immediately by discussion

Finally a Wrap-up and Closing session was led by Mr. Mark Tomlinson, Africa Region, WB, on *How to keep the momentum going* before Prof. Olu Ajakaiye, AERC and Mr. Benno Ndulu, Africa Region, WB concluded with what might be the Workshops next steps. .

SESSION I: Challenges of Regional Integration and Trade in Sub-Sahara Africa and Lessons from other Regions.

Summary of Presentations

In their presentations related to the main challenges and obstacles to Regional Integration, Dr. Nehemiah N'geno (AERC); Professor John Igue (LARES) and Mr. Mark Tomlinson (WB), identified several key challenges. These included:

1. Behind-the-border challenges;
2. Lack of ownership of projects at grassroot levels;
3. Private - Public Sector conflicts
4. Convertability of currencies constraints;
5. Institutional architecture challenges;
6. RECs lack of authority and finance;
7. Donors' lack of co-ordination.

Behind the border issues.

Dr. N'geno argued that behind the border factors are the real causes of Africa's low intra-regional and subsequent low global trade. He pointed out, however, that the flipside of the challenges namely opportunities, are that Africa's macroeconomic systems seem to be stable now, and the investment climate and governance issues are improving. He said that regional organisations need more authority and financing.

Lack of ownership at grassroot levels

Prof. Igue identified lack of ownership of regional projects at the grassroot level as a major challenge which explains the well documented lack of involvement and motivation among citizens. He added that convertability of currencies is more important than single currencies and described the former as a major concern. He added that governments generally play "power politics" with the private sector, thereby creating ***conflict between the public sector and the private sector***. He saw the ability to share resources, physical as well as intellectual, among citizens of member states as a vision of the future.

Institutional Architecture

Mr. Tomlinson acknowledged that political vision exists at national levels but strategies vary. The roles of institutional bodies that deal with regional integration, however, are not always clear. Tomlinson added that institutions tend to deliver better when they have a keen sense of accountability. He agreed with Prof. Igue that motivation at the grassroot level is essential. He also agreed that regional projects lack adequate funding but suggested that priorities be accorded efforts to attract private sector money by creating transparent and accountable regional investment blocks in Africa.

Experiences from Other Regions

Mr. Zubair Ahmed Malik, Vice President of The Federation of Pakistan Chamber of Commerce and Industry (FPCCI), who is also a member of the Managing Committee of the South Asian Regional Cooperation (SAARC), stressed the need for political will as well as stability if intra-regional trade is to improve. He cited Pakistan as a success story where the private sector helped to break the ice in the India - Pakistan endemic conflict. An estimated trade volume of \$600 million is complemented by an informal trade of approximately \$4bn. Mr. Malik noted many similarities between Africa and his Region regarding the need for rationalization, scaling down costs and donor support, among others. The solutions, he stressed, must however be homegrown and ultimately, the beneficiaries must be the so called “*common man*”.

Responses

In their responses to the four presentations, participants from the RECs generally agreed with the challenges and obstacles as highlighted, but cautioned against the prescriptive tone in some of the papers. Mr. Erastus Mwencha, Secretary General, Common Market for Eastern and Southern Africa (COMESA), highlighted several issues related to institutional architecture, competitiveness, diversification, rationalization and the “tool-box”. Unlike Chinese goods, Mr. Mwencha observed, African goods are not competitive because of the high cost of doing business in Africa; a factor that also impedes countries to participate in intra-regional trade despite Africa’s trade liberalization policies.

Mr. Frèdèric Korsaga, Economic and Political Affairs Commissioner (UEMOA), responded by stating that Heads of State in his Region have been very clear about their vision of intra-regional trade but he stressed that RECs need to build their capacities. He identified software issues such as the lifting of trade barriers, identification of control points, harmonizing joint controls and documentation as being some of the key challenges. Ownership among citizens exists, he added, and is being reinforced by media broadcasts in local languages. He concluded that efficiency will come when capacity is strengthened at RECs.

Mr. Reatile Mochebele, Advisor, Water and Sanitation (Infrastructure) at NEPAD agreed that political will exists and Africans have always recognized the need for regional integration. While accountability organs are present in AU, conflicts and resource shortages remain major threats to intra-regional trade. Regional trade, he added, will not increase without increased regional production.

Ms. Dora Siliya, Deputy Minister of Commerce, Trade and Industry, acknowledged her country’s challenges with the private sector. What passes for private sector in Zambia, she said, is in fact a mere collection of traders because investors lack access to affordable financing. She added that donors put too much emphasis on software issues. Without efficient and cheap energy, good roads, banking facilities and other hardware facilities she concluded that capacity building will not deliver.

The Chief, Trade and International Negotiations Section at (UNECA), Dr. Stephen Karingi gave a summary of ECA’s findings during studies on regional integration in Africa. He said

that a lot of expectations abound among Africans, motivated principally by political and strategic reasons. 50% of those who responded said that political and strategic considerations justified their belonging to one or more regional organizations.

Key Messages of this Session

1. Role of the private sector is critical in promoting regional integration as in the case of South Asia
2. Grassroots approach is necessary to provide the ownership of regional projects
3. Increase capacity of RECs is a requirement
4. Institutional Architecture should be such as to promote accountability and transparency

Session II: How can Sub-Sahara Africa Maximize the Benefits of Economic Integration, Regional Infrastructure and Trade?

Overview

Mr. Felix Orah Ndukwe, Lead Economist, Regional Integration at the African Development Bank (AFDB) identified a number of critical factors that could help maximize the benefits of economic integration, regional infrastructure and trade in Sub-Sahara Africa. These include:

- Upgrading quality of technical and scientific education in primary and secondary schools;
- Filling the infrastructure gap;
- Taking charge of development agenda;
- Gaining access to global markets;
- Creating a stable, peaceful climate in Sub-Sahara Africa.

A key issue that emerged from the discussion was that integration matters and effective integration means bigger markets as well as regional markets.

Upgrading quality of technical and scientific education in primary and secondary school. Valuable lessons could be learnt from the experience in Asia where heavy and sustained investments in education have paid off handsomely by leading to economic growth.

Filling the infrastructure gap. There seems to be a direct relationship between infrastructure and economic growth – almost a one-on-one ratio exists between the two.

Taking charge of Africa's development agenda. Africa's development agenda has hitherto been driven from abroad. Donor cycles of typically three years are incompatible with Africa's political cycles.

Gaining access to global markets. Access to global markets is essential for Africa. The Doha Round, aid for trade bilateral agreements with EU and others need to be pursued vigorously so as to obtain access. Sub-Saharan Africa remains a victim of protectionist policies of the west.

RECs need restructuring so as to move towards Customs Union. The status quo is undesirable and dangerous and *creating a stable, peaceful climate in Sub-Sahara Africa* is of the utmost importance. Without a political climate of stability, security and a good business environment, there can be no productive private sector.

Discussion

The discussion that followed focused on rationalizing RECs, access to international finance and the importance of soft and hardware issues.

Rationalizing RECs. Delegates generally agreed that countries and sub-regions should avoid inward-looking trade groupings. RECs should seriously consider ways of becoming more cohesive, innovative in mobilizing resources and in preparing projects. Rationalization is difficult, but it must be done or else we lose credibility.

Access to international finance. Delegates agreed that major re-tooling and skills building for RECs, governments, sub-regional institutions and donors need to happen in order to effectively make available adequate financing for regional integration and economic growth.

Importance of software and hardware issues. It was generally agreed that software issues such as trade policies, barriers, documentation etc should not be seriously addressed. For instance, if it takes three weeks to clear one container in a harbour, increasing the capacity of that harbour three-fold by reducing the clearing time of the container to one week is more effective and cheaper than building two more harbours! Clearly, software issues are at least as important as hardware issues. . Nevertheless, investments in hardware such as roads, railways, electricity plants and telecommunications networks are equally essential.

Building and Upgrading Skills. In order to compete in global markets, countries need to upgrade their skills, higher education and science and technology systems. All the RECS stressed the importance of building skills for the knowledge economy so that countries can compete in the new production areas through networks of production.

In summary, delegates agreed that regional integration matters a great deal. For Sub-Sahara Africa to maximize the benefits of economic integration, regional infrastructure, trade, peace, security and stability will be key prerequisites.

SESSION III: What are the implications of bilateral trade agreements of regional Integration and Intra-African Trade: Complements or trade-offs.

Overview

In a brief overview, Dr. Nehemiah N'geno (AERC) outlined some of the obstacles between RECs and the EU regarding Economic Partnership Agreements (EPAs). There seems to be a feeling among RECs, Dr. N'geno observed, that the EU has not been open in the negotiations. He asked what would happen if at the end of 2007 there are no agreements.

The EU's response was that there would have to be some sort of agreement by the end of the year. "You will not get a waiver", Mr. Jacques Wunenburger stressed. While admitting that the EU does not consider EPAs to be a panacea, they do however provide unique opportunities to negotiate important issues that impact on trade and economic growth in Africa.

It was apparent that EPA's are between unequal partners. Mr. Mohamed Salisu (AfDB) went on to suggest that since Africa does not have a "Big Power" to negotiate on her behalf, the opportunity to put forward a meaningful agenda between Africa and the EU in this regard is minimal. EPAs themselves, it was suggested, may not be necessary to drive regional integration after all; contrary to the initial expectations by Africans that EPAs would serve as an instrument for reducing poverty, promoting growth and development and enhancing regional integration. In other words it would appear that EPAs are, in fact divisive in Africa's regional development initiatives. Some saw EPA's as a way of bringing through the back door Singapore issues (namely investment, competition policy and transparency in government procurement).

The EU's response was to re-state that EPA's are indeed a development tool but advised Africans not to use EPAs to re-negotiate the Cotonou Agreement. The EU revealed that an allocation of 22bn Euros will be available for regional integration over a period of six years. However, the EU needs to know what her African partners need and Africans must conclude EPAs.

Challenges of EPAS and Current Status

- The EPAS should promoted regional integration
- Reciprocity issues for the EPAs agreement to make it compatible with the WTO
- Issues of differentiation across countries
- Slow Progress - Risk of not completing the negotiations by the end of 2007
- Lack of capacity at **two** levels
 - To come out with a national position for the negotiations. There is a need to mobilize key stakeholders including the private sector
 - Implementation capacities

In order to conclude the negotiations, Sub-Saharan countries are requesting support for the following:

- Identifying the products that will be affected by liberalization and its impact in intra-trade between African countries

- How to sequence the liberalization with the EU in a progressive way in order to benefit from the arrangement
- Estimation of the adjustment costs due to tariff revenue losses and trade diversion
- Less strict rules of origin
- Not to include Singapore issues in the EPAs

Discussion

In the passionate debate that followed, it became quite clear that negotiations are not moving well. Many delays have occurred at the EU and ACP ends. The situation is exacerbated by the fact that while negotiations are going on with regions, actual deals are being concluded with the EU at country level!

While Rules of Origin are a contentious issue, ACP is coming to the realization that less restrictive rules of origin would help. Would the EU consider extending to the African groups the Chile-EU Agreement on Intellectual Property Rights, for example? This and other questions were posed to determine whether the EU had any flexibility at all during the EPA negotiations. It would appear that the EU apparent inflexibility is a major obstacle to concluding negotiations. Other obstacles include lack of capacity to mobilize all stakeholders to agree on national positions, as well as lack of capacity at both ends of the negotiations to implement agreements.

In summary there was consensus on several themes, among them were:

- regional integration should inform EPA negotiations;
- do not rush into customs union; instead build it into a road map;
- at sub-regional level, EPAs should fit into the architecture of ongoing processes under the auspices of the African Union;
- RECs do not possess the necessary negotiating capacity to deal with the EU despite some training by ECA of some of the RECs;
- EPAs must deliver on regional integration if they are to be considered as development tools; in other words, EPAs must help build regional markets;
- Beware of poorly designed EPAs.

SESSION IV: Meeting the Challenges of Financing Regional Integration Organisation and Projects

Overview

The session began with three brief presentations by representatives from AfDB - Mr. Ini Urua; from NEPAD Secretariat - Dr. Godwin Punungwe; and the Private Sector - Mr. Paulo Gomes. All three presenters identified major challenges to financing regional integration organizations and projects and suggested ways in which these challenges might be met. It

was agreed that challenges to financing regional integration organizations and projects exist at the donor, continental, national and REC levels. These key challenges fall in several categories and include:

- Capacity and skills building;
- Conflict between national and regional mandates;
- Investment climate; and
- Engaging the private sector.

Capacity and skills building

It was agreed generally that funding regional integration organizations and projects will require major retooling and skills building at the RECs, national, sub-regional, and donor levels. Basic skills such as project preparation are lacking in many RECs and indeed in national organizations. In discussing regional projects the reality must be recognized that ultimately, implementation of such projects will be at country level. Delivery of donor-led programs is not always aligned with regional integration. Donor instruments currently remain country-focused.

Conflict between national and regional interests

There is need to balance the tensions between national interests and political realities of survival as well as sovereignty issues. National governments need to mainstream integration into their development strategies by creating institutional instruments and the regulatory framework that makes it possible for other stakeholders to come into the process, thereby recognizing that certain projects are perhaps better executed at regional rather than national level. Similarly, donors need to move towards this realization.

Investment climate

Africa's investment climate is yet to become attractive even to its own citizens, let alone to foreigners. NEPAD estimates that between \$400bn - \$600bn of African funds are "invested" outside the continent. It is a real challenge to find ways of bringing that money back to Africa. If the promotion of Africa-owned and Africa-led development agenda is to earn credibility, the first call must be how can Africa raise financing from her own resources to invest in say, infrastructure and other regional projects? The good performance among Africa's development banks in moving towards infrastructure funding was noted and well appreciated. The establishment of a Pan- African Regional Investment Fund was a welcome development. According to NEPAD Secretariat's Dr. Punungwe, South Africa has already put in \$250m with Nigeria planning to put in a similar amount.

Private Sector Involvement

Mr. Paulo Gomes agreed with Dr. Punungwe on the key challenge of Africa's investment climate and suggested that Africans' "mental model" of development needs to drastically change. Africa has considerable liquidity in local currencies. "Why do we not use these funds?" Mr. Gomes asked. Regional Integration will require very large sums of financing if the example of the cost of German reunification (approximately \$150bn per annum) is anything to go by. To mobilize the funding necessary for regional integration initiatives, Africa needs to shape its regional integration approaches with industry oriented approaches.

Mr. Gomes revealed that some \$3bn to \$4bn of private money is being mobilized to invest in Africa and continued that a \$60bn project is likely to take place shortly in the Southern Africa region. Clearly something is going on behind the scenes, but when that funding comes, it will go to sound well prepared projects that are in stable economic and political environments. Africa needs to generate revenue, create employment, grow and reduce poverty.

Discussion:

In the brief discussion that followed, delegates agreed that the magnitude of the funding needed for regional integration projects is so large that Africa does need to take bold initiatives. Mr. Piet Viljoen of Development Bank of Southern Africa (DBSA) agreed with Mr. Gomes that Africa needs to be innovative; and suggested that we look at our food imports, for example. Africa, he said, imports 50% of her food at a cost of approximately \$18bn every year. The existing infrastructure, he observed, is therefore handling some 18 million tonnes of food imports. When seen against the backdrop that 80% of Africa's exports leave through ports, a focus on improving port facilities would create substantial incomes as well as employment. Similarly, food security would save Africa billions of dollars annually which could be invested in an area like transport; a sector the private sector generally does not feel safe to invest in.

Before him, Mr. Tomlinson had given yet another area where actionable steps could be taken. Financing regional integration would require harmonizing national processes. Giving an example of a power transmission line that passes through four countries, Mr. Tomlinson said it should not have to go through four different legal processes, instruments, standards etc. Leadership at RECs can greatly help to facilitate the implementation of such a Power Transmission Line Project and others like it. Mr. Alex Rugamba (AfDB) agreed on the magnitude of financing required in the regional integration development agenda and suggested that African leaders need to be aware of this. The challenge is how Africa can best use its traditional lending partners. Mr. Rugamba concluded that the role of honest brokers such as the World Bank and AfDB becomes extremely important as catalysts in efforts to bring new players to Africa's regional integration projects.

Before Mrs. Quedraogo (UNECA) could elaborate on her specific request to the World Bank to put "Skills and Capacity Building" in its new strategy, Session IV ended abruptly with the sudden collapse and subsequent passing on of Mr. Piet Viljoen.

SESSION V: Moving from Principles to Practice

Final session

Delegates resolved that the late Piet Viljoen would have wanted the meeting to go on. After moving tributes by Mr. Reatile Mochebelele (NEPAD), Hon. Dora Siliya (Deputy Minister;

Commerce, Trade and Industry) Zambia and Mr. Zubair Malik (SAARC) who dedicated this session to Piet, delegates observed a minute of silence to honour him.

Thereafter, discussions focused on new and innovative ways of financing Africa's regional integration efforts. Specifically, Ms. Karin Millett of Joint Africa Institute (JAI) - created in 1999 by WB, IMF and the AfDB to advance policy dialogue, stressed that demand for private sector involvement globally is very high and in fact, outstrips supply. She continued that a large part of what happened will be borne by the public sector and to get the private sector involved, more guarantees need to be provided. Ms. Millet continued that the private sector's timeframe is short while some of the yields are long and though there are MIGA guarantees, they are small and need to be made larger. She said that the MDBs need to place their energies in this area and that we should think of the private sector not only in terms of money but also in engagement. The Diaspora is important but they need the guarantees and comfort that their investments are safe.

Delegates agreed that there is need to create new ways of making the Private Sector participate more effectively in the building of infrastructure specifically as well as in the general regional integration efforts. Several ideas were discussed which included:

- the African Diaspora;
- export credit guarantees bring comfort to the Private Sector;
- capacity building in RECs;
- learning from successful projects such as the West Africa Gas Pipeline (WAGP);

The African Diaspora

It was recognized that the Investment climate alone is not enough. Ms. Sonia Plaza briefly discussed results of the conferences and how to use remittances to work on infrastructure in Peru and in Southern Mexico and stated that the WB, DfID and AfDB are working on a study on Migration, Remittances and Development in Africa. The idea is to find innovative mechanisms on how to mobilize resources from the diaspora. These resources can be financial resources or investment and trade opportunities. Countries such as El Salvador, Brazil and Lebanon have used the securitization of remittances as a form of funding. In addition, other countries such as India, Israel and Phillipines are mobilizing resources through "diaspora bonds". It would be important to learn from these experiences.

There are also some experiences in Latin America to use new forms of guarantees for public-private partnerships. The use of guarantees in Africa is one of the main constraints. Africa should try to tap in to guarantees that not only cover political risk..

Delegates heard of the case of India and Pakistan, where most of FDI comes from expatriates, estimated at \$4bn every year. There is need for safe guarantees for these kinds of resources. The estimated \$600bn of Africa's money currently invested abroad could be brought back to the region provided sufficient comfort and guarantees are in place.

Guarantees and Comfort

Demand for private sector money globally is very high and outstrips supply. Multilaterals, important as they are, are running out of money, it would appear. Financial markets must be brought to the table in a meaningful way; as management experts for example. It was stressed, however, that Africa's indigenous private sector must be actively involved. Nevertheless existing guarantees such as MIGA guarantees are not enough. MDBs need to focus their energies in this important area of new and more substantive guarantees. Another area of focus might be to provide capacity to RECs in projects presentation. For example COMESA Fund is capable of preparing projects but lacks capacity and more funds.

Learning from successful projects within Africa

The West African Gas Pipeline (WAGP) was cited as a project worthy of study to determine what was done, and how, and what could be learnt from it. In other words, we need to move from what to do, to how to do things that would enhance regional integration efforts.

Next Steps

Several specific steps were suggested by Mr. Benno Ndulu (WB). These included:

- the need for an Investor Roundtable;
- bringing the Paris Agenda to the Africa Region;
- support for EPAs to conclude negotiations successfully from the point of view of beneficiaries;
- peer learning.

Investor Roundtable

Such a roundtable would be necessary to specifically consider the all important subject of finance and how the private sector might be involved meaningfully. Bankable projects, public/private partnerships could be examined. Retooling of instruments and discussions around guarantees would be useful. These and others are, in fact, cross-sectoral needs under RECs. AfDB, AU, and NEPAD could work on this.

Paris Agenda to Africa

A Partnership Meeting within a year or two that would clearly develop the accepted concept and discipline of the Paris Agenda for application to the Africa region would be beneficial. AfDB and WB could anchor this process.

EPAs call for support.

Clearly EPAs have called for support to conclude the process of negotiations successfully from the point of view of the beneficiaries, that is, the Africans. The EU and other development partners need to come to the table. Support for the negotiation process, including capacity and skills building support might be well anchored by ECA

Peer Learning

The need to exchange new ideas and learn from best practices is extremely important. To some extent, the AfDB is undertaking this task, but there is need to bring the process into a more systematic framework. AERC could anchor this process.

SUMMARY OF KEY ISSUES AND TAKE AWAYS

Before the Workshop came to a close, delegates heard a summary of key issues and takeaways that had emerged from the entire workshop around which a considerable consensus was built.

Regional Integration matters more in Africa...

Regional integration matters more for Africa, where 40% of the population and one-third of the economies are trapped in landlocked countries whose trade and development depend almost entirely on events that happen beyond their own borders. It also matters in Africa more than elsewhere because the region has this “spaghetti bowl” of RECs whose missions overlap, and for the most part, are yet to achieve the most important objectives they were set up to accomplish. Globally, only 4% of the world’s population lives in landlocked countries and for them regional integration couldn’t be as important as for Africa.

Growth poles would help regional integration

Regional integration would be helped by the identification and promotion of growth poles. These should not be limited to big countries growing fast and yielding positive spill over effects to neighbours, but could also be driven by the creation of zones within countries or sub-regions where specialized production units could be based. Agriculture was identified as a major growth pole given that Africa currently imports 50% of its food, translating into 18 billion dollars or just a little less than all the financing Overseas Development Assistance brings to the continent, and representing a considerable loss of valuable foreign exchange.

Financing for Regional Integration

Funding regional integration programs requires major retooling and skills building for RECs, governments, sub-regional organizations and donors. However it is the responsibility of Africans more than others to ensure that this happens, including through developing new and innovative ways of mobilizing local and international capital for this purpose. The regional integration agenda must be Africa-driven and Africa-led, and multilateral and development partners, though important, should do more to bring what they have in a more coordinated and harmonized manner. Africans must stay in the driver’s seat. Also on financing from the private sector, emphasis is on private sector involvement, engagement and comfort rather than merely funding. The AU has a major role to play in this regard and should work hard to operationalize initiatives such as the planned African Investment Bank and African Monetary Fund.

National interests in conflict with regional interests

National interests seem to be in conflict with the regional interests, and governments are hurting the cause of regional integration by hanging on too jealously to sovereignty. They seem to be more concerned about delivering locally over the short-term in order to win

elections and stay in power. This situation is exacerbated by the fact that donors still seem uncomfortable and lack the instruments to move away from country-focused programs.

Rationalization

There is need for rationalization although the caution is for Africa's reality and history to be taken into account. Political forces at play should not be neglected. African countries and sub-regions should avoid inward-looking trade groupings and RECS should seriously consider ways in which their proliferation could be addressed, and how they could become more innovative in mobilizing resources, in preparing projects and in providing guarantees or serving as host to special purpose vehicles for infrastructure projects. While rationalization was recommended, the consensus was also that it should not be done at the expense of hitherto neglected regional areas; especially those linked to inland waterways, river and lake basins.

Paris Agenda for Regional Integration

There was consensus that a Paris Agenda-type agreement could be worked out and agreed upon in order to ensure harmonization, alignment and focus on regional integration. Also consideration could be given to the development of regional assistance strategies and region-wide poverty reduction strategies. Inevitably this would require a platform to discuss harmonization among the various donors.

The crucial role of honest brokers like World Bank

Region-wide deals such as the one being negotiated under the EPAs with the European Union would benefit enormously if neutral donors such as the World Bank and others in this category could consider formulating a strategy for getting more involved in the process.

Africa competitive at factory gate

Macroeconomic stability matters and although Africa seems to have solved her macroeconomic problem and has become just as competitive at the factory gate level as the best economic performers in developing countries such as China, India or Vietnam; indirect costs linked to lack of infrastructure (energy and transport especially) make it impossible for Africa to compete more effectively on the global market. Africa continues to see its share of global trade fall because of her high costs of doing business. Many behind-the-border issues that cripple Africa's competitiveness would be better dealt with on a regional rather than on a national basis.

Encouraging donor making timid debut

Donors and development partners still making a timid debut in regional integration programming, were encouraged to broaden and deepen their work in this area, including through re-tooling their funding mechanisms, increasing them so as to provide more resources on both concessional and non-concessional terms.

Retooling needed for all stakeholders

Effective regional integration will require new skills within member states, RECs and Donors. RECs need to learn from best practice and to be inspired by good examples from other sub-regions. RECs that conduct studies ought to share their findings.