Chapter 4

Integrate Africa

Industrialisation in Africa depends on a better integrated continent. Greater integration of African economies provides small-, medium- and large-scale producers and manufacturers access to larger markets and encourages trade and investment. The growth of integrated supply chains across borders adds value to primary commodities, creating more jobs and increasing economic activity.

This chapter shows that at present, however, intra-African trade is just 14.2% of total goods trade, partly because of the high costs of trading across borders. Africa’s regional economic communities continue to promote integration, but more progress is needed in areas such as visa liberalisation. This is why the Bank is one of the champions of economic integration. We are a major investor in cross-border infrastructure: in 2017, we built or rehabilitated 414 km of cross-border roads and built one-stop border crossings to facilitate trade.

Connecting markets and industries through economic integration

Regional economic integration has been a goal of African leaders for many years. Agenda 2063 of the African Union Heads of States and Governments has a vision of integrated African economies. The March 2018 African Union Summit culminated with the establishment of the Continental Free Trade Area, potentially bringing down barriers to trade for 44 African countries. This is paving the way for a single market for goods and services in Africa, with free movement of workers and investments.

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With an overall population of 1.2 billion and a combined GDP of $3.4 trillion, Africa can gain substantially from economic integration, as companies develop new and larger markets, create jobs and contribute to economic growth. Integration is particularly important for addressing widespread poverty in remote areas and small, landlocked countries, which have fewer options but can benefit from the greater economic dynamism created by integrated markets.

At present, intra-African trade is just 14.2% of total trade in goods—partly because many African economies continue to depend on exporting one or more unprocessed, low-value commodities to higher-income countries and importing goods from them. With more comprehensive and reliable data, the level of intra-Africa would likely be higher. By comparison, intra-Asia trade accounts for around 50% of total trade in Asia. In addition, the high cost of trading across borders in Africa deters investment and cross-border trade. Despite these challenges, promising examples exist. The auto industry in South Africa sources leather from Zimbabwe and Botswana for car seats, rubber for tires from DRC and upholstery from Lesotho.
Regional trade will become more competitive through better regional infrastructure services in energy, transport and ICT; lower tariff and non-tariff barriers at borders; and greater harmonisation of monetary policies. Access to larger African markets is key to achieving industrialisation: companies will diversify, invest and expand into manufacturing and processed products, creating greater value-added across supply chains as well as decent jobs and higher incomes.

Figure 14 highlights current patterns of intra-Africa trade. It shows that countries that trade within the continent do so mainly with neighbouring countries. In particular, 83% of Southern Africa’s exports to African countries are to countries in that region, reflecting the structure of South Africa’s economy, its role as the biggest intra-Africa exporter and the high levels of regional infrastructure in Southern Africa. Landlocked Swaziland currently has the highest proportion of intra-African trade relative to its total trade in goods.

Africa’s regional economic communities continue to promote regional integration to achieve social and economic development (we have not updated the related indicator, as no new issue of the Africa Regional Integration Index was released in 2018). The Economic Community of West African States has made progress, particularly on financial and macroeconomic integration. The East African Community has succeeded in increasing cross-border trade and introducing free movement of people — which remains quite challenging in Africa, where just 10 countries have liberal visa policies. Since the beginning of 2018 Rwanda is allowing visa-free or visa-on-arrival entry to citizens from all African countries, joining countries like Kenya and Uganda. These ambitious regional efforts are paving the way for greater Africa-wide integration (see Box 12).

Greater integration and closer cooperation also enable African countries to agree on coherent approaches to common challenges. Regional integration is a political as well as an economic issue.

Table 4 Integrate Africa indicators (Level 1 & Level 2)

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>ALL AFRICAN COUNTRIES</th>
<th>ADF COUNTRIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline 2015</td>
<td>Latest 2017</td>
<td>Target 2017 2025</td>
</tr>
<tr>
<td>Intra-African trade as a proportion of total goods trade (%)</td>
<td>14.6</td>
<td>14.2</td>
</tr>
<tr>
<td>Cost of trading across borders ($)</td>
<td>2384</td>
<td>2340</td>
</tr>
<tr>
<td>Regional economic communities’ average score (scale, 0 Low-1 High)</td>
<td>0.47</td>
<td>..</td>
</tr>
<tr>
<td>Deeply and broadly integrated countries (number)</td>
<td>19</td>
<td>..</td>
</tr>
<tr>
<td>Countries with liberal visa policies (number)</td>
<td>13</td>
<td>10</td>
</tr>
<tr>
<td>Transport–Cross-border roads constructed or rehabilitated (km)</td>
<td>380</td>
<td>414</td>
</tr>
<tr>
<td>Energy–Cross-border transmission lines constructed or rehabilitated (km)</td>
<td>..</td>
<td>4</td>
</tr>
</tbody>
</table>

Box 11 The African aviation market generates jobs and economic growth

In early 2018, over 20 African countries, including South Africa, Nigeria and Kenya, launched a single aviation market. The industry has been hampered by protectionism, high taxes and tight regulation. The single aviation market will liberalise fares and encourage a relaxation of some of the stringent regulations on the frequency and capacity of flights. Reduced prices and better services will substantially benefit economic growth and jobs, particularly through enhanced trade and tourism.

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Currently 19 of Africa’s 54 countries are categorised as deeply and broadly integrated countries.

Greater integration and closer cooperation also enable African countries to agree on coherent approaches to common challenges. Regional integration is a political as well as an economic issue.
In 2014–15, African citizens were invited to express their views on economic integration, using the Afrobarometer survey. The results indicated widespread belief in the importance of the regional economic communities and of the African Union.

The Bank’s catalytic role in integrating the continent
We remain fully committed to supporting the African Union’s vision of regional economic integration. We believe that connecting countries, markets and people is essential for facilitating trade and enabling Africa’s economic transformation.

Working closely with development partners, we catalyse private sector investment to address Africa’s huge regional infrastructure needs. We use a range of financial instruments to share investment risks in large capital projects with private investors.

In 2017, we constructed or rehabilitated 414 km of cross-border roads, which compares to 380 km in 2015, but was below our target of 983 km because only few large operations were completed in 2017. We have also invested in one-stop border posts to provide a single window for crossing borders. The combination of new roads and efficient one-stop shops can dramatically improve journeys, saving time and reducing costs. Our investment in West Africa
covering the Bamako-Burkina Faso-Ghana road corridor continues to deliver impact a few years after its completion (Figure 15).

In East Africa, we delivered a transport corridor between Tanzania and Kenya, which complements our national road project in Tanzania. We established a one-stop border post at the Namanga border. The investment enhances connectivity, shortening waiting times for individuals and traders at the border. It also supports socioeconomic development for local communities, facilitating trade and tourism and serving a new export processing zone and new horticultural farms.

In Central Africa, we constructed the Enugu-Bamenda Highway, which is part of the Trans-African Highway from Lagos to Mombasa. Our investment will help unlock regional trade and integration in Central Africa.

In 2017, we constructed or rehabilitated 414 km of cross-border roads

We are providing major infrastructure investment in the multinational Nacala Road Corridor that will link Zambia, Malawi and the Mozambique region to the Nacala port. We completed Phase 2 of the programme in Zambia, which includes 147 km of roads and related construction. Phases 3 and 4, comprising road and railway transport services, are under construction.

Ensuring that these major transport investments will be maintained is important to maximise project benefits in the longer term. In East Africa, we helped establish ring-fenced funds for road maintenance; the revenues to these funds have increased each year because of the higher level of economic activity that resulted from the improved roads.

Investment in regional power pools and energy trade is particularly important for countries that have limited energy resources. Low-cost energy supplies attract private sector investment and promote industrialisation. In 2017, we completed operations that constructed or rehabilitated only 4 km of cross-border transmission lines. We have plans to substantially scale up this work.

Box 12 Opening access to a visa in Rwanda provides opportunities for youth

Stanley Okoye, a Nigerian, had always wanted to study business and information technology. Hearing that Rwanda had made significant strides in these areas made him curious about that country. When he checked online and learned that he could receive a visa on arriving, he decided to use part of his savings to visit Rwanda. A year later, he enrolled at the University of Kigali and is now well on his way to achieving the diploma he had longed for. Of his experience, he says, “An open border will create improvements in the life of students who have dreams and goals, to achieve the way they want and where they want.”

A strategic framework to raise regional competitiveness

In February 2018, the Bank approved its strategy framework for achieving the High 5 priority Integrate Africa. The Regional Integration Strategic Framework (2018–25) supports the African Union Vision 2063 and the Continental Free Trade Area. We will continue to support initiatives to increase prospects for trading higher-value products across borders, provide access to regional and global markets for landlocked countries, and strengthen regional corridors to promote economic and social development.

Our Strategic Framework focuses on three pillars to increase regional integration and maximise economic and social development. Infrastructural connectivity is the first pillar. We will address areas identified by the regional economic communities, supporting “hard” regional infrastructure in power, transport and ICT and investing in environmental infrastructure to provide resilience against climate impacts. We will give increasing support to “soft” infrastructure: capacity development, policy and regulatory reforms and trade facilitation.

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Promoting trade and investment is our second pillar, with increased focus on improving the investment climate to enhance private sector investment. We will support measures to encourage more cost-efficient intra-African trade and promote private sector development. Private sector companies value regional markets that are less fragmented, and they benefit from the economies of scale of integrated regional markets. Smaller companies, including those producing niche products or in the supply chains of larger companies, also benefit — and many of them are owned by women.

Our third pillar is financial integration to strengthen markets and stock exchanges, and encourage remittances, in a bid to channel more capital for development. We will strengthen financial markets so that capital flows better across countries. Integrated financial
What has not worked so well

Working with stakeholders for a “bottom-up” approach to project design
Regional economic programmes have sometimes been prepared in a “top-down” manner to ensure strategic coherence, especially when local capacity is limited. In future, the Bank must work more closely with the range of stakeholders to ensure that they help set priorities and prepare projects, and that they are directly involved in the development of related policy.

Ensuring that trucks carry the right load
Road users should not drive overloaded vehicles on newly constructed roads. In Zambia, 34% of vehicles on a new section of the Nacala transport corridor were overloaded. The Bank needs to provide support so that weighbridges are in place and axle loads are controlled. If there are delays in constructing weighbridges, temporary axle load controls should be put in place.

What has worked well

Raising funds to make roads last longer
Separate road funds were established to ensure that road maintenance is undertaken in a timely way. In Kenya and Tanzania, the road funds have been well managed and revenues have risen each year. The Bank should continue to promote discrete funds for road maintenance to ensure that roads are well maintained and provide lasting benefits.

Increasing the role of the private sector
Regional project finance has often focused on the public sector, but increasingly the Bank encourages the public and private sectors to engage with each other to create the conditions for private sector investment. Public sector policy to address barriers to trade and regional investment is critical. The Bank should boost public sector capacity to deliver the reforms needed to attract private sector investment, in conjunction with consulting communities around the border area.

In addition to using the Bank’s own finance, we will increase our efforts to mobilise private and public sector funds to support regional integration. We are exploring opportunities to support the issuing of bonds, addressing reforms that will maximise investor participation in regional project finance.

In this region, investments involving more than one country are often complex and risky, yet facilitating even modest regional trade and investment adds significantly to economic and social development. We will continue to observe best practice, engaging closely with regional and national institutions and drawing on all available knowledge and evidence. We also design complex financial transactions to crowd in private sector finance using our ADF partial risk guarantee instrument, lowering the costs for clients and reducing the risks faced by private investors. Côte d’Ivoire is accessing blended finance for its air industry and, as the lead arranger of the major investment, we will help deliver greater connectivity across West and Central Africa (Box 14).

Box 14 Purchasing aircraft for Air Côte d’Ivoire with blended finance
This investment addresses poor connectivity in the West and Central Africa regions by supporting Air Côte d’Ivoire’s fleet extension. The project will procure five new aircraft and support a technical training programme. Countries will benefit significantly because new routes will be opened, and tickets will be cheaper because of lower operating and maintenance costs, including more efficient fuel consumption.

The Bank is supporting the $296 million investment through its public and private financing windows, using an ADF partial risk guarantee to reduce the risk profile and crowd in finance from commercial lenders. The Bank is also providing an ADF loan for the training programme. The investment’s loan mechanism is a special-purpose vehicle that will buy the aircraft and lease them to Air Côte d’Ivoire. The Bank leveraged its AAA rating to make this innovative financial arrangement possible.

Highlights and new programmes
Last year, we approved a $100 million loan to the Emerging Africa Infrastructure Fund to finance regional infrastructure. The Fund is a public-private partnership that has invested around $1.2 billion in 70 infrastructure projects in the 49 eligible countries, including fragile states. We have worked with the Fund since its inception, and we support its model of providing green and sustainable infrastructure.

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We approved a multinational electricity project to cofinance energy transmission and distribution in Guinea and Mali, providing electrification to all the localities crossed by the 714 km transmission line. We approved funding for power interconnection between Cameroon and Chad, as the two countries seek to integrate their power generation, transmission and distribution infrastructure. One of Central Africa’s priority integration investments, this project will deliver 1024 km of transmission lines and provide electricity to 478 locations, benefiting close to 9 million people.

We approved our contribution to the North Backbone project, an interconnection investment enabling power exchange among Nigeria, Niger, Benin and Burkina Faso, and neighbouring countries to which they are connected. The Bank supports the energy sector of each of the four countries and financed the feasibility studies of this investment. We also mobilised the other four financiers of the project.

Our Regional Integration Strategic Framework (2018–25) sets out how we will scale up our work to Integrate Africa. We have invested in regional economic integration and will draw on best practice and knowledge as we expand our work in this area. We will work closely with regional economic communities, national governments, international donor agencies and the private sector to deliver priority regional infrastructure, promote regional trade and investment and increase financial integration. This will deliver jobs and economic growth and will contribute to achieving the Continental Free Trade Area.