INTEGRATING AFRICA

AFRICAN DEVELOPMENT BANK GROUP

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Foreword

The African Development Bank is playing a pivotal role in integrating Africa. Regional integration is one of its strategic objectives, reflected in its High 5 priorities. Integrate Africa links the other related High 5 activities together, and tactically connects and unifies the continent.

In 2017, regional operations represented 28% of the Bank's African Development Fund (ADF) pipeline of disbursements for 37 low-income countries. The level of disbursements to ADF countries simply reflects the importance of regional integration as a key development priority for the Bank.

By 2050 approximately 2.2 billion people will be added to the global population, and more than half of that growth will occur in Africa. Africa will account for the highest population spurt with an additional 1.3 billion people on the continent.

However, this rapid population growth poses a conundrum for several African countries: how to address public infrastructure, consumer demand, joblessness; and stimulate domestic income. Beyond 2050, Africa will be the only region experiencing substantial population growth, meaning that the continent's share of the world's population could rise from 17% in 2017 to 40% by 2100.

The emerging scenario provides the potential for Africa to expand its markets, create new wealth, and take advantage of unprecedented opportunities to feed itself and the world. This is a compelling reason for enhanced African integration.

As of May 2019, the African free trade agreement (AfCFTA) had been signed by 52 African states and ratified by 23. The next step is for the African Union and African ministers of trade to finalise work on the instruments to facilitate the launch of the AfCFTA during an extraordinary heads of state and government summit on 7 July, 2019.

With its capacity for lending and financing, sharing knowledge, forging partnerships, and with the appropriate capital backing, the African Development Bank is strategically positioned to operate as a one-stop shop to support the achievement of one of Africa's development objectives, the African Economic Community.

Africa's journey towards a more integrated, competitive and business-friendly continent is following a promising roadmap for success – Africa's future is bright!

[1] United Nations, (2017) World Population Prospects: The 2017 Revision

Integration for growth and prosperity

Integration for growth and prosperity

To generate growth and prosperity, African countries must fling open their markets beyond their national boundaries to stimulate and increase regional, continental and global trade.

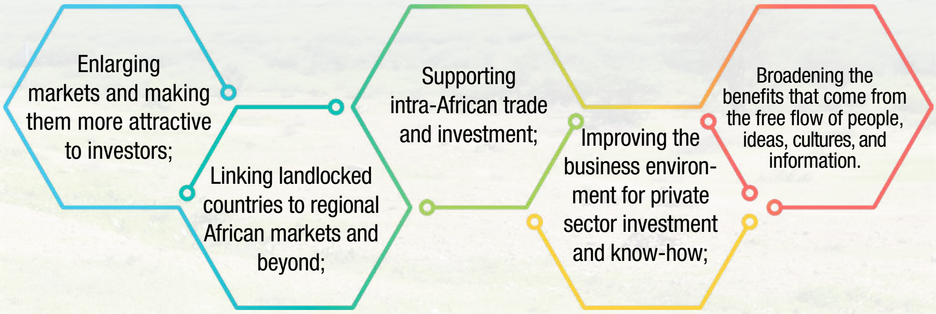
The relationship between integration and growth encourages connectivity, trade, industrialisation, and the free movement of people, among others, as key economic factors. For instance, cross-border infrastructure connectivity enables economic growth, and is a catalyst of integration. Effective and efficient infrastructure connectivity boosts trade and investments, permits the free movement of people, goods and services; and reduces cross-border costs by increasing access to services such as mobile phone technology. African countries, especially small or landlocked countries, have much to gain from promoting infrastructure connectivity to boost economic growth.

Financial integration is another key factor in growth - once capital flows move freely across regions in Africa, then investments will increase. As a result, finance is allocated where it can generate the most productivity. Through financial integration, the investors on the continent get higher returns because business transaction costs fall and financial institutions work more effectively. Financial integration plays a key role in terms of smoothing cross-border transaction flows while integrating nations and landlocked countries can connect through financial services.

The African Development Bank puts a high premium on the capacity of market integration powered by connected infrastructure and reinforced by the free flow of goods, services, ideas, and people. This is what its Integrate Africa strategy seeks to achieve.

The strategy aims to strengthen the required connectivity in all areas for Africa to achieve a single and common market. The initiatives are about making progress in power generation, transport infrastructure, information and communications technology (ICT), and logistics, trade and investment, as well as financial market inclusion and integration. The initiatives are also about the Bank's integrated approach of combining private and financial sector development across borders, and using the benefits of infrastructure to achieve a unified African market.

Integrating Africa means focusing on five key priorities:



Africa is one of the fastest growing consumer markets in the world. Africa's consumer expenditure has been growing at a compound annual rate of 3.9% since 2010. This market is expected to reach $2.1 trillion by 2025 and $2.5 trillion by 2030. The implementation of the AfCFTA will help to create a single continental market for goods and services and an estimated potential market of 1.7 billion people. The vast majority of consumer spending on the African continent currently takes place in informal, roadside markets, even in those countries with the most well-developed retail and distribution markets. By 2030, the largest consumer markets will include Nigeria, Egypt, and South Africa while lucrative opportunities will prevail in Algeria, Angola, Ethiopia, Ghana, Kenya, Morocco, Sudan, Tunisia, and Tanzania, among other African countries.

In pursuit of its key targets for 2025, the Bank will do the following:

- Facilitate the construction of 3,600 kilometres of cross-border transmission lines, and substantially increasing electricity access for communities.
- Support initiatives encouraging financial services so that they represent more than 5% of GDP instead of the current estimated 1%-2%.
- Reduce the cost of cross-border trading from $2,350 to $1,950 per 20-foot container by sea on average.
- Increase intra-African trade to 23% of all traded merchandise, and 20% of trade in total goods and services.
- Support ICT projects to help sustain progress towards the African Union Vision for communications by 2040, and increase African internet connectivity from 14.5% in 2014 to 30% in 2025.
- Help to increase air travel to 13.5 million passengers and air freight to 143 million tonnes – an increase of 7% from 2015 levels.
- Support the construction of railway lines to meet the African Union's 2040 goals, and expand and energise transport corridors.
- Enhance the construction or rehabilitation of 10,000 kilometres of cross-border roads to improve intra-continental connectivity.

Why integrate?

Africa comprises 55 countries with varying economies - out of these, 16 are landlocked. Of the 16 landlocked countries, 14 of them are ranked “low” on the Human Development Index (HDI), a statistic that takes into account factors such as life expectancy, education, and income per capita. In Africa, landlocked countries face challenges in terms of trade, access to markets, resources and development of economic infrastructure.

A country’s lack of access to water resources, energy, trade opportunities and markets, among others, can have an enormously negative effect on its economy. Landlocked countries face key trade challenges because it is cheaper to transport products over water than over land. Similarly, inadequate electricity access poses a major constraint to the twin goals of ending extreme poverty and boosting shared prosperity in Africa. Such challenges make it difficult for landlocked countries to participate in regional, continental and global economies or markets. This is one of the key reasons why African countries pursue integration.

Currently, reforms are under way and having a positive effect. Intra-African trade accounts for between 14% and 18% of recent merchandise trade (up from 10% in 2010), and it could be higher if informal trade data were captured; Some regions such as East Africa show that trade within regional economic communities now exceeds 25%. But despite these more favourable developments, there is more to be done if Africa is to meet the 2025 target when intra-African trade must account for 25% of the continent’s total goods trade. The African Development Bank’s goal is to help countries integrate better by supporting multiple efforts. These include the following:

- Increasing electricity access to communities and the continent through targeted investments in renewable energy, among other sources. The Bank will support regional energy projects while ensuring an appropriate combination of sustainable regulations, policies and ecosystems.
- Sustainable water resource management – the Bank will support transboundary water resource management and water conservation projects, as an approach to maximise natural resources in a sustainable manner while attaining much-needed economic and development growth.
- Increasing connectivity - expanding road, rail, port and air links.
- Improving logistics and information flows by expanding telecommunications platforms.
- Improving the business environment for cross-border trade.
- Enhance and liberate capital flows across Africa as a mechanism to increase investment while allocating resource where investors can generate the most productivity, achieving financial integration.

Infrastructure connectivity, trade and investment, industrialisation, free movement of people and financial integration will accelerate and bolster development in Africa.

Figure 1 African Merchandise Trends 1995-2016

As Figure 1 shows, Africa has made some progress in trade. However, these values remain low by global standards. Much of it is commodity-based, with no significant value added. This means Africa has a considerable gap to close. The Integrate Africa priorities will help the Bank to do so.

Africa is advancing with regional integration, but more progress is needed

12 African countries have made good progress with their neighbours and with the continent to consolidate ties to support economic growth. These are: Benin, Botswana, Côte d'Ivoire, Djibouti, Egypt, Kenya, Namibia, Senegal, South Africa, Togo, Uganda and Zambia. They now account for 39% of African GDP and 26% of the population. They are helping to connect the continent through trade, increasing value added in production and trade, regional infrastructure, flows of people, and currency convertibility. However, Africa has 55 countries, and the Bank is committed to the objective of integrating the entire continent.

Infrastructure connectivity for the future

With a projected market of 2 billion people in 2050, Africa still has vast infrastructure needs, and the opportunities for investment abound.

In the energy sector, increases in connections to households and businesses, including industries, will require more electricity flowing into national and regional distributions systems. Investments in generation capacity are to be associated with investments in the rehabilitation and/or expansion of the national and regional transmission network – this approach will allow power to flow within the country as well as reach the regional market. Cross-border interconnections are critical to allow countries less endowed with energy resources to access more reliable and cost-efficient supply from their neighbouring countries. The Bank will work closely with the regional power pools, among others, to increase electricity access and thus help address the energy gap on the continent.

Transport infrastructure investments will lead to interurban and rural connectivity across the continent. Today, the cross-border transport of goods by road and rail is difficult, and intra-continental air travel is still limited.

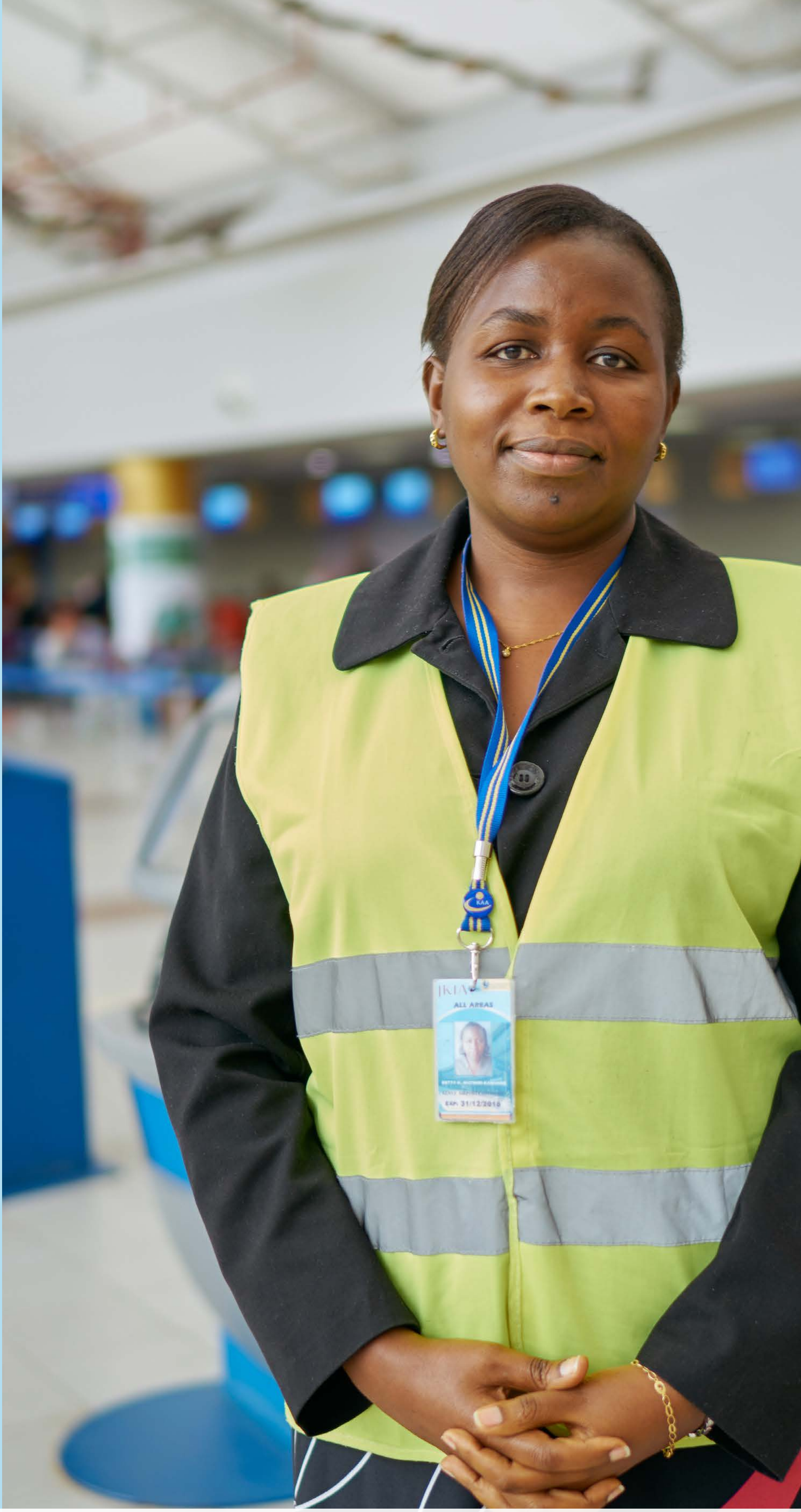
Investment in information and communications technologies, essential for economic and social development, will enable connectivity for logistics, data transmission, services and trade.

Box 1 Isiolo-Moyale Highway A2 Corridor flagship project

Fragmented and disconnected transport links slow the movement of goods and people. The Isiolo-Moyale Highway A2 Corridor flagship project is part of the Bank's effort to promote improved transport connectivity via road, rail, air and waterways in support of regional integration and enhanced intra-African trade. As this corridor runs through Nairobi, Moyale on the Kenya/Ethiopia border, and Addis Ababa, the project will increase domestic, regional and international trade in all these areas. The Isiolo-Moyale Highway A2 Corridor results include:

- Enhancing capacity for highway traffic in terms of load-` carrying capacity as well as traffic volume and composition;
- Providing safe passage across roads for livestock through the provision of livestock crossing points with appropriate traffic signs erected;
- Reducing travel time between Marsabit and Turbi from 5 to 1.5 hours;
- Training formerly unskilled workers to become mixing plant operators and stone crushing plant operators.
- Training others as operators of excavators, wheel loaders, dozers, graders, rollers pavers, and foremen.

Trade integration for the future



Trade integration for the future

Modernising infrastructure is not enough. The Bank also supports improved trade and aims to make cross-border investment easier. This means harmonised laws and regulations, strong institutions, sound governance, and a business environment that supports cross-border private sector investment. The point is to enhance sustainability and Africa's international competitiveness. Central to this will be support for regional value chains and value addition, as well as supporting economic activities along transport corridors.

Box 2 Tripartite Capacity Building Programme (TCBP)

The Bank provides technical assistance through its Tripartite Capacity Building Programme (TCBP), to the three regional economic communities – Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC) and Southern African Development Community (SADC) – and the 26 tripartite regional member countries. Its aim is to increase intra-tripartite trade. The project was well managed, administered and coordinated, and fostered effective partnerships. Its impact was significant and effective in promoting market integration, action plans for industrial clusters, value chains, and special agro-industrial production zones. It also provided support for information and operating systems. Other specific achievements of the project include the roll-out of non-tariff measure databases in 12 countries, and the development and roll-out of an online reporting mechanism for resolving trade disputes in 29 countries. This mechanism has helped to clear a backlog of more than 200 long-standing disputes at an annual cost of only $13,000.

On market access negotiation and implementation, TCBP has successfully provided technical training on negotiation skills to 691 officials. Women received 157 out of the 691 certificates issued. The project also helped to coordinate external technical experts and reduce administrative obstacles.

Financial integration and inclusion

Financial integration and inclusion

The Bank considers financial integration and inclusion to be indispensable building blocks for regional integration and economic development. These building blocks will encourage more trade finance and lending. The focus will increasingly be on market connectivity through insurance, leasing, and linked exchanges to help develop Africa's capital markets, necessary for investment in infrastructure and for the modernisation that comes with developed financial services.

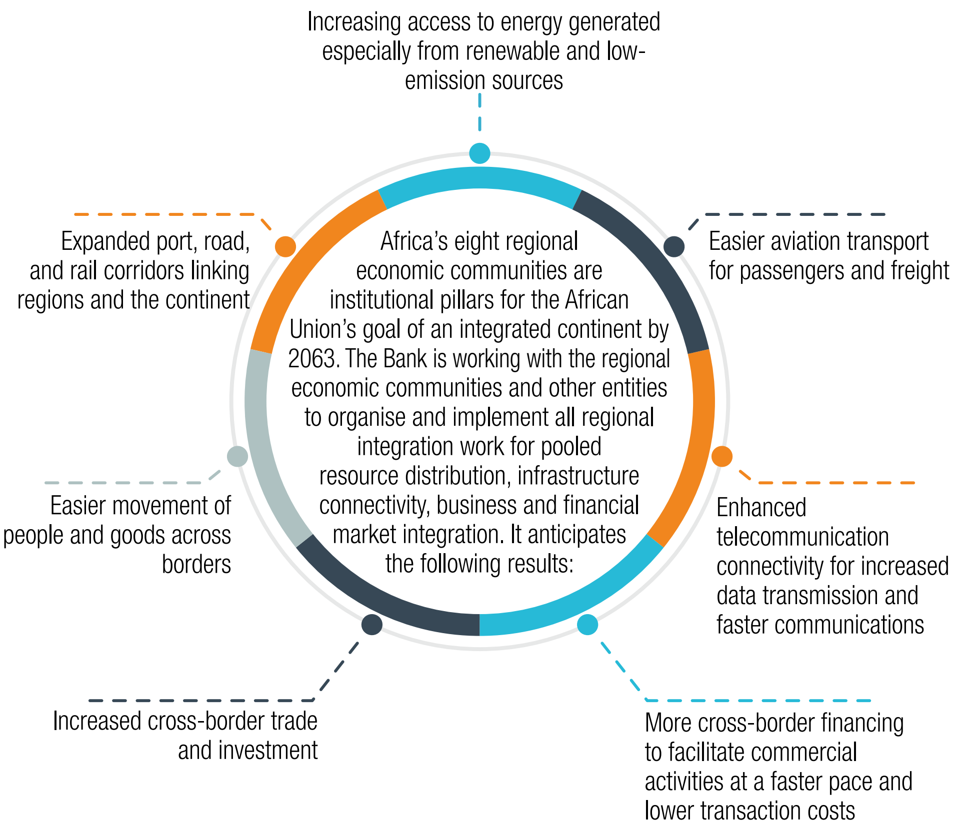
New technologies are already spurring considerable progress. The use of information technologies facilitates finance as an enabler for growth and development. Growth in mobile phone subscriptions and growing Internet use in Africa demonstrate market potential. The Bank will continue to improve conditions for cross-border payment systems, and support the integration of capital markets, trade finance and cross-border investment. It will do so by developing the required ecosystem support, and fostering a stronger institutional environment to encourage well-managed risk-taking.

Box 3 Regional African trade insurance

Attracting direct investment into Africa can be challenging for many countries due to the small scale of their economies and the perceptions of risky investment climates. The African Development Bank is working closely with the African Trade Insurance Agency (ATI) on a flagship country membership programme project to help member countries strengthen their capacity to attract investment resources. ATI is a pan-African institution that provides political risk insurance to companies, investors, and lenders interested in doing business in Africa. The programme's results include:

- **Enhanced economic growth, trade and regional integration among African countries and regions of the continent.** Although trade within the continent remains low and has not changed significantly over time, the 2016-2017 period saw an 8% increase in intra-Africa exports, reaching 16% of Africa's world exports in 2017. Meanwhile, 13% of Africa's world imports were intra-Africa imports. In terms of top exporters, 53% of intra-Africa exports in 2017 were products exported from South Africa (34%), Nigeria (7%), Egypt (5%), Ivory Coast (4%) and Morocco (3%).
- **Increased private-sector participation in large-scale projects through ATI.** Foreign direct investment (FDI) flows to Africa fell to $42 billion in 2017; this is a 21% decline from 2016, (UNCTAD's World Investment Report 2018): (a) In 2017, FDI flows to North Africa were down 4% to $13 billion; (b) FDI to sub-Saharan Africa, with inflows declining by 28%, to $28.5 billion. (i) FDI flows to Central Africa decreased by 22% to $5.7 billion. (ii) FDI to West Africa fell by 11% to $11.3 billion, due to Nigeria's economy remaining depressed. (iii) East Africa, the fastest-growing region in Africa, received $7.6 billion in FDI in 2017 with Ethiopia absorbing nearly half of this amount, with $3.6 billion. In Southern Africa, FDI declined by 66% to $3.8 billion.
- **Increase in trade flows to Africa.** Trade insurance in Africa is expected to increase from a $15 billion increase (3% growth) in total African trade, with the rest of the world by 2019.

Linking the African free trade area with the RECs



All of this supports the ongoing efforts of the African Union's Agenda 2063, promoting the Programme for Infrastructure Development in Africa (PIDA), boosting the Intra-African trade (BIAT) agenda, and the African Continental Free Trade Area (AfCFTA). The Bank's overarching support for movement towards an African economic community will be a key benchmark for evaluating its effectiveness. At a minimum, the expectation is that the Bank's Integrate Africa agenda will continue to promote:

- Increased integration for all regional economic communities
- An increased number of deeply and broadly integrated regional economic communities
- Liberalised visa policies for the continent
- An advanced roadmap for an African economic community
- Increased cross-border supply and value chain links in goods and services for higher incomes and more trade

The Bank is enthusiastic about its new vision and approach for regional integration. Working closely with its partners, it will strive to ensure that African countries harness all possible opportunities for integration.

One key area of work is the Bank's support for the regional economic communities and their member countries in a broad range of knowledge activities. This includes its economic and sector analysis, and its technical assistance for enhancing capacity, project preparation and design. The Bank will look at innovative financing to help support these priorities. For instance, it will consider blended finance through its regional operations to draw funds from the private sector and other financial partners. With more than $80 billion in capital and a Triple-A rating, the Bank is uniquely positioned to promote and foster African integration.

The Bank is also mobilising its knowledge management function to play the role of knowledge broker in support of regional integration. This will help to inform policy and project design, as well as share lessons learned across the continent for better results and outcomes.

East Africa’s one-stop border post project

The African Development Fund, the concessional arm of the Bank, extended loans to the Republic of Kenya and the United Republic of Tanzania to build a modern and more efficient one-stop border post. This project has given a much-needed boost to commercial and tourism activities.

“I am Sarah Keiya. I am 45 years old, and live in Namanga, Tanzania. I’m also the leader of the curio women in Namanga. We saw this as an ideal location because it is where tourists pass through. We mix with both the Tanzanians and Kenyans. We work together and sell the curios together. As a resident, I thank the Bank for doing something good, which has brought unity among the two countries.” - ***Sarah Keiya,*** curio seller in Tanzania.

“My name is Naftali Elude Mzota and I have used this road for 23 years. I work with Impala Shuttle. At first, border clearing here was a challenge because there were two borders. You would clear at immigration and customs in Tanzania, then you would cross over to the Kenyan side and repeat the same process. It used to take 1.5 to 2 hours. But now, when passengers come from Tanzania they process their travelling papers in Kenya and continue with their journey. So, it has been good. The African Development Bank has eased the clearing process and the people here enjoy the fact that the border post has become bigger. ” - ***Naftali Elude Mzota***, Impala Shuttle staff member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"Regional integration is critical to expand the size of our markets. We must integrate Africa, grow together, and develop together. Our collective destiny is tied to breaking down the barriers separating us."

– Akinwumi A. Adesina, President, African Development Bank

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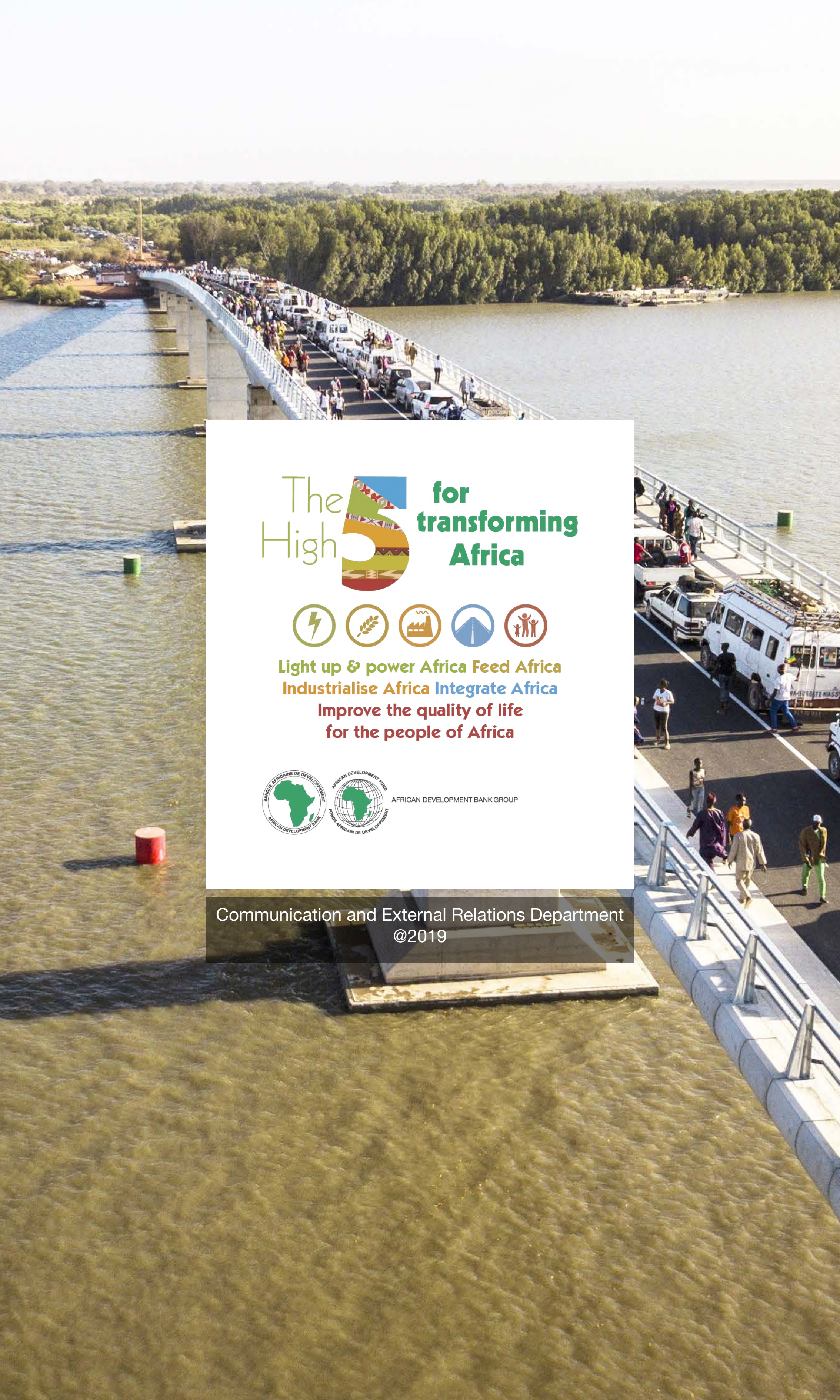

The High 5 for transforming Africa

Light up & power Africa Feed Africa
Industrialise Africa Integrate Africa
Improve the quality of life
for the people of Africa

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