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INTEGRATE AFRICA: A MULTIDIMENSIONAL PERSPECTIVE

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Executive Summary

Regional integration serves as an essential conduit for overcoming barriers and harnessing complementarities across countries. It enables sharing of resources and assets among countries, and also expands the markets and opportunities for these countries. Regional cooperation is of particular relevance in Africa as the continent is not only home to some of the fastest growing economies in the world, but also has 34 of the 48 Least Developed Countries. The small size, landlocked nature and fragile state of several economies create a case for greater regional integration, aimed at facilitating shared prosperity in a region characterized by heterogeneity and substantial disparity. The role of Governments as well as the private sector will be essential in achieving this.

Regional integration is truly multi-dimensional, encompassing regional infrastructure, trade integration, productive integration, financial and macroeconomic integration, and free movement of people. These dimensions, while standalone objectives in themselves, also reinforce each other. Efficient regional infrastructure is required for creation of value chains, and therefore it supports trade and production integration. Regional infrastructure in turn benefits from larger resources and innovation arising from financial and macroeconomic integration. Free movement of people also hinges critically on regional infrastructure, and further contributes towards strengthening of trade and production linkages.

REGIONAL INFRASTRUCTURE

Regional infrastructure forms the building block for fostering greater integration within the African continent. Among the world's seven regions, regional infrastructure needs are the most pronounced in the case of Africa. With 16 landlocked countries, Africa has the largest number of landlocked countries, and land borders account for 84 percent of the total borders in the continent. Africa also ranks second in terms of average number of neighbouring countries, with Central Asia being the first mainly on account of Russia's 14 border countries.

The scope of challenges confronting regional infrastructure projects is vast and complex, and requires multi-faceted engagement. Other than financing, sectoral reforms, institution building, improving investment climate, addressing issues pertaining to operation and management, establishing favourable Public-Private Partnerships (PPP), along with due consideration for environmental impacts will constitute the bedrock for alleviating the infrastructural constraints in the continent.

Strategies for Regional Infrastructure Development

Reforms for Harmonizing Regulatory Structures

National, regional and continental harmonizing of regulatory structures will be an essential first step towards formation of mutually enriching partnerships among African countries for regional integration. In an ideal situation, the harmonization process should involve harmonization of policies, legislation, regulatory and institutional frameworks. Such integration shall be instrumental in building investor confidence for investments in regional infrastructure.

The African continent has made appreciable efforts towards harmonization of policies through establishment of Regional Regulatory Agency (RRA). For example, the Economic Community of West African States (ECOWAS) Regional Electricity Regulatory Authority is the regulator of regional cross-border trade of electricity in West Africa, and also the regional regulator of cross border electricity interconnections in the region. In order to ensure cohesion and harmonisation of the strategies and policies, it shall be necessary to have more number of effective RRAs in the African continent. Regulatory harmonization has low monetary cost but relatively higher returns. However, such harmonization shall require commitment from National Governments. The RRAs formed through cooperation amongst Governments must alleviate the

managerial inefficiencies and technical weaknesses faced by national regulators through capacity building activities.

Improving the Effectiveness of Project Preparation Facilities

Project Preparation Facilities (PPF) are essential for maintaining a sustainable supply of bankable, investment-ready projects. A major shortcoming of these facilities is the lack of financial sustainability in operations on account of excessive dependence on grants and public funds, and weak recovery systems for project-preparation costs. PPFs should therefore attempt to recover the project preparation related expenses along with a margin from the project owners or incoming concessionaries[1]. PPFs should also ensure that resources are allocated depending upon the feasibility of projects. Several of the projects will fail to reach tender and/or financial closure, and PPFs should try and minimise such failures. For this purpose, PPFs can adopt a Project Preparation Cascade, wherein reviews are conducted at various stages of a project preparation cycle to ascertain that they meet predefined criteria. A project will pass on to the next stage of preparation only if they pass these stage-gate reviews.

Promotion and Standardization of PPP Laws at Regional Level

Promoting private investments in regional infrastructure projects is essential for meeting the financing requirement. In order to provide an enabling environment for such investments, it is essential to develop a harmonized legal framework for promotion of PPPs, possibly at the level of Regional Economic Communities (RECs), which can provide a lucid foundation for development of PPPs at the national and regional level. Further, standard PPP guidelines need to be developed and put in place across the continent. This shall not only alleviate the problem of complexity of PPP documentation, but will also facilitate more training and capacity building activities across countries and RECs. Upon harmonization and standardization of the laws, processes and documentation, consistent and more effective capacity building programmes can be implemented at the regional level. Project managers can then possess better understanding of guidelines and regulations.

Tapping Institutional Investors for Infrastructure Financing

The role of institutional investors in infrastructure financing in Africa remains limited, but is increasingly being viewed as a source of meeting the large financing gap. For enhancing the linkages, institutional investors need to be networked with other parts of the infrastructure investment ecosystem. Networks with creators of investable infrastructure assets and financiers of these assets can help improve allocations to such projects.

An online communication and networking platform can be established for establishing linkages among stakeholders across the entire ecosystem, from project inception through development to finance and operation. This shall help connect the public and private sector professionals and facilitate effective implementation of investable infrastructure projects.

Investors consider involvement of local investors as a key risk-mitigation principle as local stakeholders are best placed to understand the benefits and quality of services being delivered by infrastructure projects, and the timeliness and robustness of infrastructure delivery and operations. Therefore, local institutional investors need to be able to invest in local infrastructure projects that meet investment-grade due diligence requirements. Alongside, the public sector needs to invest in the development of other local investment vehicles through domestic capital markets. In this regard, countries can undertake independent analysis of competitive products for its institutional investors and develop plans aimed at expanding their funding into infrastructure projects.

Risk Mitigation Instruments

An infrastructure project faces a wide array of risks during all phases of project development. The risk

[1]Assessment of "African Infrastructure Project Preparation Facilities - Lessons Learned and Best Practice", Infrastructure Consortium of Africa, December 2015

perceptions increase significantly for regional projects. A consolidated regional guarantee facility can help alleviate risks in these projects. In this regard, the African Trade Insurance Agency intends to work with the European Investment Bank, other international and multilateral insurers, and other financial institutions with investment grade ratings, towards a regional facility. The facility shall enable the institutions to pool their resources and capacity with the purpose of insuring projects across Africa.

As regional projects involve several countries with different currencies, there may also be cross-border currency risks which need to be addressed for allaying the concerns of international investors. In this regard, something like a foreign exchange liquidity facility as suggested by the Business Sector Steering Committee[2], can enable a project to attract investments from banks/ financial institutions and institutional investors. This facility can be used in case of infrastructure projects that receive revenues adjusted to the local inflation. The facility is based on the premise that, for most countries, sharp changes in the real exchange rate tend to be self-correcting over a reasonable period of time. This liquidity facility provides cash to cover debt service shortfalls when the real exchange rate has declined considerably, and the facility is repaid on a subordinated basis from surplus cash when the real exchange rate recovers.

Similarly, a contingent refinancing facility by institutional investors (such as pension funds) can also mitigate risks attached to infrastructure projects. The facility could consist of commitment by one or more pension funds to purchase the debt financed by domestic commercial banks after a pre-established date, in the event that a) banks do not wish to roll over initial financing b) project is not in default and has a minimum debt service coverage ratio. This would entail a lower credit risk for pension funds as they would have to purchase the debt of only those projects which have demonstrated satisfactory debt service coverage ratio and operated successfully for few years. Banks in Africa typically provide short term financing in local currency, and this facility could help them lend for tenors within their comfort zones.

Strengthening Domestic Resource Mobilization

Domestic resource mobilization will be pivotal for financing infrastructure in Africa as there remains substantial scope for raising more domestic resources. Effective implementation of domestic resource mobilization agenda requires establishment of strong institutional structures, strengthening of tax systems, enhancing the tax base, addressing the challenges associated with the informal sector, and curbing tax evasion and avoidance. Governments should ensure strong monitoring of extractive industries and build robust tax frameworks to maximise the benefits from the natural resources in the continent. Innovative measures shall also be required to formalize the informal sector, and enhance the tax base in these countries. Further, Governments can reduce high transaction costs involved in tax collection and administration through usage of ICT. Development partners can also contribute towards enhancement of tax capacity building and improvement in tax administration through financial and technical support.

PRODUCTION AND TRADE INTEGRATION

Integration of Africa in Global Value Chains (GVCs) has been limited. The share of foreign value added in exports of African countries stood at 15 percent in 2013, which is not significantly different from its level of 10.5 percent in 1990. Regional value chains (RVC) can serve as a transitional solution for integration of African countries into the GVCs. The demand for goods and services in the region can be leveraged for optimal utilization of resources in the country, and improvement in the production processes. The countries can benefit from the complementarities in natural endowments and industrial structures to establish and strengthen value chains. RVCs will also positively influence the growth of micro, small and medium enterprises (MSMEs) in the African region.

[2]The Third International Conference on Financing for Development held in Addis Ababa, Ethiopia highlighted the importance of the engagement of all stakeholders, including the private sector. The Business Sector Steering Committee facilitates private sector engagement in the Financing for Development processes.

Strategies for Production and Trade Integration

Regional Value Chain Development Agenda

Foreign investments are indispensable for creation of regional and global value chains. As infrastructural deficiencies are a reality, intra-regional investments can first be incentivised at the REC level, and then be scaled up for the entire continent as transportation and transaction costs gradually decline at the back of policy and investment measures. RECs can identify opportunities for value chains and recognize current policy bottlenecks which inhibit intensive value chain engagements. Based on this, a comprehensive regional value chain development agenda can be formulated in close consultation with key stakeholders, including the private sector. The agenda should be developed based on a rigorous assessment of local markets, connectivity, industrial base, existing supply chains, business environment, and availability of land and labour. The agenda should also include a thorough assessment of broad policies and procedures which inhibit private investment in the countries.

Capacity Building of Special Economic Zones in Africa

Globally, Special Economic Zones (SEZs) have been used as a strategic tool for incentivizing foreign investments. Units in SEZs benefit on account of easier clearance procedures, lesser control, stable business environment, and fiscal benefits. According to Brautigam et al (2010), nearly 60 percent of African countries have SEZ programmes[3]. However, most of the African SEZs have been not so successful in achieving the desired results on account of the inadequacy of the incentives to attract investors. The general investment climate in the countries adversely impacts the investor perception and discourages investment even in the SEZs. The linkages between export oriented units in SEZs and local firms is also low on account of the pronounced dichotomy of regulations and tax regimes within the national boundary.

While the SEZs in African continent have achieved little success, they remain realistic vehicles for establishing the much needed RVCs in the African continent. For SEZs to provide a holistic enabling environment for exporting units, Governments should focus on the following aspects:

- Strategy for SEZ needs to be developed at the national level, which should be in consonance with the regional value chain development agenda of the RECs. Priority sectors defined in the agenda should receive focus in the SEZ programs initiated at the national level.
- A sound legal and regulatory framework is considered a necessity. The framework should clearly define the roles and responsibilities of various stakeholders, and the mechanism for protection of interests of developers and investors.
- As per research, SEZs implemented by private sector perform better than the Government-led SEZs. Private sector participation should therefore be encouraged in planning, development and operation of such zones.
- Benefits available in SEZs, especially those pertaining to administrative and procedural simplifications should gradually be made available in the rest of the country as well. Developing countries often cannot create enabling infrastructure and business environment nationwide all at once. A pilot approach is therefore essential at the initial stages, and SEZs can serve as an effective vehicle in this process.
- These zones should have linkages with the rest of the economy and leverage the country's comparative advantages. Linkages with MSMEs can generate substantial spill over effects.

Overcoming Barriers to Trade

The share of intra-regional trade in Africa's total trade has not changed much over the past two decades. Intra-Africa exports stood at 12.4 percent of the total exports in 1995—not substantially different from

[3]Brautigam, D., T. Farole and X. Tang (2010), "China's investment in African special economic zones: prospects, challenges, and opportunities", World Bank

the current levels. A host of reasons including tariffs, border inefficiencies, weak infrastructure, and non-tariff barriers (NTBs) have inhibited the realisation of full potential for trade in the continent. Trade policy reforms and trade facilitation can alleviate some of the constraints.

Reduction of tariff barriers can enhance intra-regional integration. There is high modularity in some value chains such as automotive, metals, textiles and garment, leather and footwear, as a result of which the production process is highly fragmented and requires multiple cross-border movements. The effect of tariffs is therefore amplified in these value chains. For countries to form efficient RVCs in these segments, tariff reforms will be critical. According to OECD estimates, DR Congo, Cameroon, Djibouti, Rwanda and Nigeria would benefit the most from trade policy reforms[4]. Further, GVC participation of North African countries of Morocco and Tunisia can increase by 15 percent or more if trade policies are further liberalized in these countries.

A major step taken by African countries in reducing the barriers to trade is the signing of the agreement for establishing the Tripartite Free Trade Area (TFTA), and ongoing negotiations for establishment of the Continental Free Trade Area (CFTA). The TFTA agreement acknowledges that intensification of trade linkages in the African continent hinge not only on tariff liberalisation but also on addressing issues pertaining to rules of origin, NTBs and trade facilitation. The NTB mechanism under the TFTA is already operational and enables stakeholders to report and monitor the resolution of barriers encountered as they conduct their business in the countries covered under the TFTA. One-stop Border Posts have also been proposed under the TFTA. These will enhance trade facilitation by reducing the number of stops incurred in a cross border trade transaction by combining the activities of countries' border organizations at a single location with simplified procedures and joint processing and inspections, where feasible.

The TFTA Agreement will clearly provide an impetus to the process of formation and strengthening of RVCs in the African continent. However, the agreement requires 14 ratifications to enter into force, and is still far from the mark. The TFTA will serve as a stepping stone for the CFTA which will have a far wider impact on trade integration in the continent.

The large informal cross border trade (ICBT) in Africa also has implications for production and trade networks. Presence of ICBT not only reduces revenue collection of National Governments, but also impacts the planning and decision making process. Therefore, their formalization should be a priority area for Governments. An essential first step for African countries should be to outline a common definition of what constitutes the informal sector and estimate the size of informal trade across borders. This shall aid formulation of national policy for formalizing the informal trade links. Tariff liberalization and trade facilitation can further assist this process.

Trade Finance

According to the African Development Bank (AfDB), the market for bank intermediated trade finance in African countries is close to US$ 330-350 billion, with the trade finance gap being close to US$ 110-120 billion[5]. Other estimates peg the financing gap at US$ 225 billion a year. There are several reasons for this large unmet demand for trade finance, the lack of US dollar liquidity and limited financing capacity of banks being the chief ones. This unmet demand for trade finance through the formal banking system in Africa is hindering the development of production and export capacities in the continent.

New and innovative mechanisms will be required to bridge this trade financing gap. An innovative mode for addressing trade finance concerns is the warehouse receipt finance. It can be used for pre-shipment financing in the agriculture sector. Under this mechanism, producers/ traders of agricultural products can avail of finance by using warehouse receipts, issued against commodities deposited in licensed warehouses,

[4]Participation of Developing Countries in Global Value Chains: Implications for Trade and Trade-Related Policies. OECD Trade Policy Paper No. 179

[5]Trade Finance in Africa, AfDB, December 2014

as collateral. Adoption of this model necessitates warehouse legislation and establishment of competent regulatory authorities, and therefore the commitment of National Governments will be crucial in this regard.

Factoring can also be used as an instrument for trade finance in Africa. Jones (2010) defines factoring as a traditional product which allows suppliers to pre-finance its receivables whereby the factor pays a percentage of the face value of the receivables based upon its assessment of the credit risk and the underlying payment terms[6]. Several developing countries have used factoring facilities for improving access to finance for smaller suppliers. In Mexico, for example, the Cadenas Productivas program provides cash against receivables via a secure and online technology platform.

Payment Systems

Effective cross-border payment systems can promote economic efficiency and reduce settlement risk, thereby encouraging producers to intensify trade engagements. Several RECs have taken steps towards upgrading payment systems, either by linking various national payment systems in a network or by setting up specific clearing and settlement mechanism dedicated to cross-border transactions. However, there has been varying level of progress across RECs towards establishment of efficient cross border payment systems. In RECs such as the AMU, there have been no initiatives for such payment systems. Even the models adopted by various RECs are not uniform. Therefore, there is a need for more coordinated efforts amongst RECs for ensuring lesser incongruity in transactions across RECs. Further, there is a need to increase awareness about these payment systems amongst bankers and exporters, so that greater levels of trade can be routed through these channels. Capacity building programs can be organized by Central Banks of respective countries for this purpose.

FINANCIAL INTEGRATION

Most economies in Africa have small and fragmented financial markets, and could benefit from financial integration. However, achieving this objective has its own set of challenges and would entail interventions in the financial sector infrastructure comprising framework of laws, regulations, supervision and institutions. Strengthening the infrastructure for payment systems, and regulatory and supervisory mechanisms can help achieve economies of scale. Harmonization of the legal framework can facilitate operation of firms outside their national boundaries, thereby creating additionality. Some progress has already been made towards financial integration in Africa.

The two CFA Franc zones bear testimony to the efforts of some African economies aiming to achieve regional financial integration. The Common Monetary Area based on the South African Rand is also a formal exchange rate union, comprising the countries of South Africa, Namibia, Lesotho and Swaziland. The East African Monetary Union protocol which was adopted by the East African Community (EAC) in 2013 also lays groundwork for a monetary union within 10 years and paves way for the partner countries to gradually converge their currencies into a single currency.

Several initiatives for capital market integration are also underway in the continent. The *Bourse Régionale des Valeurs Mobilières*, which covers eight West African countries, is the only fully integrated regional capital market in Africa. Other regional initiatives include the formulation of a strategy for development of an integrated real time network of securities markets within the Southern African Development Community (SADC) by the Committee of SADC stock exchanges. The Committee has also achieved harmonization of listing rules.

Initiatives have also been taken to integrate angel investors in the continent. The African Business Angel Network is a non-profit association which supports the development of early stage investor networks in Africa. The objective for setting up the association was not only to support new investors and new networks, but also to connect the African investors with the global counterparts and create synergies in their operation.

[6]Jones (2010), Trade Credit Insurance, World Bank

Several RECs have achieved varying levels of success in integration of payment systems. Progress with regard to collateral registries has been less encouraging. Only a few African countries such as Ghana, Liberia, Malawi and Nigeria have collateral registry systems. Given their importance in improving access to finance, there is a need for National Governments to launch such systems.

Most importantly, harmonization of national regulation will be essential to bind the mosaic of elements in financial markets of African countries. There is a need for convergence in regulations pertaining to accounting standards, laws, safeguards, banking supervision, corporate governance, etc. Various RECs are making headway in terms of development of common policies, institutions and establishing regional frameworks. However, the progress has been moderate. Harmonization of policies has been slow on account of the disparate and difficult policy alternatives facing National Governments based on various national, regional and global programs. Overlapping membership in RECs also complicates the financial integration agenda of countries. Moreover, costs associated with the integration process are also considered prohibitive especially in context of smaller economies.

Strategies for Financial Integration

Promoting Integrated Cross-Border Banking Model

There are several pan-African banks in the continent which have positively influenced the financial sector linkages across countries. However, this increase in cross-border banking has not led to commensurate improvement in banking efficiency and their outreach has been limited. Most banks have limited services in the lower end of markets.

Building robust financial infrastructure, such as payment systems and credit registries, across countries can help expand the benefits from cross-border banking. More importantly, the "fortress banking" model[7] in practice across African countries is limiting the economies of scales required for efficient operations. According to Fiechter et al (2011), an integrated banking model which relies on branches or subsidiaries that are closely linked to the parent bank implies that funding, asset allocation and risk management are centralized in order to maximise returns at the consolidated level[8]. Host country regulators can encourage an integrated model by reducing the complexity and length of licensing process, reducing the minimum capital requirements for bank subsidiaries with provisions for these requirement to grow in line with the portfolio and risk exposures of banks, reducing the requirements for establishment of new branches, allowing full mobility of labour, and encouraging the use of centralized and common IT systems, as also the audit and risk management systems[9].

Cost of cross-border banking can also be reduced by reducing the regulatory requirements for bank branches as compared to those for subsidiaries. The European experiences evince the need for harmonization of regulatory and supervisory frameworks, as also the establishment of financial sector safety nets, for integration through branches to be successful. On account of such pre-conditions, such models can more easily be adopted in case of monetary unions.

Capacity Building of Regulatory Agencies

Harmonization of regulatory structures is a prerequisite for financial integration in the African continent. Central Banks and regulatory agencies in Africa, however, have critical capacity related gaps both in terms of human resource capacity and financial market infrastructure. Capacity building of these institutions will therefore be important in the harmonization process.

Regional training and research institutes can be set up to build human resource capacity in the financial regulations segment. Such capacity building activities have been actively pursued in other regions of the world. For example, South East Asian Central Banks Research and Training Centre has played an important

[7]Fortress banking emerges when subsidiaries are forced to have stand-alone systems

[8]Fiechter, Jonathan, Inci Ötker-Robe, Anna Ilyina, Michael Hsu, André Santos, and Jay Surti (2011), "Subsidiaries or Branches: Does One Size Fit All?"

[9]Thorsten Beck, Michael Fuchs, Dorothe Singer and Makaio Witte (2014), Making Cross-Border Banking Work for Africa

role in the capacity building of Central Banks and monetary authorities in Asia Pacific. The Association of Southeast Asian Nations (ASEAN) Insurance Training and Research Institute also plays an important role in capacity building for the insurance sector in ASEAN.

Technical assistance from bilateral and multilateral institutions can help improve oversight capacity and drive cooperation and harmonization agenda. Greater cooperation among regulators is also required for cross-border supervision, information sharing, joint inspections, etc. Regulators can enter into Memoranda of Understanding for upgrading regional supervisory cooperation and removing legal obstacles for information exchange.

Macroeconomic Convergence

The attainment of similar inflation rates along with sustainable budget deficits is important for creation of monetary unions. Therefore, several RECs have adopted macroeconomic convergence criteria in their agenda for establishment of regional monetary unions. The convergence criteria include monetary, fiscal and real sector variables and the performance across RECs have been generally below the set targets.

The convergence criteria for RECs are not reflective of the different characteristics and transitory challenges in individual countries. The fact that macroeconomic convergence need not be symmetrical across countries has not been fully recognized in the convergence framework of African RECs. There is need to provide for special circumstances that can lead to weak performances of some of the countries[10].

The regional convergence targets should also be aligned to the national priorities. National Governments are expected to commit resources towards policy implementation only if the regional targets contribute towards strengthening of national economy. Therefore, consensus in development of the criteria is important to ensure political commitment. Further, for the members to achieve sound macroeconomic performance, the convergence criteria should also focus more on private sector dimensions. There is also a need for continuous review and revision of the criteria.

Stock Market Integration

Stock exchanges may adopt a gradual approach for integration, beginning with dual listings or cross-membership for enhancing liquidity and increasing cooperation. Over time, greater integration can be ensured through development of similar characteristics in terms of listing, membership, disclosure and reporting requirements, accounting systems, etc. Commonality in trading and legal systems, as also the accounting standards will be essential for stock market integration in this latter phase. There is also a need for exchanges to leverage latest ICT solutions. This shall improve trading infrastructure in exchanges, and thereby facilitate successful cross-border listing and integration.

According to the International Organization of Securities Commissions (2001), successful integration requires reforms in legal and ownership structure through demutualization[11]. Demutualization is the process of changing the legal status, structure and governance of an exchange from a non-profit, member owned entity to profit oriented, share-holder owned body. Most of the successful exchange integration in the EU, the US and Asia-Pacific had undertaken demutualization. African stock exchanges should therefore embark on the process of demutualization to enhance competiveness. This shall ensure that the decision making process is robust. It shall also provide the exchanges with much needed capital for entering into alliances and mergers. It shall also lower costs to members and better serve investor interests.

FREE MOVEMENT OF PEOPLE

Promoting and deepening people-to-people linkages is another crucial aspect of regional integration. Labour mobility is essential for establishment of production and trade linkages. Cross-border movement of people improves competitiveness and holds benefits

[10] Supporting Macroeconomic Convergence in African RECs, Regional Integration Policy Papers, AfDB, November 2014

[11] Issues Paper on Exchange Demutualization. Report of the Technical Committee of the International Organization of Securities Commissions, June, 2001.

for companies and countries. It further promotes entrepreneurship and innovation across borders, and alleviates shortage of human capital.

As per the Africa Visa Openness Index, which measures how open African countries are when it comes to visas by looking at what they ask of citizens from other countries in Africa when they travel, less than one-fourth of African countries provide liberal access at entry for all African citizens[12]. The performance of some regions has been better than others. West Africa has high visa openness index on account of the Free Movement of Persons Protocol. East Africa also has a high visa openness score on account of the favourable visa on arrival policies. Central Africa and North Africa were the regions that scored the lowest on the index within the continent[13].

A good indicator of regional mobility is the level of open reciprocity which means having reciprocal visa exemptions between regional and economic blocs. Together with the Schengen Area in Europe, ECOWAS has the highest level of open reciprocity among its members at 100 percent. SADC has an open reciprocity level of 44 percent. However, the open reciprocity between members and non-members in the RECs of Africa is comparatively lower. While it stands at 25 percent and 15 percent for Schengen Area and ASEAN, it is a mere 8 percent in case of SADC and even lower at 2 percent for ECOWAS[14].

Strategies for Free Movement of People

Developing Research Capabilities

Policies for labour mobility affect the domestic labour market and consumer spending, and are therefore important areas for policymakers. The decision making process needs to be backed by data-based, empirical and evidence-based analysis. Research on the various economic aspects of labour mobility, such as its effect on the labour market, regional and international trade, innovation capacities and consumption patterns would add value to migration policies under development. It is therefore essential to create a platform at the regional or continental level for the researchers, representatives of government institutions and civil society organization to exchange information and opinions. This platform can be used for development of policy recommendations for ensuring that the regional integration in the form of labour mobility is advantageous for all countries.

Intra-Africa Talent Mobility Partnership Programme (TMP) can be used as a tool for assessment of the impact of increased labour mobility, especially in context of skilled labour. The TMP is a voluntary program which attempts to set up a Schengen type mechanism for movement of skilled labour. The TMP is based on the understanding that there is a movement of skills from regions of surplus to deficit, and therefore an efficient labour mobility framework would create a balance in terms of supply of talent within RECs, as also the continent. These initiatives provide evidences of enhanced mobility leading to substantive outcomes for the economy in the form of more efficient processes and lower costs. Such initiatives may embolden the Government to adopt radical and innovative approaches to migration governance.

Ratification of International Instruments

Apart from regional policies, there are several international instruments which impact free movement of people. An analysis of the ratification of migration related instruments in the three RECs of ECOWAS, SADC and EAC indicates that while the commitment to human rights related instruments such as the International Covenant on Civil and Political Rights has been high across-the-board, similar levels of ratification is not evident for instruments which are more closely related to the issues of migrant workers. The International Convention on the Protection of the Rights of All Migrant Workers and Members of their Families, for example, has comparatively lower rates of ratification, especially in the EAC and SADC. Even United Nations Educational, Scientific and Cultural Organization Regional Convention on the Recognition of Studies, Certificates, Diplomas,

[12]Africa Visa Openness Report 2016
[13]Ibid.
[14]UNWTO, Visa Openness Report 2014

Degrees and other Academic Qualifications in Higher Education which has implications for labour migration and TMP have received lower ratification from member states. These migrations related international instruments need to be ratified by African countries, and the legislative framework in the countries needs to be efficiently redesigned to comply with the conventions and treaties.

Creation of Regional Fund

Facilitating free movement of people will require setting up of joint infrastructure and necessitate development actions in the border area. In this regard, it will be essential to set up a regional fund for financing these investments. The ECOWAS member states under the Common Approach on migration had proposed the setting up of a Regional Cross-border Cooperation Fund for facilitating free movement through concrete actions such as the setting up of joint border posts, border markets, joint health centres, shared schools, etc.; supporting border populations through development actions geared towards the poorest, most marginalized populations; and developing good neighbourly relations rooted in ground realities among ECOWAS Member countries, and between the ECOWAS zone and its neighbours. However, the Fund has not been made operational. Member countries should seek support from development partners to operationalise this fund. Other RECs can also consider launching such funds for promoting mobility in their respective regions.

Addressing Restrictions in the Visa Process

Visa restrictions in African economies increase the cost and time for movement of people across the continent. This has severe economic consequence and impedes the larger process of integration of economies. It is therefore essential for more African countries to adopt visa on arrival programs for intra-continental movement of people, simplify visa processes, provide longer-period visas (ten years or more), encourage visa-free movements within RECs, ensure positive reciprocity between countries, and make provisions for regional bloc visas as in the case of EAC. Countries can also leverage ICT for improving the visa process.

ROLE OF INDIA IN AFRICA'S INTEGRATION

As a traditional development partner, India is ideally placed to understand and appreciate the needs of the resurgent continent in myriad developmental areas, of which regional integration is a key dimension. While trade and investment have lately become the catchphrase in India's multi-faceted relationship with Africa, an ambitious and all-encompassing action plan is necessary to further strengthen the cooperation between the two landmasses, of which engendering regional integration would form a key component.

According to the ICA, India had committed US$ 524 million to African infrastructure projects in 2015, up from US$ 424 million in 2014. The Export-Import Bank of India (Exim Bank) has been among the principal agents for supporting India's development partnership with the African continent in the infrastructure sector. The Bank has financed regional projects under its Lines of Credit program, an example of which is the electricity interconnection project between Cote d'Ivoire and Mali. The transmission line has helped Government of Mali to import power from Cote d'Ivoire at a much lower cost.

Strategies for Strengthening Regional Integration

Co-Financing Projects

Regional infrastructure projects require large scale investment which may require involvement of multilateral institutions, development agencies and donors. In this regard, co-financing is a well-established form of leveraging resources for reaching developmental outcomes. Several initiatives have already been taken by financial institutions in India and Africa for promoting co-financing of infrastructure projects. In the past, Exim Bank and the AfDB Group had signed an agreement for co-financing projects in Africa which envisaged joint financing of projects in regional member countries of the AfDB Group. An example of incidental co-financing by Exim Bank in the African continent is the Itezhi - Tezhi Hydro Power Project in Zambia, which was supported in collaboration with the AfDB and other lenders.

Such financing arrangements should be encouraged especially in case of regional infrastructure projects.

Going forward, special facilities can be considered by the Government of India (GOI) and the AfDB specifically for co-financing the regional infrastructure projects in Africa. Concessional loans can be provided by the GOI under this proposed facility.

Implementing PPP in Africa – Lessons from the Indian Experience

PPP can supplement the limited public sector capacities to meet the growing demand for infrastructure development. The GOI has taken various policy initiatives and established an institutional mechanism to encourage private sector participation in infrastructure projects. These have yielded positive results in several sectors and can be emulated in the African continent for enhancing the role of private sector in infrastructure. The key takeaways for the African continent from the Indian experience with PPPs can be summarised as under:

- In case of regional projects in Africa, if potential income from user charges is not sufficient to recover costs of infrastructure projects, National Governments can use the Viability Gap Funding route to enhance the viability of projects.
- Countries should adopt a robust framework for PPP encompassing the strategic objectives, enabling financial instruments, strong regulations and guidance, and competent institutional mechanism.
- There is need for innovative financial instruments to offset existing market inadequacies, as also for effective utilization of the public resources to catalyse private finance.
- Institutional structure needs to be adequately defined and should be supported through capacity building activities such as training, online platforms, etc.
- Mechanisms for meeting project development cost in the African continent need to be devised.
- It may be noted that not all PPP projects in India have been successful, and many have failed on account of inadequate project preparation or ineffectual risk allocation. Such inadequacies may also surface in the African continent, which may be alleviated through embracing an adaptive PPP policy which may be improved over time by the coordinating agency based on its experiences.

Collaboration among Project Preparation Facilities

Lack of bankable projects is a major constraint for regional infrastructure in Africa, and various institutions have responded to this by creation of project preparation facilities. Exim Bank has also taken steps in this direction and has floated the Kukuza Project Development Company (KPDC) in partnership with the Infrastructure Leasing and Financial Services Ltd, the AfDB and State Bank of India to facilitate Indian participation in infrastructure projects of Africa.

According to an assessment conducted by the ICA, many of the project preparation facilities in the continent have insufficient resources, as a result of which the project financed may be very small and spread over a number of projects and activities. On the other hand, regional infrastructure projects would typically entail large cost of project preparation. Therefore, the KPDC can consider collaborating with other PPFs in the region in key regional projects through the Project Preparation Facilities Network (PPFN). The PPFN is a network of funding facilities dedicated to sustainable infrastructure in Africa. It should be leveraged by the KPDC and other PPFs for forging mutually beneficial partnerships for preparation of regional infrastructure projects.

Encouraging Indian Investments for Regional Value Chain Development

Innovative financing mechanism can be adopted by countries to promote investments by Indian companies in African RVCs. To promote investments by Indian companies in Africa, an Alternative Investment Fund

can be jointly floated by institutional investors in India and Africa. Any public sector bank/ financial institution can take lead at the behest of the GOI for setting up this Fund. The proposed Fund can invest in equity or equity linked instruments of overseas JV/subsidiary of Indian Companies in the African continent, especially in the agriculture and natural resources sector. These investments can be guided by the Regional Value Chain Development Agenda of RECs. The proposed Fund can adopt a buy and build strategy wherein investments are made in a platform company with a well-developed management team and infrastructure, and thereafter more companies are acquired to build and grow the platform company. This buy and build strategy can strengthen RVCs in Africa.

Promoting Trade Finance through Capacity Building

The unmet demand for trade finance through the formal banking system in Africa is hindering the development of production and export capacities. The role of development partners will be important in capacity building of banks and structural reforms in the banking system. The experiences of Indian financial institutions can be of particular relevance in African countries that seek to set up institutions and strengthen capability to create support structure for international trade and investment. Capacity building support from these institutions can provide an enabling environment for trade finance in African countries, and thereby encourage formation of RVCs.

Skill Development

Private companies can promote skill development in Africa through their supply chains. Governments in African countries can strengthen linkages with the Indian private sector for encouraging demand-driven training programs. Government's role as a facilitator of training initiatives will encompass coordination and information sharing. Bringing together multiple stakeholders such as the Indian private sector, local labour, private financiers, etc. will critically hinge on the coordination efforts of National Governments. Further, Government can also play an instrumental role in providing labour market information to private players who can then drive industrial upgradation by matching the existing demand and supply gaps for labour, and incorporating measures for bridging these gaps in their business plan.

Development of ICT Infrastructure

A robust ICT infrastructure will be crucial for integration at various levels. Integration of financial infrastructure in Africa such as regional payment systems, collateral registries, credit bureaus, etc. will necessarily require a strong ICT base in countries. Increased accessibility to ICT can also improve productivity of firms and thereby enhance competitiveness of regional value chains. India's competence in ICT can be leveraged by the African countries for creating mutually beneficial arrangements. Exim Bank's flagship programs can be utilised for financing these infrastructure.

Alternate Credit Rating Mechanism

Credit ratings will be important for increasing the quantum of investments in Africa from institutional investors as they rely on credit ratings while making investment decisions. It is therefore a matter of concern that many African countries do not have a credit rating, and those who do, have a rating typically below investment grade. Adoption of credit ratings based on emerging market scale can help attract institutional investors in infrastructure assets.

Recognizing the need for a credit evaluation framework that benchmarks risks across emerging markets, India mooted the proposal with other BRICS countries for exploring the feasibility of an alternate credit rating agency. Subsequently, the Goa Declaration at the 8th BRICS Summit welcomed experts exploring the possibility of setting up an independent BRICS Rating Agency based on market-oriented principles, in order to further strengthen the global governance architecture.

The establishment of an alternate framework will be crucial as developing countries now have the necessary savings and foreign exchange reserves to establish institutions such as the New Development Bank and the Asian Infrastructure Investment Bank which

are expected to provide a big push to infrastructure development in developing countries. These institutions require a structure wherein projects can be evaluated relative to the risks in emerging markets. An emerging markets scale shall facilitate optimal allocation of capital within developing countries, including those in Africa, and help meet the infrastructure financing demands.

CONCLUSION

Regional integration is an important aspect of the Agenda 2063 of the African Union, as also the 2030 Agenda for Sustainable Development adopted by 150 world leaders during the UN Sustainable Development Summit in September 2015. An analysis of the level of regional integration in Africa indicates the need for more concerted efforts in this direction. A multi-pronged approach aimed at building infrastructural linkages, strengthening production and trade value chains, facilitating greater movement of people, and adopting coherent financial and macroeconomic policies to deepen the cooperation in financial sector, will be essential towards meeting the regional integration goal which have been time and again upheld as the key for growth and development in the African continent.

1. Introduction

Regional integration serves as an essential conduit for overcoming barriers and harnessing complementarities across countries. It enables sharing of resources and assets among countries, and also expands the markets and opportunities for these countries. Regional cooperation is of particular relevance in Africa as the continent is not only home to some of the fastest growing economies in the world, but also has 34 of the 48 Least Developed Countries. The small size, landlocked nature and fragile state of several economies create a case for greater regional integration, aimed at facilitating shared prosperity in a region characterized by heterogeneity and substantial disparity. The role of Government as well as the private sector will be essential in achieving this.

Forging closer regional cooperation necessitates large investment in infrastructure as industrial corridors, transport infrastructure, power and other utilities need to be strengthened within and across national boundaries. It further requires conviction at the policy level for coalescing the production and trade links across regional economies through initiatives such as tariff reduction and financial market integration.

REGIONAL INTEGRATION: A PRIMER

The European Union defines regional integration as the process of overcoming, by common accord, political, physical, economic and social barriers that divide countries from their neighbours, and of collaborating in the management of shared resources and common regional goods.

Regional integration is truly multi-dimensional, encompassing regional infrastructure, trade integration, productive integration, financial and macroeconomic integration, and free movement of people. These dimensions while standalone objectives in themselves, also reinforce each other. Efficient regional infrastructure is required for creation of value chains, and therefore supports trade and production integration. Regional infrastructure in turn benefits from larger resources and innovation arising from financial and macroeconomic integration. Free movement of people also hinges critically on regional infrastructure, and further contributes towards strengthening of trade and production linkages.

REGIONAL INTEGRATION IN AFRICA: CURRENT STATUS

Production and Trade Linkages

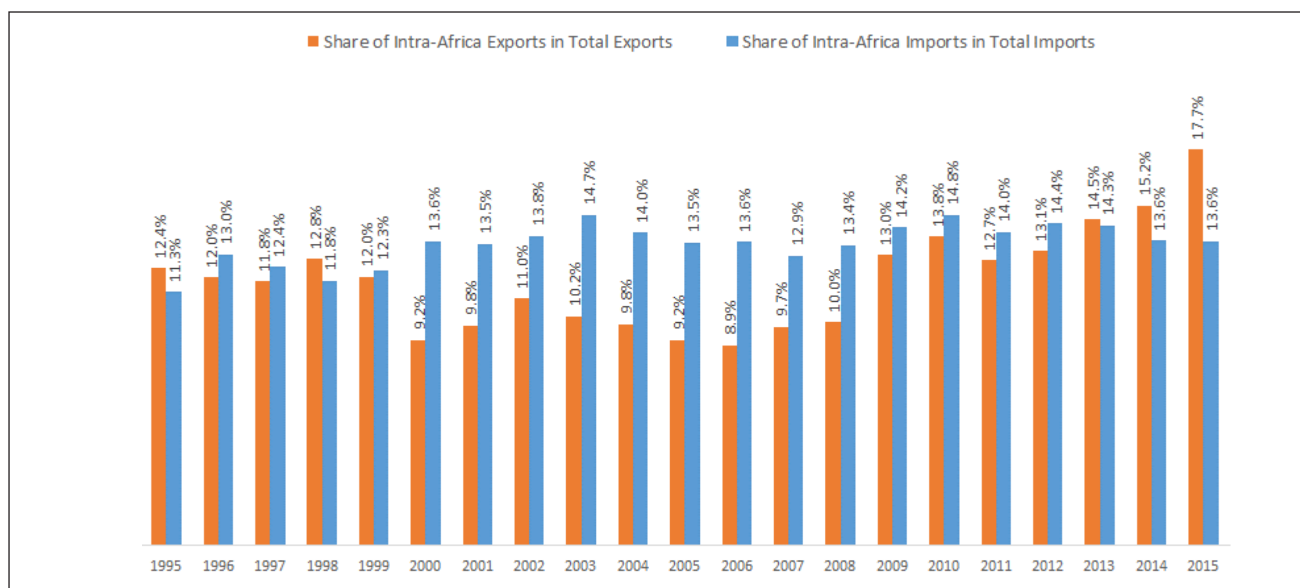
Although Governments, financial institutions and the private sector have played an instrumental role in boosting regional integration, the levels of continental integration have remained relatively low. Intra-regional exports during 2015 stood at 17.7 percent of the total exports in case of Africa, as against 60.1 percent in Asia, 66.6 percent in Europe, and 55.9 percent in America. There has been little improvement in the share of intra-Africa exports in total exports from Africa over the past decade. Intra-Africa exports stood at 12.4 percent of the total exports in 1995—not substantially different from the current levels (Exhibit 1.1). Intra-Africa imports have also remained range bound during this period between 11-15 percent (Exhibit 1.1).

From the investment perspective as well, the linkages leave significant scope for improvement. According to the data from fDi Markets[15], intra-regional FDI in the African continent accounted for only 9.4 percent of the total inward FDI in the continent during January 2003-December 2016 (Table 1.1).

The low intra-regional FDI in case of Africa is unsurprising given the high trade costs in the region, which restricts

[15] fDi Markets tracks cross-border investment in a new physical project or expansion of an existing investment which creates new jobs and capital investment. As companies can raise capital locally, phase their investment over a period of time, and can channel their investment through different countries for tax efficiency, the data is different to the official data on FDI flows. The data from fDi Markets is more accurate and a real time indicator of the real investment companies are making in their overseas subsidiaries. The data on capital investment and job creation is based on the total investment the company is making at the time of the project announcement or opening.

Exhibit 1.1: Share of Intra-Africa Trade in Total Trade from Africa



Source: UNCTAD

Table 1.1: Share of Intra-Regional FDI in Total Inward FDI (January 2003- December 2016)

Region	Intra-Regional FDI (US$ Bn)	Total Inward FDI (US$ Bn)	Share %
Western Europe	927.8	1715.6	54.1%
Asia-Pacific	1867.6	4267.6	43.8%
Middle East	158.7	731.5	21.7%
North America	186.0	1040.9	17.9%
Emerging Europe	152.2	1314.1	11.6%
Africa	***94.7***	***1008.2***	***9.4%***
Latin America and Caribbean	117.6	1274.9	9.2%

Source: fDi Markets

fragmentation of production processes. A broad definition of trade costs includes policy barriers such as tariffs and non-tariff barriers, and transportation costs in the form of freight and time costs, as well as communication costs, enforcement costs, exchange rate costs, legal and regulatory costs and local distribution costs.

According to the United Nations conference on Trade and Development (UNCTAD), firms trading across the continent face an average tariff rate of 8.7 percent, as compared to 2.5 percent in international markets. Protectionist measures such as the exclusion lists imposed by the Economic Community of West African States (ECOWAS) and rules of origin such as those stipulated for Southern African Development Community (SADC) members, also adversely impact the trade costs in the continent.

According to the World Bank's Doing Business Project which records the time and cost associated with the logistical process of exporting and importing goods[16], border compliances for exports in Sub-Saharan Africa take 60-80 percent more time than the regions of East Asia and Pacific, South Asia and Latin America and Caribbean. Cost of documentary compliance

[16]Doing Business measures the time and cost (excluding tariffs) associated with three sets of procedures—documentary compliance, border compliance and domestic transport—within the overall process of exporting or importing a shipment of goods.

Table 1.2: Regional Comparison of Time and Costs for Trading Across Borders (Cost in US$; Time in Hours)

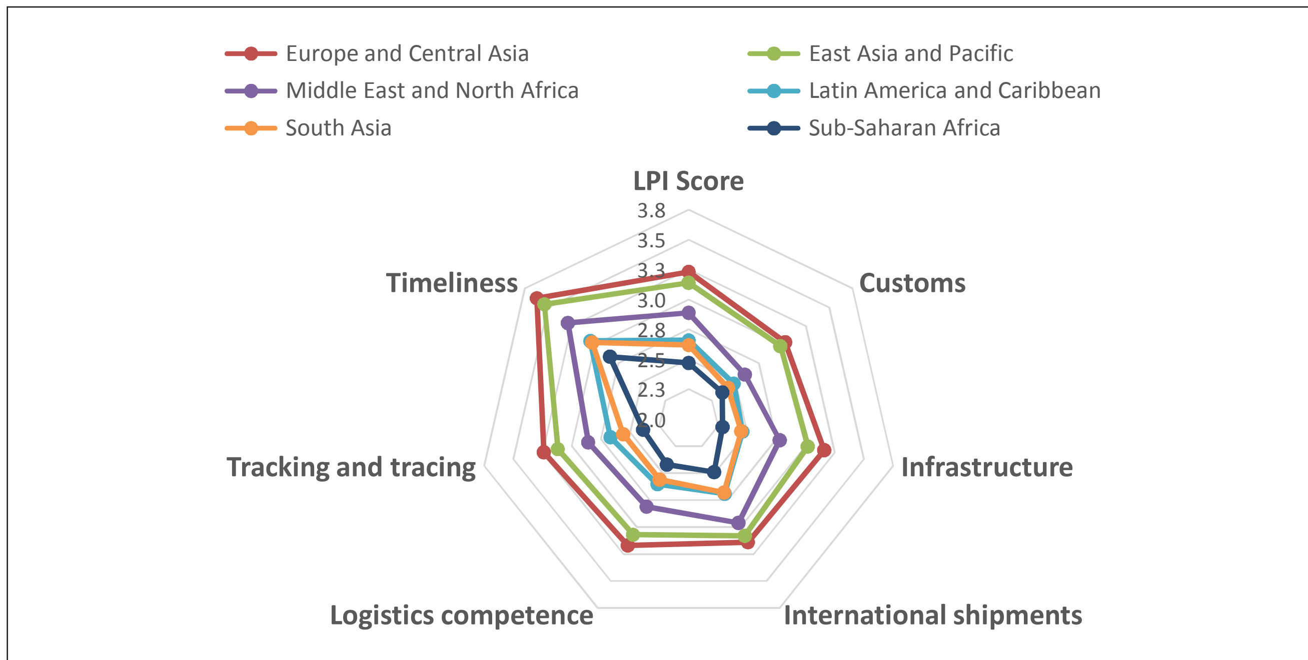
Regions	Border Compliance				Documentary Compliance			
	Time to Export	Cost to Export	Time to Import	Cost to Import	Time to Export	Cost to Export	Time to Import	Cost to Import
East Asia and Pacific	57	401.7	71	435.9	73.3	131.8	70.9	127.8
Europe and Central Asia	28	195	25.8	202.3	26.9	110.7	26.4	90.9
Latin America and Caribbean	63.5	526.6	65.5	684.7	55.7	110.5	83.4	119.6
Middle East and North Africa	64.4	459.6	120.6	554.5	77.4	261.3	101.2	305.1
OECD high income	12.4	149.9	9	115.1	2.6	35.7	4	26.3
South Asia	59.4	376.1	116.1	644.5	78	182.6	106.4	348
Sub-Saharan Africa	*103*	*583.4*	*143.9*	*675.9*	*92.6*	*229.6*	*107.4*	*320.1*

Source: Trading Across Borders, World Bank Doing Business

for exports from Sub-Saharan Africa is also twice the cost in the Latin America and Caribbean region (Table 1.2). Border management and logistics costs need to be substantially reduced for the countries in the region to bolster value chains in the continent.

The Logistics Performance Index (LPI) which ranks countries on six dimensions of trade, including customs performance, infrastructure quality, and timeliness of shipments, also indicate the need for an upgrade in the logistics infrastructure of African countries. During 2016, the African continent ranked the lowest on the LPI, as also on the various determinants of the LPI— the efficiency of customs and border management clearance, the quality of trade and transport infrastructure, the ease of arranging competitively priced shipments, the competence and quality of logistics services, the ability to track and trace consignments, and the frequency with which shipments reach consignees within scheduled or expected delivery times (Exhibit 1.2).

Exhibit 1.2: Regional Comparison of Logistics Performance Index and its Determinants



Source: Logistics Performance Index 2016

Financial Integration

African economies have been endeavouring at regional integration, not only by way of improvement in physical infrastructure but also through developing closer ties in the financial sphere. The two CFA Franc zones bear testimony to the efforts of some African economies aiming to achieve regional financial integration. The CFA Franc was originally created in 1945, and serves as the common monetary unit for the countries of the West African Economic and Monetary Union (WAEMU) and Central African Economic and Monetary Community (CEMAC). The common currency is linked to the euro and offers stability in these zones. The East African Monetary Union (EAMU) protocol which was adopted by the East African Community (EAC) in 2013, also lays groundwork for a monetary union within 10 years and paves way for the partner countries to gradually converge their currencies into a single currency. In order to achieve a single currency for the EAC, member countries have been aiming to harmonise monetary and fiscal policies; financial, payment and settlement systems; financial accounting and reporting practices; policies and standards on statistical information; and to establish an East African Central Bank. These initiatives, however, are not without challenges.

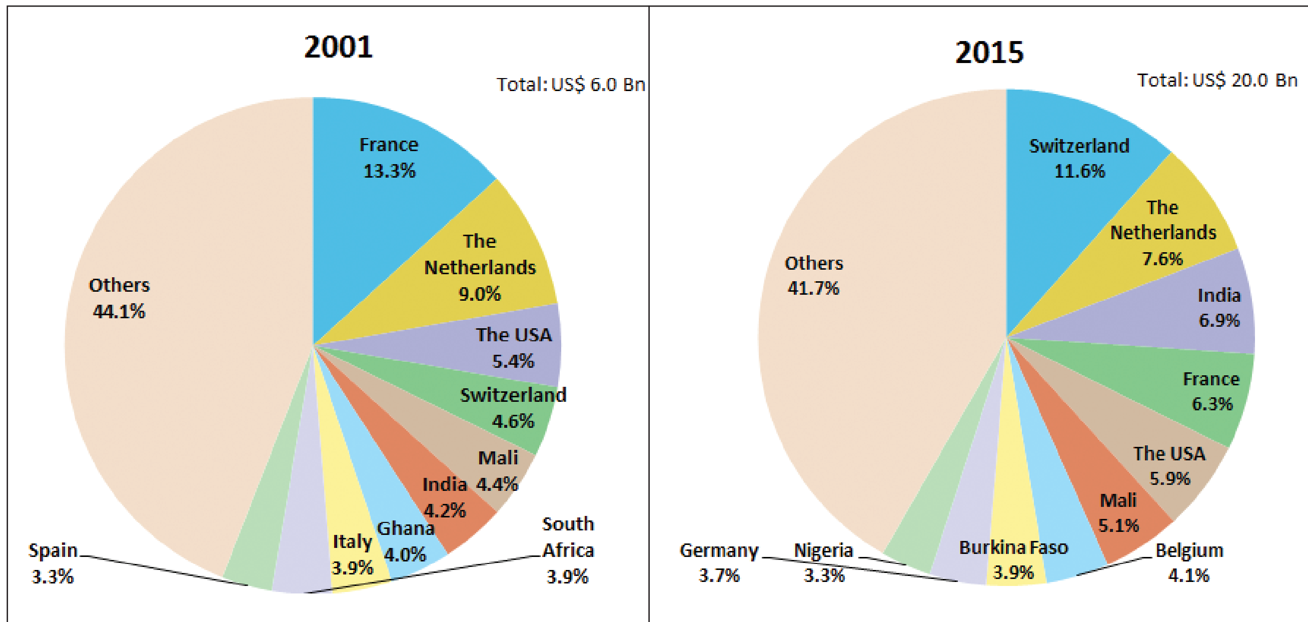
There has been substantial debate upon the relevance of CFA Franc zones. As per Mundell's "Trilemma", it is impossible to simultaneously have monetary independence, free capital movements and a fixed exchange rate. The fixed exchange rate system of CFA Franc impacts the monetary independence of the countries, which in turn adversely impacts their ability to respond to shocks, maintain steady employment, improve demand, etc. The Central Banks in the WAEMU and CEMAC region follow policies adopted by the European Central Bank for ensuring parity. Moreover, the regions are less integrated financially and the difference in the economies of the region makes adoption of single and compatible monetary policy difficult.

It was expected that a common currency would have facilitated greater trade among the countries of WAEMU and CEMAC region. However, in 2015, the intra-WAEMU exports as percentage of total exports from the region stood at 12.6 percent—lower than the average of 17.7 percent for the entire continent. The share of intra-CEMAC exports was even lower at 2.2 percent of the total exports. Benefits of exchange rate stability with respect to Euro have also declined as the trade of these region with Europe has substantially decreased over the years.

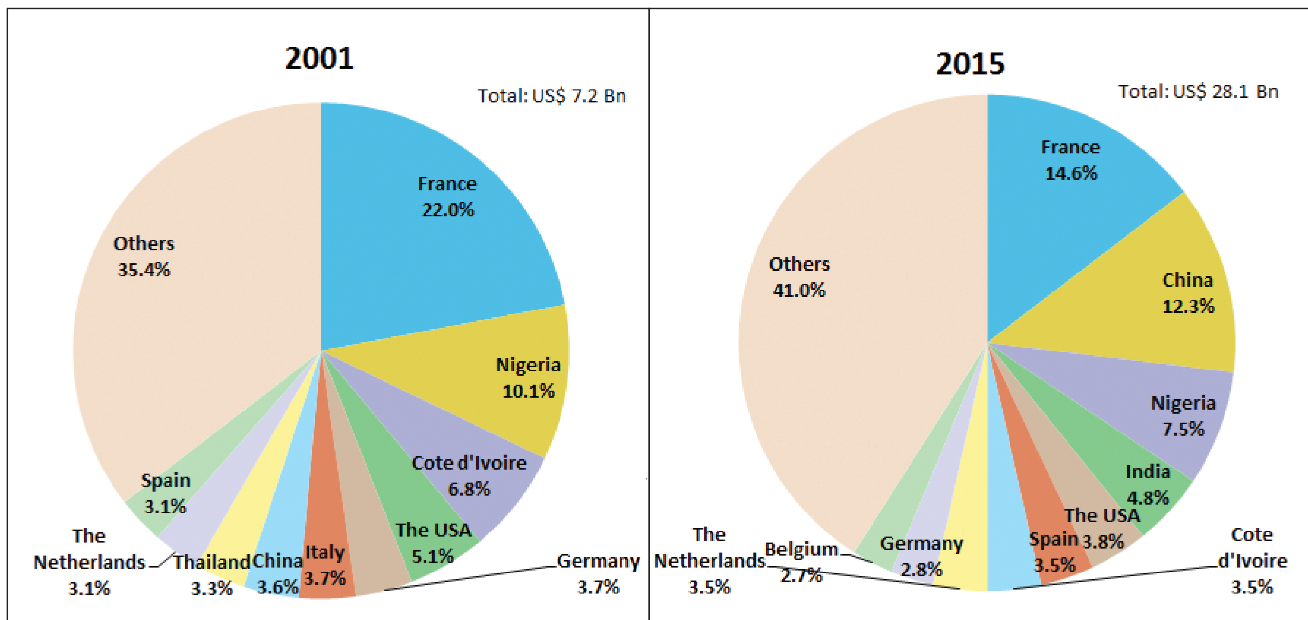
While France still remains the largest source country for the imports by WAEMU countries, its share has declined from 22.0 percent in 2001 to 14.6 percent in 2015. Share of other European countries such as Germany and Italy has also declined during this period. On the other hand, China, Nigeria and India have gradually emerged as the top import sources and accounted for nearly one-fourth of the total imports by these countries in 2015. India is also an important export destination for these countries, and exports to India accounted for 6.9 percent of the total exports in 2015—up from 4.2 percent in 2001 (Exhibit 1.3).

Exhibit 1.3: Top Trading Partners for WAEMU (2001-2015)

Export Destinations



Import Sources

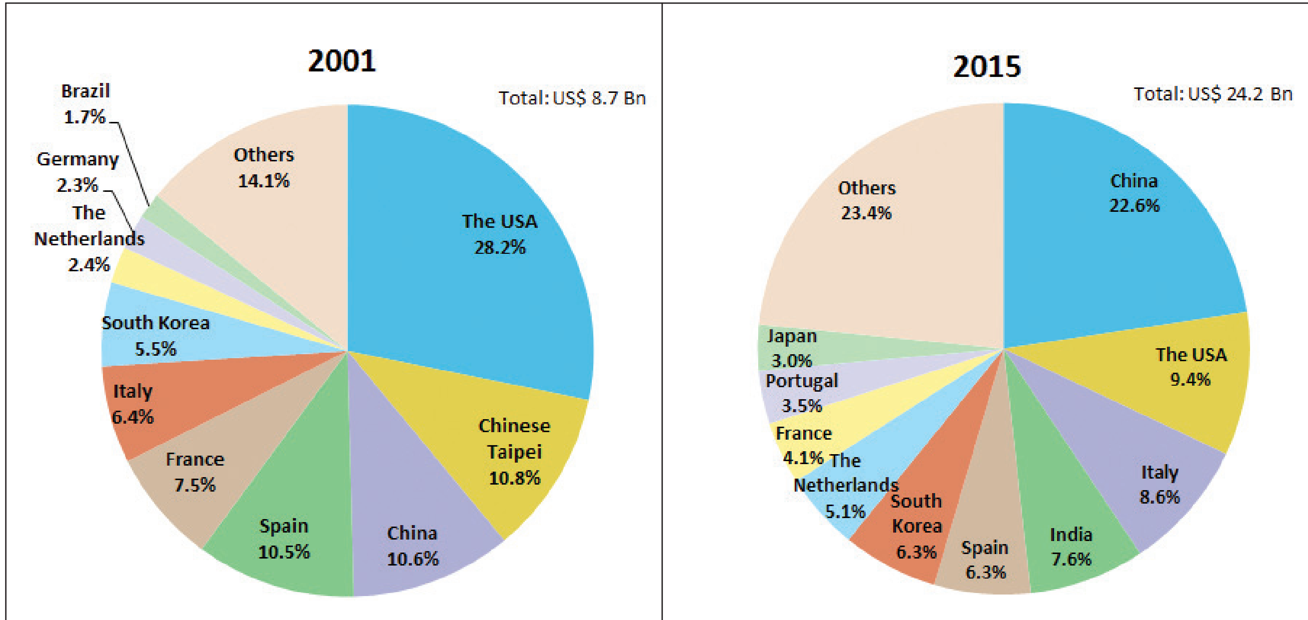


Source: Trade Map, International Trade Centre, www.intracen.org/marketanalysis

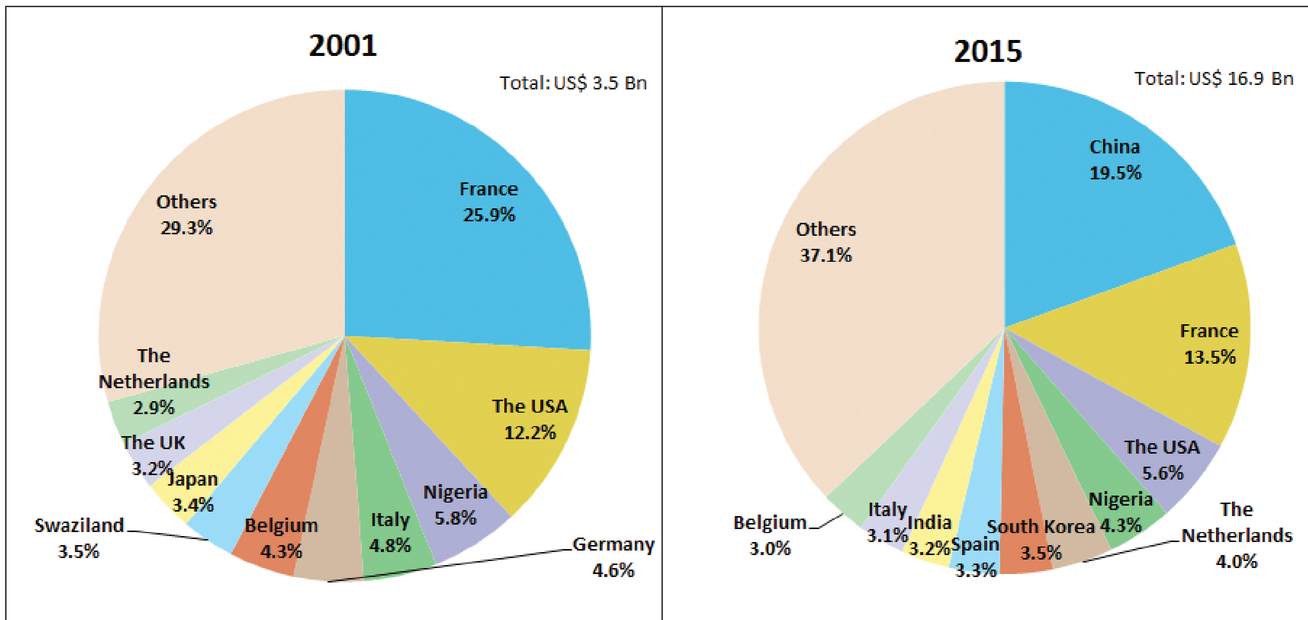
For the CEMAC region, China and the USA were among the top three export destinations in 2001, and continued to account for a major share of exports in 2015. India has also emerged as a major export destination for the region, with 7.6 percent of exports in 2015 directed towards the country. As far as imports are concerned, the share of France in imports by the region declined substantially from 25.9 percent in 2001 to 13.5 percent in 2015. China has emerged as the largest import source for the region with a share of 19.5 percent in 2015, relegating France to the second position (Exhibit 1.4).

Exhibit 1.4: Top Trading Partners for CEMAC (2001-2015)

Export Destinations



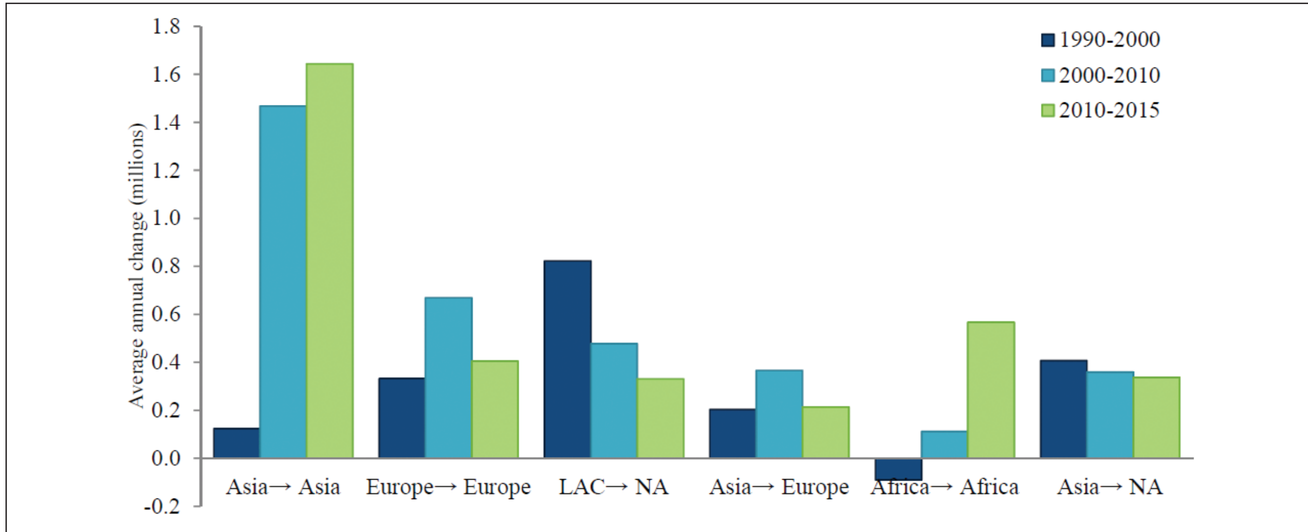
Import Sources



Source: Trade Map, International Trade Centre, www.intracen.org/marketanalysis

With the decline in share of European countries in the trade basket of these regions, benefits on account of the peg to Euro have diminished. Moreover, as export revenues are usually in dollars, an appreciation of the Euro reduces the competitiveness of countries in the CFA zone. Notwithstanding this, the CFA has contributed to macroeconomic stability in these countries, and has led to lower inflation and better fiscal discipline in the countries of the region.

Exhibit 1.5: Average Annual Change in Number of International Migrants along the Six Largest Regional Migration Corridors



Note: LAC- Latin America and Caribbean, NA- North America
Source: International Migration Report 2015

Migration

Promoting and deepening people-to-people linkages is another crucial aspect of regional integration. Migration has been gaining pace in Africa during recent times. While the growth in number of international migrants to Africa had been relatively less during the 1990 to 2010 period, the number of international migrants during 2010-2015 period has been roughly the same as Europe and North America[17]. In fact, the Africa-to-Africa corridor had the second largest number of migrants among all regional corridors during the 2010-2015 period, after the Asia-to-Asia corridor (Exhibit 1.5).

QUANTITATIVE ASSESSMENT OF REGIONAL INTEGRATION

Africa's Regional Integration Index is an action tool for measuring the progress of regional integration in Africa. The Index is jointly developed by the African Union Commission, the African Development Bank (AfDB) and the Economic Commission for Africa. The Index is made up of five dimensions, namely regional infrastructure, trade integration, financial and macroeconomic integration, productive integration and free movement of people, which are key socio-economic categories that are fundamental to Africa's integration. The assessment is done for eight Regional Economic Communities (RECs) recognized by the African Union (AU), namely Community of Sahel– Saharan States (CEN–SAD), Common Market for Eastern and Southern Africa (COMESA), East African Community, Economic Community of Central African States (ECCAS), Economic Community of West African States, Intergovernmental Authority on Development (IGAD), Southern African Development Community, and Arab Maghreb Union (AMU).

The highest average REC score has been on the dimension of trade integration (score of 0.540), followed by free movement of people (0.517) and regional infrastructure (0.461). Financial and macroeconomic integration across the African continent has been limited, as evinced by a score of 0.381. This is unsurprising as efforts towards convertibility of currencies and the coordination of macroeconomic policies at regional level has not been consistent. However, it is encouraging to note that every REC has higher than average scores in one or more dimensions. The EAC has exhibited better than average performance across all dimensions, with the exception of financial and macroeconomic integration (Table 1.3).

[17]International Migration Report 2015

Table 1.3: Average REC Scores across the Five Dimensions

REC	Trade Integration	Regional Infrastructure	Productive Integration	Free Movement of People	Financial and Macroeconomic Integration
CEN-SAD	0.353	0.251	0.247	0.479	0.524
COMESA	0.572	0.439	0.452	0.268	0.343
EAC	0.780	0.496	0.553	0.715	0.156
ECCAS	0.526	0.451	0.293	0.400	0.599
ECOWAS	0.442	0.426	0.265	0.800	0.611
IGAD	0.505	0.630	0.434	0.454	0.221
SADC	0.508	0.502	0.350	0.530	0.397
AMU	0.631	0.491	0.481	0.493	0.199
Average	***0.540***	***0.461***	***0.384***	***0.517***	***0.381***

Note: 1. CEN–SAD – Community of Sahel– Saharan States, COMESA – Common Market for Eastern and Southern Africa, EAC – East African Community, ECCAS – Economic Community of Central African States, ECOWAS – Economic Community of West African States, IGAD –Intergovernmental Authority on Development, SADC – Southern African Development Community, and AMU – Arab Maghreb Union
2. RECs in grey have performed better than the average for the 8 RECs
Source: Africa Regional Integration Index Report 2016

CONCLUSION

Regional integration is an important aspect of the Agenda 2063 of the AU, as also the 2030 Agenda for Sustainable Development adopted by 150 world leaders during the UN Sustainable Development Summit in September 2015. An analysis of the level of regional integration in Africa indicates the need for more concerted efforts in this direction.

A multi-pronged approach aimed at building infrastructural linkages, strengthening production and trade value chains, facilitating greater movement of people, and adopting coherent financial and macroeconomic policies to deepen the cooperation in financial sector, will be essential towards meeting the regional integration goal which have been time and again upheld as the key for growth and development in the African continent. The current Study makes an attempt to analyse the existing efforts in this direction, and outlines some of the key strategies which could facilitate achieving the goal of Regional Integration within Africa.

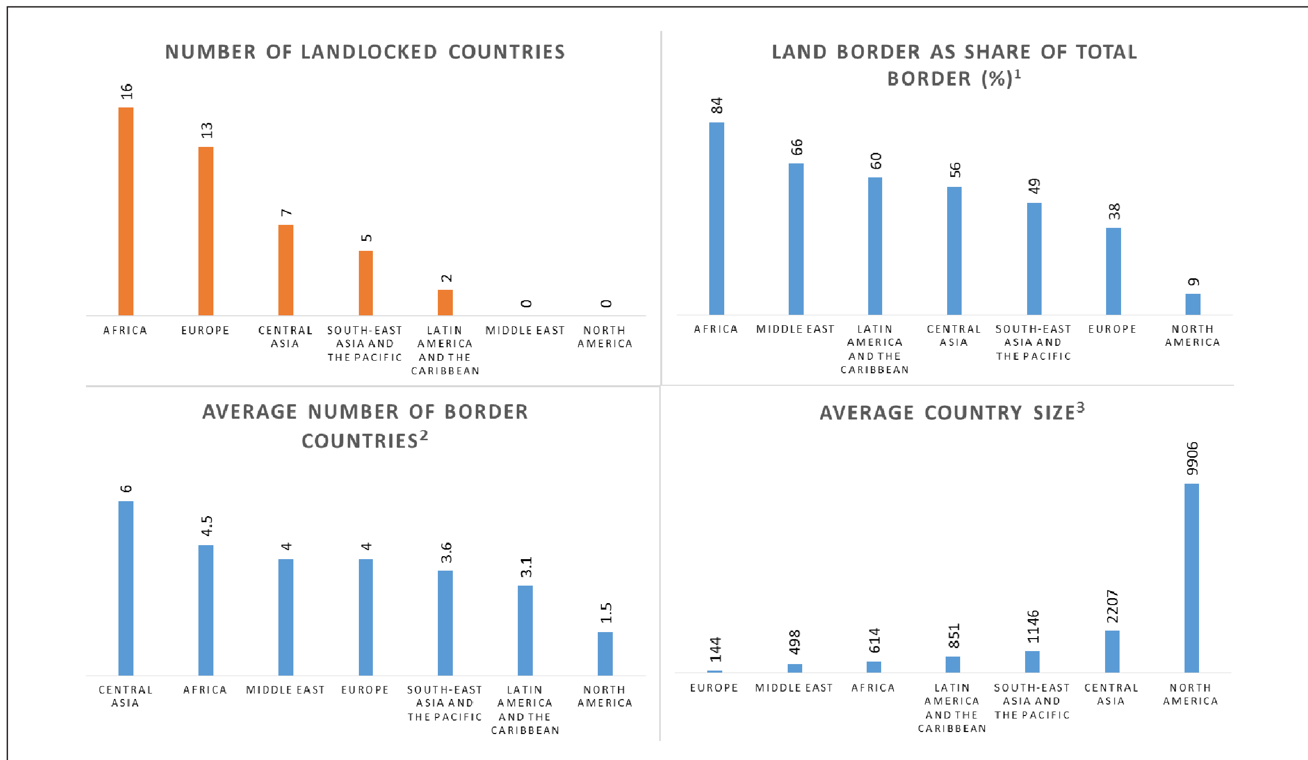
2. Regional Infrastructure Development in Africa

INTRODUCTION

Regional infrastructure forms the building block for fostering greater integration within the African continent. Among the world's seven regions, regional infrastructure needs are the most pronounced in the case of Africa. With 16 landlocked countries, Africa has the largest number of landlocked countries, and land borders account for 84 percent of the total borders in the continent. Africa also ranks second in terms of average number of neighbouring countries, with Central Asia being the first, mainly on account of Russia's 14 border countries (Exhibit 2.1).

Energy, information and communication technology (ICT), transport and water resources are some of the key infrastructure areas where interventions are required at the regional level for infusing vitality to the regional integration agenda. Various institutions/ organizations have made instrumental progress in documenting the need for improving connectivity in the African continent, and have worked towards identifying and alleviating the constraints for realizing better regional infrastructure and integration. In this context, the World Bank- sponsored Africa Infrastructure Country Diagnostic Study made seminal contribution in terms of estimating the financing requirement for the infrastructure projects. This was followed by the AfDB sponsored- Programme for Infrastructure Development in Africa (PIDA) study for identification of priority projects for immediate implementation.

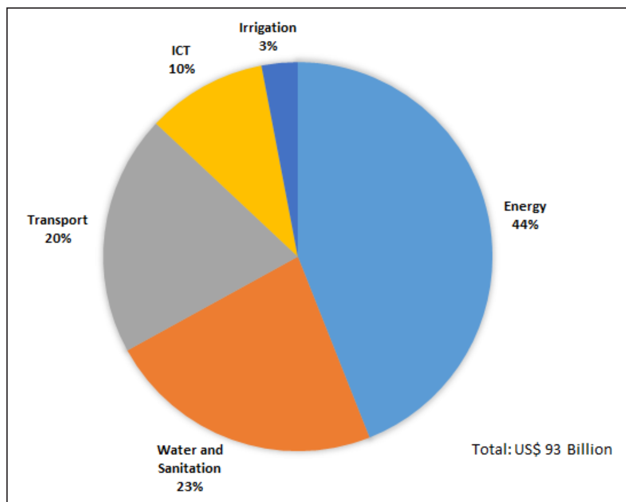
Exhibit 2.1: Regional Comparison of Geographical Layout and Political Boundaries



Note: [1]On regional level – total length of all land borders/all land borders + coast (excluding islands). 2Within region (excluding islands). 3Within region, in '000 square kilometres (excluding islands)
South East and Pacific includes South Asia
Source: World Economic Forum analysis

As per estimates, an annual investment of US$ 93 billion is required for Sub-Saharan Africa to meet its infrastructure needs – US$ 40.92 billion (44 percent) for energy, US$ 21.4 billion (23 percent) for water and sanitation, US$ 18.6 billion (20 percent) for transport, US$ 9.3 billion (10 percent) for ICT and US$ 2.8 billion (3 percent) for irrigation (Exhibit 2.2). Concerted efforts from all stakeholders including the National Governments, development financial institutions, and the private sector will be crucial for meeting the financing requirement in these infrastructure areas.

Exhibit 2.2: Sector-wise Annual Infrastructure Investment Need in Sub-Saharan Africa



Source: Foster and Briceño-Garmendia (2009), World Bank

There may be various reasons – geographical, diplomatic, strategic and/ or commercial — for countries to develop regional infrastructure projects. What is common in these projects is that the costs and benefits apply to more than one country, although it may not be distributed equally. For example, a hydroelectric power project in country A may produce energy mainly for consumption in another country B, while the construction of dam for this purpose may lead to negative externalities in another country C. Hence, the challenge for infrastructure financing extends beyond estimating the pecuniary costs and benefits, and includes valuation of the externalities in all concerned countries. Further, institutional shortcomings such as inefficient cross border procedures may lead to less than anticipated benefits for infrastructure projects. Therefore, the challenges confronting regional infrastructure projects go beyond those faced by traditional infrastructure projects. The scope of such challenges is vast and complex, and requires multi-faceted engagement. Other than financing, sectoral reforms, institution building, improvement in investment climate, addressing issues pertaining to operation and management, establishment of favourable Public-Private Partnerships (PPPs), along with due consideration for environmental impacts will constitute the bedrock for alleviating the infrastructural constraints in the continent.

PROGRAMME FOR INFRASTRUCTURE DEVELOPMENT IN AFRICA

There have been several initiatives to bridge the infrastructure gap in the African continent and facilitate interlinked resurgence. At the centre-stage is the PIDA initiative, led by the African Union Commission, the New Partnership for Africa's Development (NEPAD) Secretariat, and the AfDB. The PIDA initiative promotes regional economic integration by building mutually beneficial infrastructure for strengthening the ability of countries to trade and establish regional value chains for increased competitiveness. The Priority Action Plan of PIDA encompasses 51 programmes of regional importance in the transportation, water, energy, and ICT sectors.

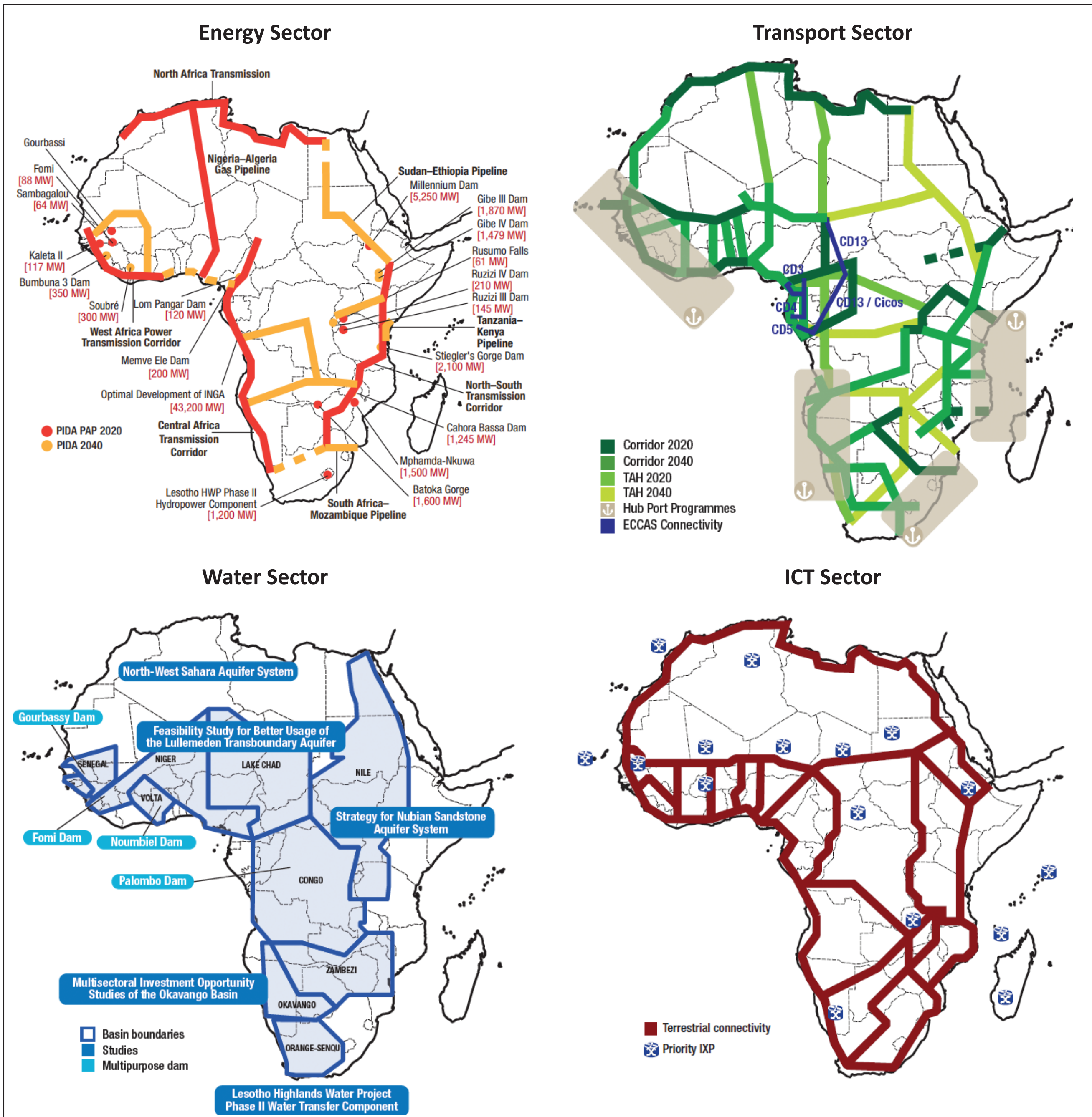
Energy and transport sector account for nearly 95 percent of the total cost of financing regional infrastructure in the African continent. Built around the objective of reducing energy costs and increasing access, the energy infrastructure plan of PIDA (Exhibit 2.3) includes development of several hydroelectric power plants and transmission line projects for connecting the power pools. It also includes the development of a petroleum-product pipeline and the Nigeria-Algeria gas pipeline.

The transport sector programme of PIDA has a wide array of projects including corridors, road modernisation programs, port hub and railways programs, and air transport related programs, which aim at linking the major production and consumption centres, providing connectivity among major cities, and improving regional and continental trade. The PIDA priority action plans also comprise the Trans- African Highways (TAH)

network which has nine sub-groups of road links and feeders classified according to the sub-regions they serve. Five ECCAS corridors are also included in the PIDA programme.

Nine water projects are also part of the PIDA. These pertain to development of dams, and building capacity of the continent's lakes and river basin. Initiatives in the water sector are expected to have implications for the sizeable food deficit in several African countries. In the ICT sector, PIDA aims at installation of Internet Exchange Points (IXPs) in countries that currently lack them. It also aims at completing Africa's terrestrial fibre-optic infrastructure.

Exhibit 2.3: Infrastructure Map of PIDA's Priority Action Plan

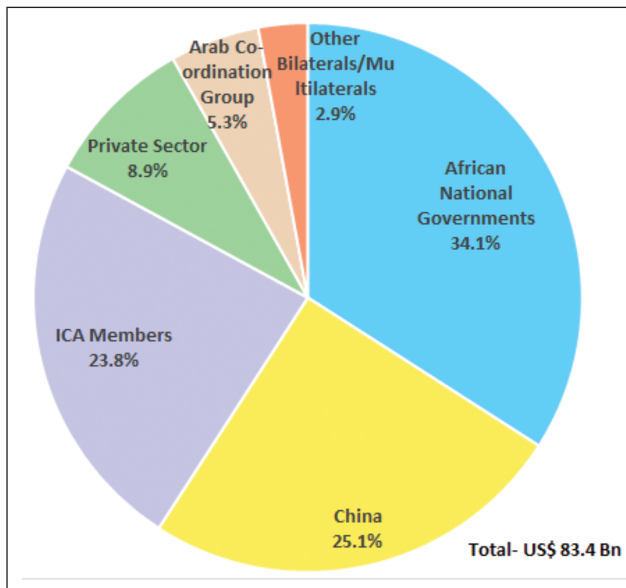


Source: Financing of the Programme for Infrastructure Development in Africa (PIDA)

FINANCING REGIONAL INFRASTRUCTURE

Nearly US$ 83.4 billion was committed for infrastructure financing (regional and national) in Africa during 2015. African National Governments accounted for bulk of the infrastructure financing with a share of 34.1 percent during 2015, followed by China with a share of 25.1 percent. The members of Infrastructure Consortium for Africa (ICA) comprising the AfDB, Development Bank of South Africa (DBSA), European Commission (EC), European Investment Bank (EIB), G8 countries[18], Republic of South Africa and the World Bank Group accounted for 23.8 percent of the financing (Exhibit 2.4).

Exhibit 2.4: Total Infrastructure Financing by Source (2015)



Source: The Infrastructure Consortium for Africa

Government Financing

National Governments are traditionally among the most active participants in infrastructure financing. They can provide debt financing through state-owned banks and could also take equity stakes in projects and provide upfront capital grants. African National Governments committed a total of US$ 28.4 billion for infrastructure projects in 2015[19]. Maximum budgetary allocation for infrastructure projects were by South Africa (US$ 3,855 million), Egypt (US$ 3,669 million), and Angola (US$ 2,616 million) (Table 2.1)

Table 2.1: African National Budget Allocations for Infrastructure in 2015 (US$ mn)

Southern Africa		East Africa	
Angola	2,616	Ethiopia	1,826
Botswana	271	Kenya	1,744
Comoros	28	Somalia	2
Lesotho	198	South Sudan	143
Madagascar	105	Tanzania	1,909
Malawi	232	Uganda	1,290
Mauritius	174	**West Africa**	
Mozambique	299	Benin	227
Namibia	296	Burkina Faso	203
South Africa	3,855	Cape Verde	73
Swaziland	102	Gambia	37
Zambia	810	Ghana	694
Zimbabwe	231	Guinea	522
Central Africa		Guinea Bissau	18
Burundi	124	Côte d'Ivoire	568
Cameroon	1,035	Liberia	5
Chad	525	Mali	393
DRC	35	Nigeria	221
Gabon	149	Senegal	539
Rwanda	322	Sierra Leone	183
North Africa		Togo	197
Algeria	990		
Egypt	3,669		
Mauritania	122		
Morocco	963		
Tunisia	454		

Source: The Infrastructure Consortium for Africa

Governments, across the world and more so in Africa, are facing increasing budget pressures, making the involvement of the multilateral development banks and the private sector important for financing infrastructure projects. However, public sector is expected to remain an important source of infrastructure financing in the African context, especially in segments where private sector participation is likely to be limited. Limited budgetary resources have to be allocated for national as well as regional projects, with the costs and benefits in case of latter more obscure than the former. Therefore,

[18]Canada, France, Germany, Italy, Japan, Russia, the UK and the US
[19]Data is for 44 countries

African economies need to undertake a thorough assessment of allocation of fiscal resources whilst simultaneously improving their resource mobilisation capacities.

Bi-Lateral/ Multi-Lateral Financing

Multilateral Development Banks (MDBs) and bilateral institutions are an important source of infrastructure financing, and also play a major role in mobilization of private sources of financing in countries where private lenders may not otherwise be comfortable taking risk. The members of the ICA accounted for nearly 41.7 percent of the total bilateral and multilateral financing for infrastructure (regional and national) in Africa during 2015. During the year, China accounted for another 44 percent of the total bilateral and multilateral commitments for infrastructure.

Of the total commitment by ICA members that can be defined as either country or regional, nearly 85 percent are at the country level. Among ICA Members, World Bank had the largest commitments for regional infrastructure projects in Africa during 2010-2015, amounting to US$ 4.7 billion, followed by the AfDB (US$ 4.5 billion). During 2015, the AfDB had the highest commitments to regional infrastructure projects in Africa, among the ICA members (Table 2.2).

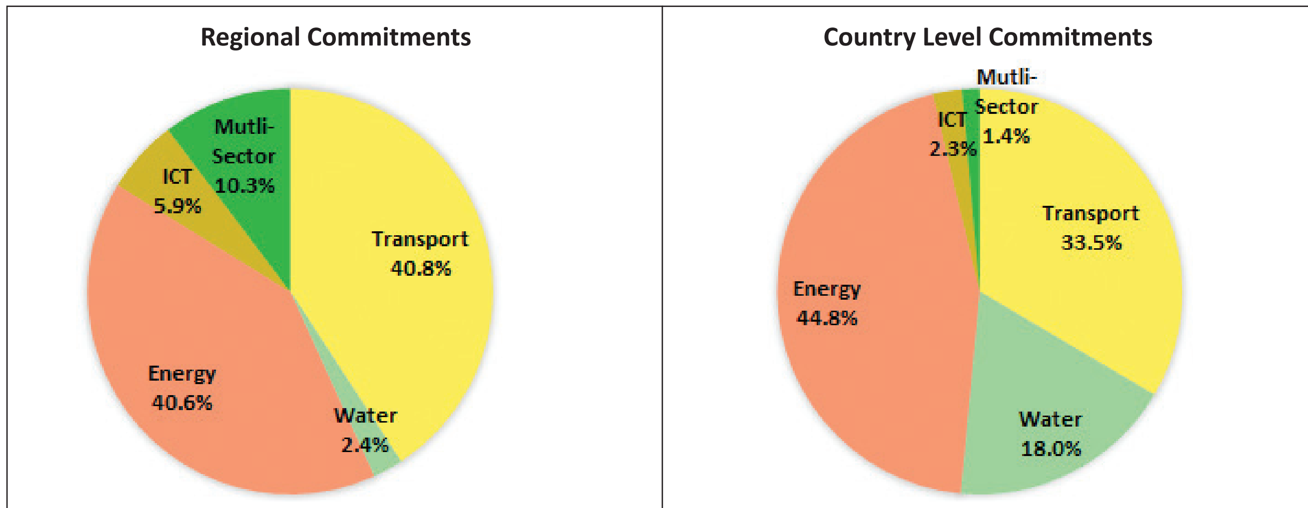
During 2015, the largest financial commitments by ICA members at the country level in Africa was in the energy sector (share of 44.8 percent), while it was the transport sector at the regional level (share of 40.8 percent). The other major sectors at the regional level were energy (share of 40.6 percent), multi-sector (10.3 percent), ICT (5.9 percent) and water (2.4 percent) (Exhibit 2.5). Some of the PIDA projects which were financed during the year are Northern Multimodal Transport Corridor in East Africa, Abidjan-Lagos Coastal Transport Corridor, Ruzizi III Hydropower Plant, Zambia-Tanzania-Kenya Power Interconnection, Gambia River Basin Development Organization Energy Project and Central African Power Interconnection.

Table 2.2: Commitments to Regional Infrastructure in Africa by ICA Members (US$ Mn)

	2010	2011	2012	2013	2014	2015	2010-15
AfDB	327	751	789	1090	288	1299	4544
World Bank*	193	682	1568	803	449	977	4672
Japan	688	241	1124	553	591	297	3494
DBSA				0	1	292	293
The UK**	19	0	61	92	23	152	347
Canada				23	5	129	157
EIB***	855	184	379	131	87	92	1728
EC	375	39	225	456	171	82	1348
France	310		227	967	195	79	1778
Germany	16	194	156	88	0	8	462

* including International Finance Corporation **Department for International Development (DfID) *** including EU-Africa Infrastructure Trust Fund
Source: The Infrastructure Consortium for Africa

Exhibit 2.5: Sector-wise Comparison of Regional and Country Level Commitments in Africa by ICA Members (2015)



Note: Data pertains to financing from AfDB, World Bank, Japan, DBSA, UK, Canada, EIB, EC, France, and Germany.
Source: The Infrastructure Consortium for Africa

Public Private Partnership

Government budgetary resources are often not sufficient to meet the infrastructure funding requirements. The PPP mode of infrastructure financing ensures that the Government does not need to incur any borrowings for project implementation, while also bringing in the expertise and efficiencies associated with the private sector. The implicit Government support in these projects provides lower risk perception.

PPPs have emerged as important mode of financing infrastructure projects in several developing countries. Financing under this may come from the public sector, private sources and/or development finance institutions (DFI). Public source financing includes government subsidies in the form of grants or viability gap funding, investment in equity by public sector enterprises, and loans from public sector banks. Private source financing includes equity and/or project finance debt. For the low-to-middle income countries, DFIs are also an important source of PPP financing.

According to the World Bank, private sector contributed to nearly two-third of the US$ 6.2 billion of investments in PPP projects in Sub-Saharan Africa during 2015, with the share of public funding being low at only 13 percent. DFIs comprised the remaining 21 percent of the investment commitments in the region (Table 2.4).

The Private Participation in Infrastructure Project Database remains a benchmark for measuring global trends in private investments in infrastructure development. According to the database, during the 2000-2015 period, 5 cross-border projects in Sub-Saharan Africa have been financed through the PPP mode (Table 2.5). Three of these projects have been recorded in the transport sector, while two in the energy sector. In two of these projects, the funding has entirely been through private sources. Most of the projects have also received bi-lateral/ multi-lateral support from institutions such as International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA), AfDB and EIB.

The N4 East project linking Gauteng in South Africa to Maputo in Mozambique was the first major regional PPP project implemented in Africa. The N4 toll road serves as a good example of a successful PPP project in Africa using the Build, Operate, Transfer (BOT) model. A 30-year road concession was awarded to the Trans African Concessions (TRAC) consortium and signed with South African National Roads Agency and Mozambique Roads Agency. TRAC was responsible for the financing, design, construction, rehabilitation, operation and maintenance

Table 2.3: Benefits and Risks of PPP

<table>
<tr><th>Advantages</th><th>Potential Shortcomings and Risks</th></tr>
<tr><td rowspan="3">• Synergies through collective and innovative use of resources and application of management know-how;
• Possibility for increasing labour productivity and effectiveness of public service providers;
• More independent from political influence and allows better decision- making;
• Facilitates greater flexibility in project design depending upon consumer preferences;
• Implementation is in general quicker;
• Reduces pressure on Government budgets.</td><td>For the Public Sector
• Asymmetric information regarding market and profitable investment possibilities. Also, lack of knowledge about the quality and competence of private partners;
• Difficulty in ascertaining conformity to provisions of the contract if private partners have a larger share in management of the partnership;
• Transfer of risk incurred by the private sector on to the public sector.</td></tr>
<tr><td>For Citizens and Society
• Lack of participation and democratic control;
• Accessing infrastructure and services provided on a market economy basis may affect social justice;
• Critical observers point that it neither leads to more competition nor to less expensive production;
• Risk of oligopoly in the supply sectors.</td></tr>
<tr><td>For Private Economy
• Political and legal risk;
• Technical risks relating to infrastructure construction and operation;
• Economic and financial risk;
• Commercial risk;
• Risk of “force majeure”.</td></tr>
</table>

Table 2.4: Region-wise Investment in PPP Projects and Financing Sources (2015)

Region	Information Availability (%)	Percent of Total Investment by Sources of Financing (%)								
		Total Investment (US$ Bn)	Govt. Subsidy	Public Equity	Public Debt	Private Equity	Commercial Debt	Institutional Debt	Multi-lateral Debt	Bi-lateral Debt
EAP	29%	10.1	0%	4%	9%	21%	62%	0%	4%	0%
ECA	93%	10.9	0%	1%	28%	24%	35%	6%	6%	2%
LAC	46%	17.3	21%	1%	17%	24%	22%	0%	9%	5%
MENA	100%	2.5	0%	6%	0%	22%	7%	0%	20%	45%
SAR	95%	5.4	2%	0%	28%	28%	21%	0%	11%	10%
SSA	91%	6.2	0%	3%	10%	26%	38%	1%	8%	13%

Note: EAP- East Asia and Pacific, ECA- East and Central Asia, LAC- Latin America and Caribbean, MENA- Middle East and North Africa, SAR- South Asia, SSA- Sub-Saharan Africa

Source: Sources of Financing for Public-Private Partnership Investments in 2015, World Bank

Table 2.5: Cross-Border PPP Projects in Sub-Saharan Africa

Countries	Financial Closure Year	Project Name	Type of Project	Subtype of Project	Project Status	Primary sector	Location	Share of Private Financing	Total Investment (US$ Mn)	Multi-Lateral/ Bi-Lateral Support
Benin, Ghana, Nigeria, Togo	2005	West African Gas Pipeline Company Ltd	Greenfield project	Build, operate, and transfer	Active	Energy	Benin, Ghana, Nigeria, and Togo	57	590	IDA Guarantee, MIGA Guarantee, IDA Loan
Kenya, Uganda	2006	Kenya-Uganda Railways	Brownfield	Rehabilitate, operate, and transfer	Distressed	Transport	Kenya - Uganda Line	100	404	IDA Guarantee, IFC Loan, AfDB Loan
Mali, Senegal	2003	Dakar-Bamako Railway	Brownfield	Rehabilitate, operate, and transfer	Active	Transport	Dakar (Senegal) - Bamako(Mali)	51	55.4	No
Mozambique, South Africa	2003	Mozambique - South Africa Gas Pipeline	Greenfield project	Build, own, and operate	Active	Energy	Not Available	50	1200	MIGA Guarantee, EIB Loan, AFDB Loan, EIB Loan, AfDB Loan, IBRD Guarantee
South Africa, Zimbabwe	2011	Beitbridge Border Post	Brownfield	Build, rehabilitate, operate, and transfer	Active	Transport	Beitbridge	100	97	No

Note: A project is considered as PPP financed if the private sector participation is at least 20 percent.
Source: Private Participation in Infrastructure Projects Database, World Bank

of the toll road. Valued at US$ 466 million, the project involved rehabilitation, as well as construction of 198 km of new road. The financing was undertaken through a combination of 20 percent equity and 80 percent debt. South Africa and Mozambique jointly guaranteed the debt of TRAC.

Other Modes of Financing

The fiscal constraint of Governments and limited opportunities for borrowing is a major bottleneck for financing of regional infrastructure in the African continent. Innovations in resource mobilization will therefore be critical for the agenda of integrating Africa. There are various innovative routes to finance the regional infrastructure in Africa, and the continent has already adopted several of these in its efforts towards infrastructural upgradation. Some of the prominent financing mechanisms are:

Infrastructure Bonds: These are bonds issued by the private sector for financing projects in infrastructure related industries. These bonds are typically issued in local currencies to minimise potential currency mismatches. Development of local bond markets is a prerequisite for issuing of on-shore bonds. Legal framework, bureaucratic efficiency and enforceability of contracts are key parameters which impact the rating of these bonds, and thereby the cost of financing. Countries can also issue infrastructure bonds in off-shore markets to tap the international capital markets.

There have been instances of usage of infrastructure bonds for financing in African countries. They have been used for financing roads in South Africa, as also in Kenya for financing road, energy, and water and irrigation projects. COMESA, EAC, and SADC have been discussing the possibility of regional infrastructure bonds, but progress in this regard has been limited.

Loan Guarantees: Guarantees from Government help ensure that in case of project failures, investors are protected. This has been used by some countries in the African continent for assuring private investments. For example, the South African government had issued subordinated debt to underwrite the risk associated with financing of one of the roads between Johannesburg and Maputo, which was a part of the Maputo Development Corridor. This provided much needed comfort to the equity investors for investment in the road project.

Private Equity and Investment Banks: Private equity investments help provide financing for the initial phase of infrastructure projects and capital markets finance the later phase. Infrastructure assets in later stages of a project can be used as collateral, and capital markets are therefore more comfortable accepting the project risk during this phase. According to the African Private Equity and Venture Capital Association, between 2011 and 2016, multi-region deals accounted for nearly 55 percent of the private equity infrastructure deals in Africa by value. One such deal is the investment by Emerging Capital Partners in the Wanachi Group Holdings for upgrading and expanding the network infrastructure in Kenya and Tanzania.

Sovereign Wealth Funds: Sovereign Wealth Funds (SWFs) have large resources which allow them to invest in large scale infrastructure projects. They are suited for infrastructure investment on account of their ability to withstand illiquidity. From the perspective of SWFs also, infrastructure investments are advantageous as they provide long term stable yields. It is therefore unsurprising that infrastructure projects are increasingly becoming an important avenue for SWFs. According to Preqin research, the share of investment by SWFs in infrastructure has significantly increased in recent years—from 57 percent in 2014 to 62 percent in 2016.

Financing by Regional Economic Communities: Several RECs have also adopted new and innovative modes of financing infrastructure. For example, ECOWAS has a 0.25 percent community levy which is deposited into a general fund. Such steady revenue streams can help countries in meeting a part of the infrastructure financing requirements, and reduce their dependence on overseas development assistance.

STRATEGIES FOR REGIONAL INFRASTRUCTURE DEVELOPMENT

Reforms for Harmonizing Regulatory Structures

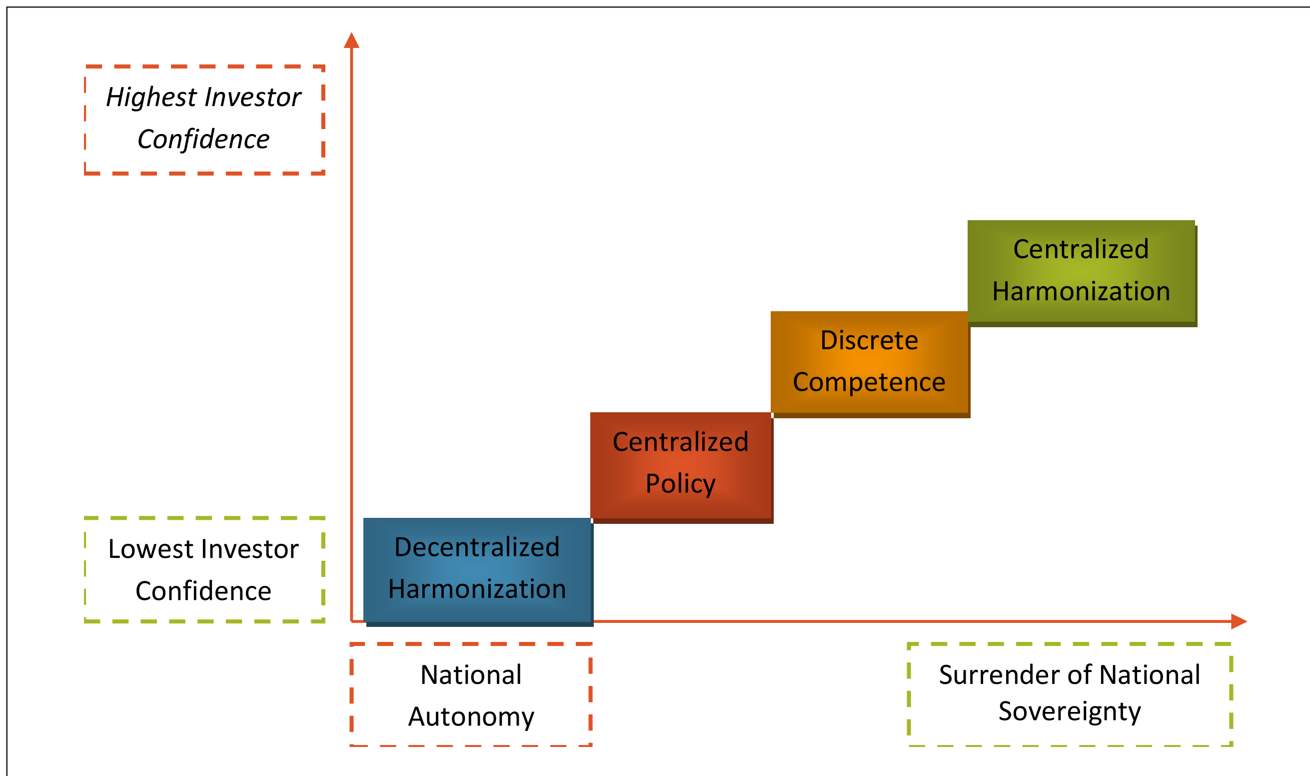
National, regional and continental harmonizing of regulatory structures will be an essential first step

towards formation of mutually enriching partnerships among African countries for regional integration. In an ideal situation, the harmonization process should involve harmonization of policies, legislation, regulatory and institutional frameworks. Such integration shall be instrumental in building investor confidence for investments in regional infrastructure.

Particularly in the case of ICT infrastructure, there are four popular models for harmonization, each with varying degree of trade-off between investor confidence and national autonomy. These are centralised harmonization, discrete competence, centralised policy and national application, and decentralized harmonization (Exhibit 2.6).

The centralised harmonization model requires maximum abandonment of national sovereignty into the hands of a Regional Regulatory Agency (RRA) which makes decisions which are binding on member States. In the discrete competence model, the RRA is responsible for regulations among the States, as also between the States and the rest of the world, while the national regulatory bodies have full regulatory authority in all transactions and services that do not cross national borders. The third model of centralised policy and national application allows the RRA to make decisions pertaining to the policy framework and make nation specific adaptations. The application of regulations is however entirely entrusted upon the national regulatory authorities. Finally, in the decentralised harmonization model, the RRA only acts as a central agency for coordinating the policies of member States, but has no power to make any non-binding recommendations. In early stages of regional integration, the decentralized harmonization model is the most realistic option.

Exhibit 2.6: Regionalization Models



Source: United Nations Economic Commission for Africa, Exim Bank Research

The African continent has made appreciable efforts towards harmonization of policies through establishment of RRAs. For example, the ECOWAS Regional Electricity Regulatory Authority is the regulator of regional cross-border trade of electricity in West Africa, and also the regional regulator of cross border electricity interconnections in the region. Similarly, the Communications Regulators' Association of South Africa is an ICT and Postal regulatory association for SADC countries. The East African Communications Organization is another regional organization that brings together national ICT regulators, operators, services providers (in the telecommunication, broadcasting and postal sub-sectors), ICT training institutions and other stakeholders in the communication sector within Burundi, Kenya, Rwanda, Tanzania and Uganda. However, these initiatives have been few and with limited success.

In order to ensure cohesion and harmonisation of the strategies and policies, it shall be necessary to have more number of effective RRAs in the African continent. Regulatory harmonization has low monetary cost but relatively higher returns. However, such harmonization shall require commitment from National Governments. The RRAs formed through cooperation amongst Government must alleviate the managerial inefficiencies and technical weaknesses faced by national regulators through capacity building activities.

Improving the Effectiveness of Project Preparation Facilities

Project Preparation Facilities (PPF) are essential for maintaining a sustainable supply of bankable, investment-ready projects. According to Rohde (2015), these instruments can generally be defined as the entities that provide technical and financial support to project preparation activities (with greater emphasis on the financial aspect). The primary goal of such activities is to develop a project to a point where it attracts sufficient interest from other investors. As per World Bank estimates, the cost of project preparation is around 5-10% of the total project cost of any infrastructure project[20].

PPFs usually focus on providing support to discrete phases of a project cycle, although some of them do provide support throughout the cycle. Early stage support by PPFs focus on identification of various project concepts and determination of the elements that need to be in place for the project to be able to attract investor interest. The latter phases involve more detailed technical design, financial and legal structuring, environmental and other impact assessments and execution of the project.

There are plenty of PPFs in the African continent which are funded and/or managed by MDBs, bilateral aid agencies and other financing institutions from donor countries or Non-Governmental Organizations (NGOs). A list of 19 of the operational PPFs is provided in Table 2.6. These PPFs reported a total capital of US$ 2.4 billion at the end of 2014, with a combined committed portfolio of US$ 1.59 billion[21].

A major shortcoming of these facilities is the lack of financial sustainability in operations on account of excessive dependence on grants and public funds, and weak recovery systems for project-preparation costs. PPFs should therefore attempt to recover the project preparation related expenses along with a margin from the project owners or incoming concessionaries[22]. PPFs should also ensure that resources be allocated depending upon the feasibility of projects. Several of the projects will fail to reach tender and/or financial closure, and PPFs should try and minimise such failures. For this purpose, PPFs can adopt a Project Preparation Cascade (Box 1), wherein reviews are conducted at various stages of a project preparation cycle to ascertain if they meet predefined criteria. A project will pass on to the next stage of preparation only if they pass these stage-gate reviews.

[20]Nora Rohde (2015), "Assembly Lines" for Project Development: The Role of Infrastructure Project Preparation Facilities
[21]Assessment of "African Infrastructure Project Preparation Facilities - Lessons Learned and Best Practice", Infrastructure Consortium of Africa, December 2015
[22]Ibid.

Table 2.6: Select Project Preparation Facilities in Africa

Project Preparation Facility	Date Created	Number of Projects Supported	% of Projects with Financial Close	Infrastructure Sectors Supported
Climate Resilient Infrastructure Development Facility	2013	25	28.0	Water
Private Infrastructure Development Group- Technical Assistance Facility	2003	98	50.0	All sectors
Public-Private Infrastructure Advisory Facility	1999	1000	8.6	All sectors
DBSA - European Investment Bank Dev. Facility	2010	0	0.0	All sectors
Agence Françoise De Development DBSA PPF	2003	40	30.0	All sectors
African Water Facility	2004	72	30.6	Three
NEPAD Infrastructure Project Preparation Facility	2004	61	49.2	All sectors
EU-Africa Infrastructure Trust Fund	2007	70	61.4	All sectors
Global Partnership on Output-Based Aid	2003	113	46.9	All sectors
The Facility for Euro-Mediterranean Investment Partnership Trust Fund	2005	49	0.0	All sectors
DevCo Advisory	2004	53	62.3	Three
African, Caribbean and Pacific (ACP) -EU Energy Facility II	2009	65	0.0	Energy
DBSA Dev Fund	2001	0	0.0	Two
ACP-EU Energy Facility I	2002	74	0.0	Energy
SADC Project Preparation and Development Fund	2008	3	0.0	All sectors
Infrastructure Investment Programme for South Africa	2013	0	0.0	All sectors
Water and Sanitation Program	1979	22	-	Water
U.S. Trade and Development Agency	1981	3,881	51.0	All sectors
Sustainable Energy Fund for Africa	2011	20	0	Energy

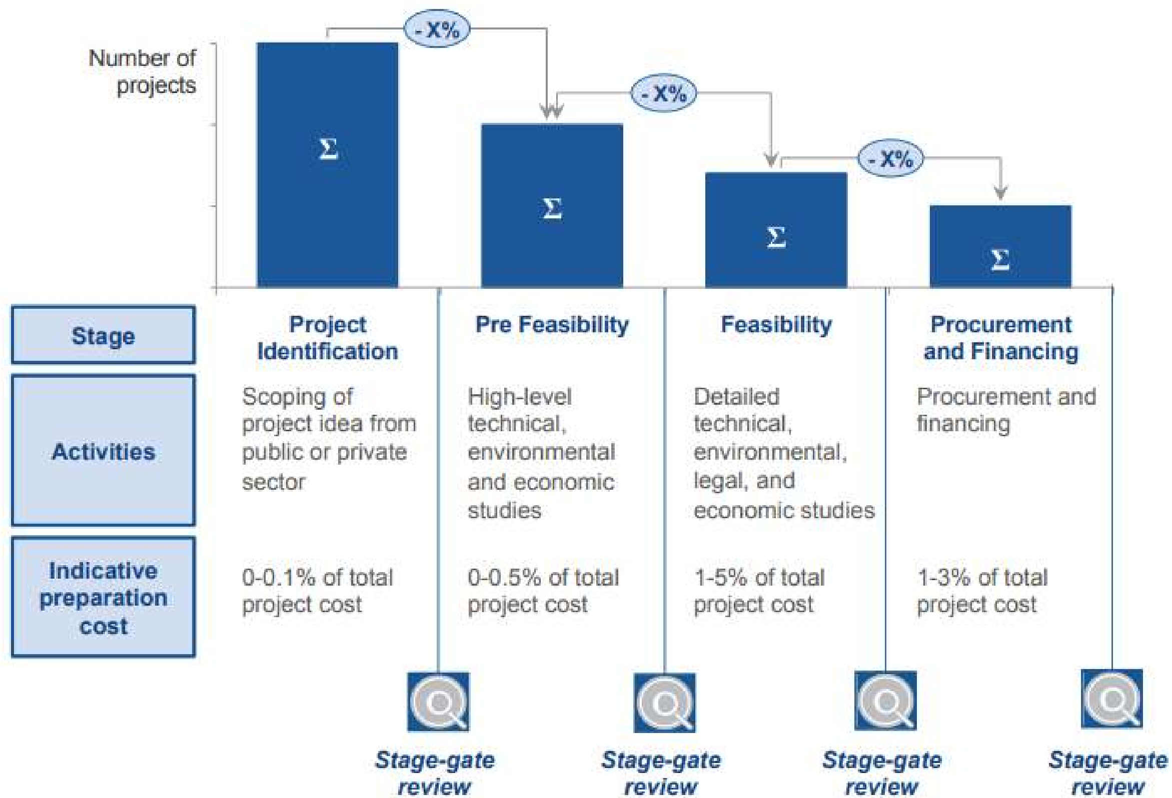
Source: The Infrastructure Consortium for Africa

Box 1: Portfolio Management through Cascade Approach

There are many facets to a project development cycle – detailed technical design, assessment of environmental and social impact, and economic analysis – as a result of which a preparation process can be split into a number of stages. At each stage, the studies become more detailed – and therefore more expensive. Cascade approach can help a PPF in optimizing its project preparation activities and avoiding wastage of project-preparation resources by adopting stage-gate reviews at the various stages.

To minimize rework and wastage, a project should pass a stage-gate review only if it meets certain predefined criteria, which are aligned to standardized sector-specific requirements. Some project ideas will fail the stage-gate reviews, and consequently, the total number of projects in the portfolio will decrease at each preparation stage. The main benefit of such a cascaded approach is that unfeasible projects are identified early in the process, which avoids wasting project-preparation resources. Stage-gate reviews also ensure that stakeholders, including local agencies, understand what a project requires to be viable and to progress.

Exhibit 2.7: Cascade Approach to Project Preparation



Source: World Economic Forum

A similar approach is adopted by the Africa50 Project Development (A50PD). The A50PD minimizes its losses by adopting a "stop-loss" mechanism, wherein development process is stopped when the preparation costs of a project reach a specified threshold fraction of the total estimated capital expenditure. Moreover, a Management Investment Committee regularly reviews projects to ascertain that their risk-reward profile continues to conform to the risk appetite.

Source: Africa Strategic Infrastructure Initiative A Principled Approach to Infrastructure Project Preparation Facilities, World Economic Forum, June 2015

Promotion and Standardization of PPP Laws at Regional Level

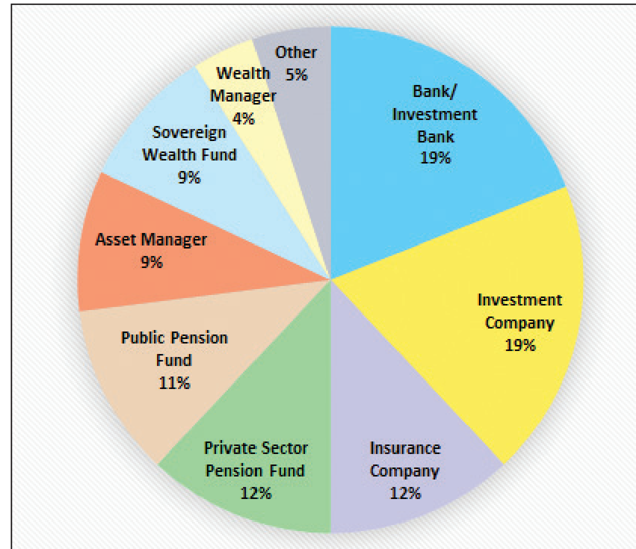
Promoting private investments in regional infrastructure projects is essential for meeting the financing requirement. In order to provide an enabling environment for such investments, it is essential to develop a harmonized legal framework for promotion of PPPs, possibly at the level of RECs, which can provide a lucid foundation for development of PPPs at the national and regional level. RECs such as WAEMU and CEMAC have implemented certain directives relating to public procurement, but its scope and geographical area is limited.

Standard PPP guidelines also need to be developed and put in place across the continent. This shall not only alleviate the problem of complexity of PPP documentation, but will also facilitate more training and capacity building activities across countries and RECs. Adoption of standard PPP guidelines have yielded positive results in the PPP markets of the United Kingdom and India.

The United Kingdom did not have a separate PPP legislation, but adopted a PPP non-binding policy known as the Private Finance Initiative (PFI). The PFI put in place standard drafting methods and standard treatments which allowed the development of a successful PPP industry. In case of India, the Public Private Partnership Appraisal Committee framed standardized contractual documents for laying down terminologies related to risks, liabilities and performance standards, while also streamlining the approval mechanisms. Such standardization should also be adopted by African countries.

Upon harmonization and standardization of the laws, processes and documentation, consistent and more effective capacity building programmes can be implemented at the regional level in Africa. Project managers can then possess better understanding of guidelines and regulations.

Exhibit 2.8: Africa-Based Institutional Investors in Infrastructure by Type



Source: Preqin Infrastructure Online

Tapping Institutional Investors for Infrastructure Financing

The role of institutional investors in infrastructure financing in Africa remains limited, but is increasingly being viewed as a source of meeting the large financing gap. Beginning with the involvement of Australian and Canadian pension funds, institutional investors are finding infrastructure projects in Africa as important conduits of investment. Infrastructure investments provide institutional investors with stable and inflation adjusted dividends over long time horizon, thereby helping them meet the needs of contributors. African fund managers are also making a gradual shift to infrastructure projects on account of the associated long term stable returns.

Institutional investors in the African continent can be further tapped for financing regional infrastructure. Pension funds, both public and private, account for nearly 23 percent of the Africa-based institutional investors (Exhibit 2.8). According to estimates, African pension fund assets alone, not including insurance companies or SWFs, in 16 largest African pension markets stood at US$ 334 billion as of end-2014[23]. SWF launched by several African countries can also serve as an important source of infrastructure financing. Of all the Africa-based institutional investors, nearly 9 percent were SWFs. Allocation of these resources towards regional infrastructure can help meet the infrastructure financing requirement.

While it is possible to have a mutually enriching partnership between institutional investors and regional infrastructure project owners, actual global investment in infrastructure is estimated at 1.1 percent of portfolios[24]. However, some large pension funds, particularly in Australia and Canada, have allocations of nearly 10-15 percent in infrastructure projects.

For enhancing the linkages, institutional investors need to be networked with other parts of the infrastructure investment ecosystem. Institutional investors need to have credible and detailed information on prospective and viable infrastructure investments to enable responsible investment allocations in the infrastructure sector. Networks with creators of investable infrastructure assets and financiers of these assets can help improve allocations to such projects.

Investors also consider involvement of local investors as a key risk-mitigation principle. Local stakeholders are best placed to understand the benefits and quality of services being delivered by infrastructure projects,

[23]Global Pension Study, Towers Watson, 2015

[24]Annual Survey of Large Pension Funds and Public Pension Reserve Funds, OECD, 2015

and the timeliness and robustness of infrastructure delivery and operations. Therefore, local institutional investors need to be able to invest in local infrastructure projects that meet investment-grade due diligence requirements. Alongside, the public sector needs to invest in the development of other local investment vehicles through domestic capital markets. In this regard, countries can undertake independent analysis of competitive products for its institutional investors and develop plans aimed at expanding their funding into infrastructure projects.

An online communication and networking platform can be established for strengthening linkages among stakeholders across the entire ecosystem, from project inception through development to finance and operation. This shall help connect the public and private sector professionals and facilitate effective implementation of investable infrastructure projects. This shall allow better flow of information to institutional investors as well. This could be similar to the "INFRADEV Marketplace", an initiative led by the Global Clearinghouse for Development Finance, for providing independent catalytic web-based communication mechanisms that can be utilized to develop and finance infrastructure projects (Box 2).

Box 2: Communication Mechanisms for Collaboration in Infrastructure Projects: Case of INFRADEV

INFRADEV provides independent catalytic web-based communication mechanisms that enable cost-effective collaboration between public and private sector practitioners in sharing best-practices and proposals, as well as specific products, services, and structures that can be utilized to develop and finance infrastructure projects. Two specific INFRADEV communication platforms enhance the capacity of developing countries and development agencies to mobilize private sector capital:

- INFRADEV Leaders Network is an independent catalytic intranet-based network for infrastructure practitioners from the public and private sectors, aimed at increasing their capacity to collaborate and in increasing the volume of completed infrastructure transactions. Members can use the Network to share information on their infrastructure needs, products, and services. Updated information is also automatically posted on the public site, INFRADEV Info-Exchange, enabling Members to provide relevant information to investors, development agencies, and Governments worldwide.
- INFRADEV Info-Exchange is an open website that provides the public information and results generated by the INFRADEV Leaders Network. Easy access to information improves the capacity of Government officials, development agencies, and the private sector to identify infrastructure needs, as also the services required for developing and financing projects. Key INFRADEV Directories on infrastructure enabling-information include:
  - Demand for infrastructure projects: information on developing country infrastructure and PPP programs;
  - Supply of risk mitigation and project development assistance: information on risk mitigation products and project development assistance services;
  - Leading-edge transactions demonstrating the use of risk mitigation: information on selected successful transactions illustrating how risk mitigation can be used to achieve better access to private capital for infrastructure projects;
  - Information resources: basics on key financial instruments; types of risks; past trends by region and sector; prior transactions in infrastructure finance; toolkits and best practices; etc; and
  - Contact information: Detailed contact information for service providers and infrastructure programs.

Source: INFRADEV Marketplace

Exhibit 2.9: Classification of Risk linked to Infrastructure Assets

<table>
<tr><th>Risk Categories</th><th>Development Phase</th><th>Construction Phase</th><th>Operation Phase</th><th>Termination Phase</th></tr>
<tr><td rowspan="8">Political and regulatory</td><td>Environmental review</td><td>Cancellation of permits</td><td rowspan="3">Change in tariff regulation</td><td>Contract duration</td></tr>
<tr><td rowspan="3">Rise in pre-construction costs (longer permitting process)</td><td rowspan="3">Contract renegotiation</td><td>Decommission</td></tr>
<tr><td>Asset transfer</td></tr>
<tr><td colspan="2">Currency convertibility</td></tr>
<tr><td colspan="4">Change in taxation</td></tr>
<tr><td colspan="4">Social acceptance</td></tr>
<tr><td colspan="4">Change in regulatory or legal environment</td></tr>
<tr><td colspan="4">Enforceability of contracts, collateral and security</td></tr>
<tr><td rowspan="7">Macroeconomic and business</td><td>Prefunding</td><td colspan="3">Default of counterparty</td></tr>
<tr><td colspan="2" rowspan="3">Financing availability</td><td colspan="2">Refinancing risk</td></tr>
<tr><td colspan="2">Liquidity</td></tr>
<tr><td colspan="2">Volatility of demand/market risk</td></tr>
<tr><td colspan="4">Inflation</td></tr>
<tr><td colspan="4">Real interest rates</td></tr>
<tr><td colspan="4">Exchange rate fluctuation</td></tr>
<tr><td rowspan="6">Technical</td><td colspan="3">Governance and management of the project</td><td rowspan="5">Termination value different from expected</td></tr>
<tr><td colspan="3">Environmental</td></tr>
<tr><td>Project feasibility</td><td rowspan="2">Construction delays and cost overruns</td><td rowspan="2">Qualitative deficit of the physical structure/ service</td></tr>
<tr><td>Archaeological</td></tr>
<tr><td colspan="3">Technology and obsolescence</td></tr>
<tr><td colspan="4">Force majeure</td></tr>
</table>

Source: Risk and Return Characteristics of Infrastructure Investment in Low Income Countries, OECD, 2015

Risk Mitigation Instruments

An infrastructure project faces a wide array of risks during all phases of project development. These may be on account of political and regulatory, macroeconomic and business, and/or technical reasons (Exhibit 2.9). Investors face higher risks in infrastructure projects in emerging markets, where macroeconomic and financial conditions tend to be weaker and less stable. Consequently, risk mitigation instruments are essential for implementation of infrastructure projects.

In case of Africa, the Africa Progress Panel noted that risk mitigation financing has been developed in a fragmented and haphazard fashion, and that there is no systematic analysis of the type of risk instruments needed to unlock private investment[25]. According to a survey of risk mitigation instruments in Africa, conducted by World Economic Forum, these instruments in general are perceived to be available but not used, and appear to be of medium to high complexity; these instruments are also perceived as not easily accessible[26]. The AfDB has also noted a large risk mitigation gap, and stressed upon the design of effective risk mitigation solutions[27].

The risk perceptions increase significantly for regional projects. A consolidated regional guarantee facility can help alleviate risks in these projects. In this regard, the African Trade Insurance Agency (ATI) intends to work with the EIB, other international and multilateral insurers, and other financial institutions with investment grade ratings, towards a regional facility. The facility shall enable the institutions to pool their resources

[25]Africa Progress Panel, Grain Fish Money, Financing Africa's Green and Blue Revolutions, Africa Progress Report, 2014
[26]Risk Mitigation Instruments in Infrastructure- Gap Assessment, World Economic Forum, July 2016
[27]African Development Bank: Initiative for Risk Mitigation, Needs Assessment for Risk Mitigation in Africa: Demands and Solutions (2013)

and capacity with the purpose of insuring projects across Africa. This regional facility shall reinforce commitments of National Governments, and also make the infrastructure projects more bankable and cheaper to finance.

As regional projects involve several countries with different currencies, there may also be cross-border currency risks which need to be mitigated for lessening the concerns of international investors. In this regard, a Foreign Exchange Liquidity Facility (FXLF) can enable a project to attract investments from banks/financial institutions and institutional investors. This facility can be used in case of infrastructure projects that receive revenues adjusted to the local inflation. It is based on the premise that, for most countries, sharp changes in the real exchange rate tend to be self-correcting over a reasonable period of time. This liquidity facility provides cash to cover debt service shortfalls when the real exchange rate has declined considerably, and the facility is repaid on a subordinated basis from surplus cash when the real exchange rate recovers. The Financing for Development Business Compendium prepared by the Business Sector Steering Committee[28] recommends the usage of this facility to unlock investments from banks and institutional investors which are unable to invest given the cross-border currency risk. For example, the Overseas Private Investment Corporation's Foreign Exchange Liquidity Facility enabled the AES Corporation to refinance a group of Brazilian energy projects at longer tenors and lower interest rates than were available from any alternative form of financing at a time when Brazil's sovereign debt ratings were below investment grade. The usage of the facility has been limited and no transactions other than the one in Brazil have utilized this facility[29]. Governments and multilaterals can together explore the prospects for establishment of such a facility.

Similarly, a Refinancing Facility by institutional investors, such as pension funds can also mitigate risks attached to infrastructure projects. The facility could consist of commitment by one or more pension funds to purchase the debt financed by domestic commercial banks after a pre-established date, in the event that a) banks do not wish to roll over initial financing b) project is not in default and has a minimum debt service coverage ratio. This would entail a lower credit risk for pension funds as they would have to purchase the debt of only those projects which have demonstrated satisfactory debt service coverage ratio and operated successfully for few years. Banks in Africa typically provide short term financing in local currency, and this facility will help them lend for tenors within their comfort zones.

Strengthening Domestic Resource Mobilization

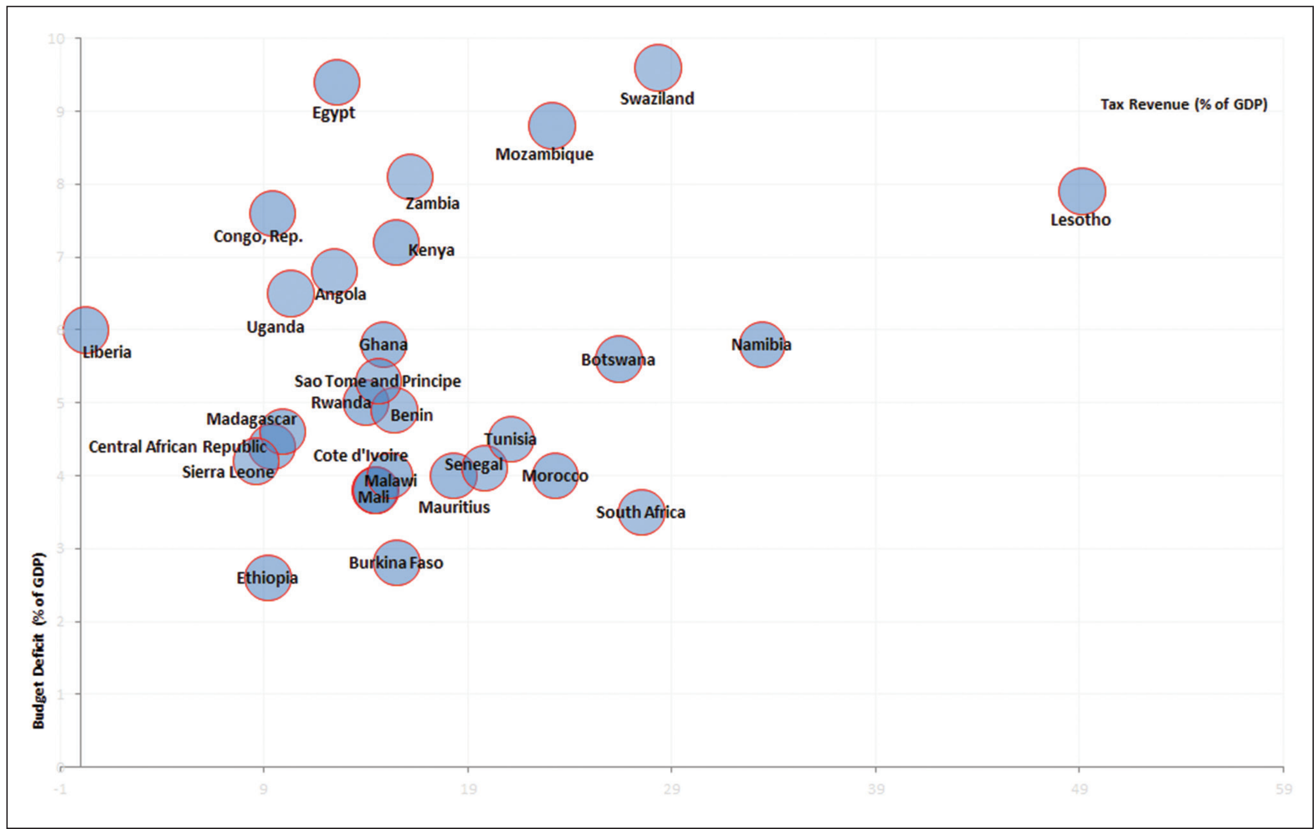
Domestic resource mobilization will be pivotal for financing infrastructure in Africa as there remains substantial scope for raising more domestic resources. Tax revenue as share of GDP for several African countries is low, alongside high budget deficit (as % of GDP) (Exhibit 2.10). Therefore, there is a need for maximising tax realisation in these countries to ensure sustainable revenue streams for financing infrastructure.

Effective implementation of domestic resource mobilization agenda requires establishment of strong institutional structures, strengthening of tax systems, enhancing the tax base, addressing the challenges associated with the informal sector, and curbing tax evasion and avoidance. Governments should ensure strong monitoring of extractive industries and build robust tax frameworks to maximise the benefits from the natural resources in the continent. Innovative measures shall also be required to formalize the informal sector, and enhance the tax base in these countries. Further, Governments can reduce high transaction costs involved in tax collection and administration through usage of ICT. Development partners can also contribute towards enhancement of tax capacity building and improvement in tax administration through financial and technical support.

[28]The Third International Conference on Financing for Development held in Addis Ababa, Ethiopia highlighted the importance of the engagement of all stakeholders including the private sector. The Business Sector Steering Committee facilitates private sector engagement in the Financing for Development processes.

[29]UN (2015), Financing for Development Business Compendium: Existing Initiatives & Actionable Proposals to Mobilize the Private Sector for Achieving the Sustainable Development Goals, Business Sector Steering Committee

Exhibit 2.10: Comparison of Budgetary Deficit and Tax Revenues in Select African Countries



Note: Data for tax revenue as % of GDP is as on 2015 for Angola, Egypt, Mali, Malawi, Namibia, Rwanda, Senegal, Uganda and South Africa; as on 2014 for Burkina Faso, Botswana, Cote d'Ivoire, Madagascar, Mauritius, and Sierra Leone; as on 2013 for Benin, Kenya, Liberia, Lesotho, Mozambique, and Nigeria; as on 2012 for Central African Republic and Republic of Congo; as on 2011 for Ethiopia, Ghana, Morocco, Rwanda, and Zambia. Data for budget deficit as % of GDP is as on 2016 for all countries.

Source: World Bank, CIA Factbook, Exim Bank Research

3. Production and Trade Integration

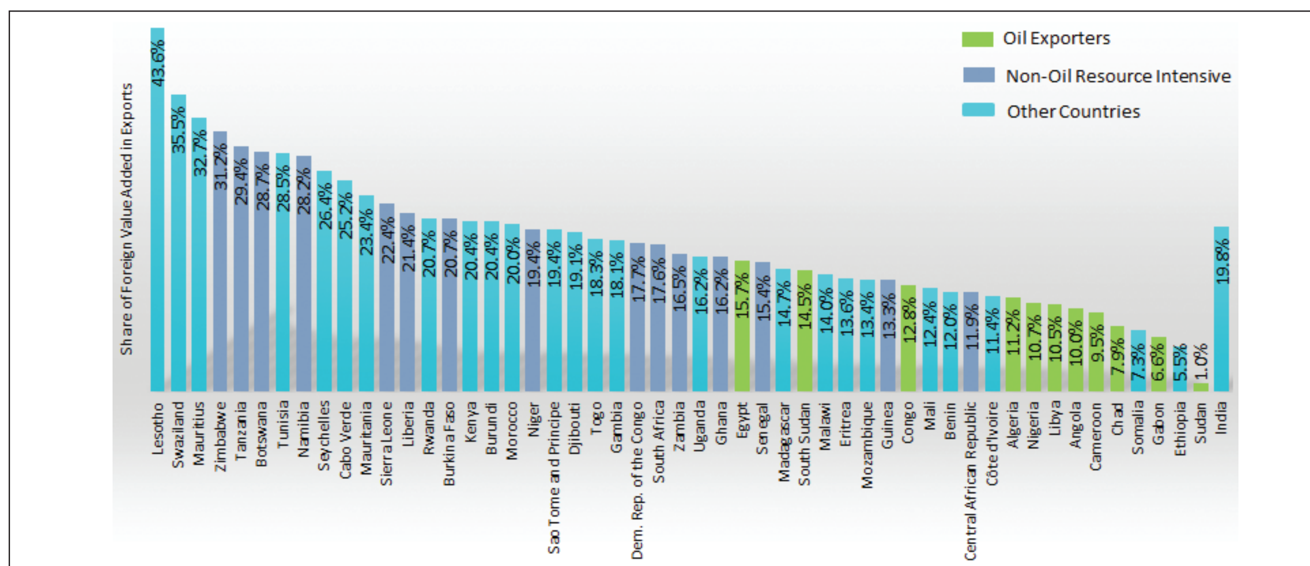
Fragmentation of production and formation of global value chains (GVC) is transforming the manufacturing processes in countries. The import intensity of export production has gradually increased across product categories, and led to an unprecedented level of dependency among countries. Alongside, it has also brought about increased investments and innovations in developing countries. However, the integration of African countries in the GVCs has been at low levels. It is essential for the African countries to create value chain linkages at the regional and global level, as it presents opportunities for new activities, job creation, and corporate profits, and accelerates the process of industrialization.

Economies can be positioned upstream or downstream in GVCs depending on their specialisation, and these positions can change with time. Upstream economies possess specialization in inputs/ raw materials or knowledge assets at the beginning of the production process, such as R&D, while downstream economies are specialized in assembling of processed products, customer services, etc. Activities such as R&D and design, and some services, tend to be higher value added activities than assembly. It is essential to identify comparative advantage of African countries across upstream and downstream activities, and devise strategies for establishment of efficient value chains.

AFRICA'S INTEGRATION IN GLOBAL VALUE CHAINS

Integration of Africa in GVCs has been limited, with stark differences at the country level. The share of foreign value added in exports of African countries stood at 15 percent in 2013, which is not very different from the level of 10.5 percent in 1990. However, there is substantial heterogeneity across countries in terms of integration levels. For example, while foreign value added had a share of 43.6 percent in case of Lesotho in 2013, Sudan had a share of mere 1.0 percent (Exhibit 3.1). It is noted that oil exporters are least integrated in GVCs and have amongst the lowest foreign value added in exports. On the other hand, many of the non-oil commodity exporters from the continent have significantly higher share of foreign value added in exports. However, it may be noted that while higher foreign value added content in exports may imply greater integration, it may not necessarily be associated with improvement in domestic manufacturing and employment, and other spill over benefits associated with exports. This has also been noted in case of some African countries, as discussed later in the Study.

Exhibit 3.1: Depth of Integration in Global Value Chains (2013)



Source: UNCTAD/Eora TiVA dataset, Exim Bank Research

REGIONAL VALUE CHAINS IN AFRICA

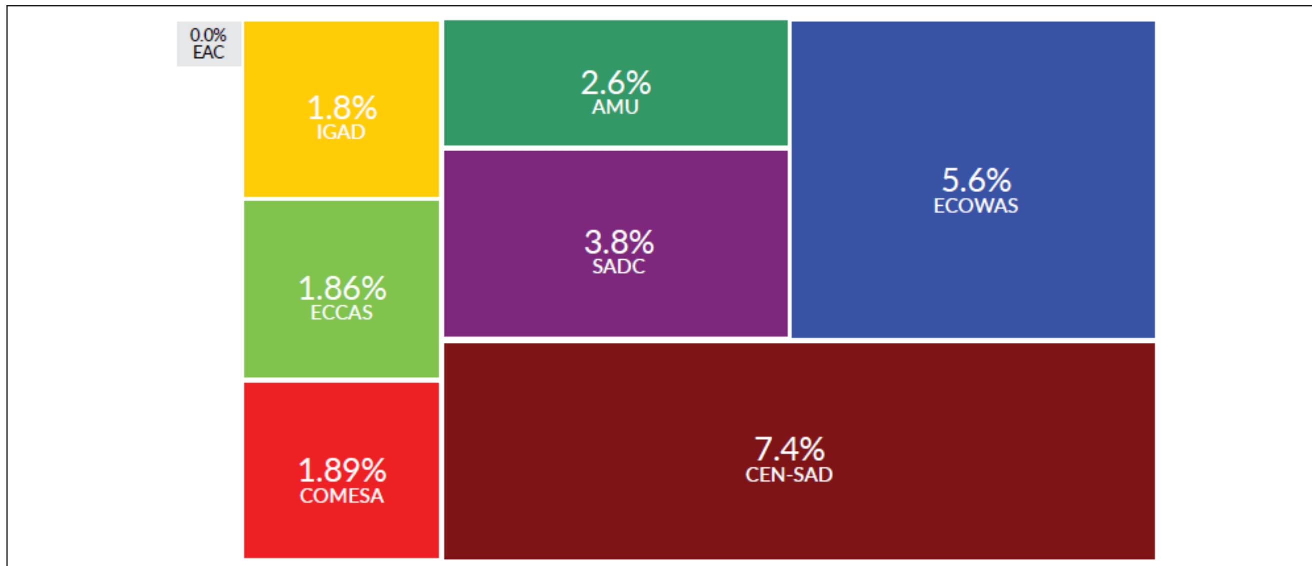
Regional value chains (RVC) can serve as a transitional solution for integration into the GVCs. The demand for goods and services in the region can be leveraged for optimal utilization of resources in the country, and improvement in the production processes. The countries can exploit complementarities in natural endowments and industrial structures to establish and strengthen value chains. RVCs will also positively influence the growth of small and medium enterprises in the African region.

According to Africa Competitiveness Report 2015, regional component of Africa's value chain trade is low, with backward integration (country sources foreign inputs for export production) twice as important as forward integration (country provides inputs for another country's export production) in the continent. While intra-Africa trade flow account for 12 percent of backward integration, it accounts for only 6 percent of the forward integration[30]. There is substantial evidence of a positive influence of backward integration on the trade profile and economy of countries. Foreign sourcing for exports production have been associated with increase in per capita domestic value added in exports. Greater use of foreign inputs can therefore be linked to enhanced productivity of exports. Backward integration has also been linked to increase in sophistication and diversification of exports[31].

RECs in Africa have taken steps for realization of stronger regional value chains. The economies have adopted several transport facilitation measures for goods and services, and also made progress in elimination of tariff and non-tariff barriers in the RECs. The level of progress has not been uniform across RECs. While EAC has zero average applied tariff on imports from other members of the grouping, CEN-SAD has a much higher average applied tariff of 7.4 percent (Exhibit 3.2). The EAC, SADC and ECOWAS have also taken major strides in implementation of transport facilitation measures (Exhibit 3.3).

While SADC has fully liberalized only 15 percent of the tariff lines, and the average applied tariff by REC

Exhibit 3.2: Average Applied Tariff by REC Members on Imports from Other Members of that REC



Source: Innovation, Competitiveness and Regional Integration, Assessing Regional Integration in Africa VII, United Nations Economic Commission for Africa

[30]Africa Competitiveness Report 2015

[31]OECD (2015), Participation of Developing Countries in Global Value Chains: Implications for Trade and Trade-Related Policies. OECD Trade Policy Paper No. 179.

Exhibit 3.3: Transport Facilitation Measures undertaken by RECs

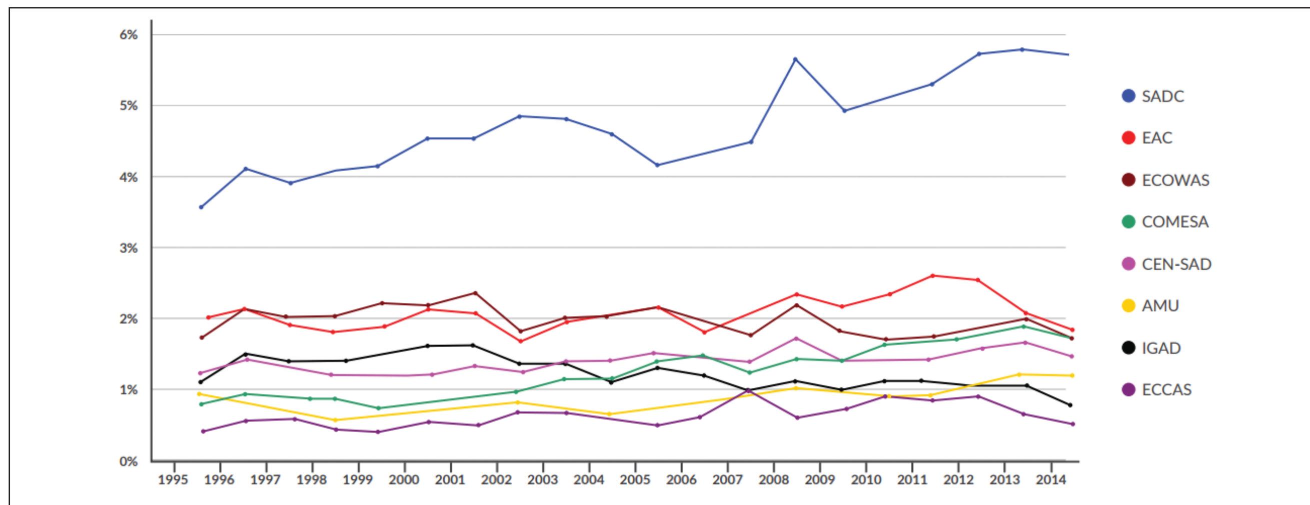
Issue	East Africa (EAC/ COMESA)	Southern Africa (SADC)	West Africa (ECOWAS)
Vehicle load and dimensions control (axle load and gross vehicle mass (GVM) limits)	Yes	Yes	Yes—Inter-State Road Transport
	Axle load	Axle load	Axle load
	GVM	GVM	GVM
	Weighbridges installed	Weighbridges installed	
Road transit charges	Harmonized among the three regional economic communities		
Carrier licence and transit plates			
Third-party motor insurance	Yellow Card	Yellow Card (of COMESA)	ECOWAS Brown Card scheme (Convention A/ P1/5/82) and CIMA Code
Road customs transit declaration document	COMESA Customs Declaration Document	Single Administrative Document	ECOWAS Interstate Road Transit Scheme—Convention A/P4/5/82 and Supplementary Convention A/SP.1/5/90
Road checkpoints	Significant reduction		ECOWAS Interstate Road Transport—Convention A/P.2/5/82
Regional customs bond	Customs Bond Guarantee Scheme, harmonized among the 3 regional economic communities		Customs Agreements on Inter-State Road Transit (TRIE Convention)
One-stop border posts	15 envisaged; 7 under development	Chirundu One-stop border post pilot; other One-stop border post projects in the North-South Corridor	At least 12 envisaged
ICT for vehicle tracking and fleet management			

Note: The only measure adopted by ECCAS is harmonized third-party vehicle insurance (the ECCAS Orange Card).

Source: Innovation, Competitiveness and Regional Integration, Assessing Regional Integration in Africa VII, United Nations Economic Commission for Africa

members on imports is relatively higher at 3.8 percent, the region has consistently performed better than other RECs as evinced by the significantly higher share of intra-REC imports in the GDP (Exhibit 3.4). Other factors, such as trade complementarity, may explain this trend.

Exhibit 3.4: Intra-REC Imports as Share of GDP (%)



Source: Innovation, Competitiveness and Regional Integration, Assessing Regional Integration in Africa VII, United Nations Economic Commission for Africa

IDENTIFICATION OF POSSIBLE RVCs

An analysis of trade structures of African countries is undertaken in the current section to identify the possible RVCs. In this regard, the trade complementarity index (TCI) developed by UNCTAD can be used to measure the extent to which the export profile of a country matches the import profile of its trade partners. The TCI can therefore provide information on prospects for intra-regional trade.

In the current analysis, for each African country, the top five regional economies have been identified whose import patterns are complementary to the exports of the country. These countries may gain from a trade expansion. However, this is merely an analysis from the perspective of trade profile of the countries, and does not include parameters such as transportation and transaction costs, non-tariff barriers, preferential access in other markets, etc.

Further, the top five intra-regionally exported commodities for each of the African countries have been identified, and the possible value chains for these commodities have been indicated (Table 3.1). For several African countries, oil and gas is an important export item, and provides substantial opportunities for value chain integration. These natural resources can be linked to value chains for power generation; manufacturing of plastic and plastic products, synthetic fibre and fabrics, and chemicals and fertilizers. These can be further linked to other manufacturing segments such as automotive, garments, consumer products, etc.

Several countries also have substantial production and exports of cotton, which can lead to formation of textile value chain consisting of cotton fibre, yarn, textile and clothing. There is also sizeable industrial capacity in the continent for processing cotton and synthetic fibre and yarn into fabric and clothing. Countries such as Lesotho, Madagascar, and Mauritius have apparels as one of the top five intra-regionally exported commodities. More capacity additions at the downstream stages of textile value chain can infuse a new vitality to the regional value chain for these products. Organic cotton value chain can also be explored by African countries as it fetches higher value in export markets.

Live animals are among the top five export items for countries such as Namibia, Niger, Sudan, Djibouti, Ethiopia in their intra-regional trade. This provides significant opportunities for formation of value chains for meat products and leather. Countries such as Botswana are placed higher in the value chain for meat products. In fact, meat of bovine animals, fresh, chilled or frozen is among the top exported commodities from Botswana.

Table 3.1: Country-wise Identification of Complementary Trading Partners and Possible Value Chains

Exporting Country	African Countries with Complementary Trade Pattern	Top Intra-Regionally Exported Commodities	Possible Value Chains
Algeria	Morocco, Senegal, Côte d'Ivoire, South Africa, Kenya	Natural gas, whether or not liquefied; Liquefied propane and butane; Petroleum oils or bituminous minerals > 70 % oil; Sugar, molasses and honey; Inorganic chemical elements, oxides and halogen salts	Electricity, Plastic and Allied Products, Synthetic Fibre and Fabric, Chemical and Fertilizer; Confectionery
Angola	Côte d'Ivoire, South Africa, Senegal, Cameroon, Morocco	Petroleum oils, oils from bituminous materials, crude; Petroleum oils or bituminous minerals > 70 % oil; Fish, fresh (live or dead), chilled or frozen; Pearls, precious and semi-precious stones; Tubes, pipes and hollow profiles, fittings, iron, steel	Electricity, Plastic and Allied Products, Synthetic Fibre and Fabric, Chemical and Fertilizer, Gems and Jewellery, Processed Food, Steel Products, Automotive, Machinery
Benin	Senegal, Guinea-Bissau, Madagascar, Burkina Faso, Cabo Verde	Iron and steel bars, rods, angles, shapes and sections; Petroleum oils or bituminous minerals > 70 % oil; Oil seeds and oleaginous fruits (incl. flour, n.e.s.); Cotton fabrics, woven; Cotton	Cotton Fabric and Garments, Processed Food, Steel Products, Automotive, Machinery
Botswana	Namibia, Egypt, South Africa, Mauritius, Swaziland	Pearls, precious and semi-precious stones; Nickel ores and concentrates; nickel mattes, etc.; Gold, non-monetary (excluding gold ores and concentrates); Copper ores and concentrates; copper mattes, cement; Meat of bovine animals, fresh, chilled or frozen	Gems and Jewellery, Steel and Steel Products, Construction, Electrical and Electronics, Processed Food
Burkina Faso	Burundi, Egypt, Swaziland, Kenya, Libya	Petroleum oils or bituminous minerals > 70 % oil; Cotton; Gold, non-monetary (excluding gold ores and concentrates); Zinc; Civil engineering and contractors' plant and equipment	Gems and Jewellery, Cotton Fabric and Garments, Electricity, Plastic and Allied Products, Synthetic Fibre and Fabric, Chemical and Fertilizer, Construction, Machinery
Burundi	Gabon, Ghana, Zimbabwe, Niger, Mali	Soaps, cleansing and polishing preparations; Tea and mate; Tobacco, manufactured; Articles, n.e.s., of plastics; Coffee and coffee substitutes	Consumer Products, Processed Food, Beverages, Plastic Products
Cameroon	Senegal, South Africa, Côte d'Ivoire, Morocco, Kenya	Petroleum oils or bituminous minerals > 70 % oil; Soaps, cleansing and polishing preparations; Lime, cement, fabricated construction material (excluding glass, clay); Aluminium; Edible products and preparations, n.e.s.	Electricity, Plastic and Allied Products, Synthetic Fibre and Fabric, Chemical and Fertilizer, Processed Food, Automotive, Packaging, Construction

Cabo Verde	Seychelles, Mauritius, Djibouti, Cameroon, Angola	Fish, fresh (live or dead), chilled or frozen; Civil engineering and contractors' plant and equipment; Rice; Fish, aqua. invertebrates, prepared, preserved, n.e.s.; Motor vehicle for transport of goods, special purpose	Processed Food, Construction, Machinery, Automotive
Central African Republic	Botswana, Egypt, Mauritius, Namibia, Algeria	Wood simply worked, and railway sleepers of wood; Food-processing machines (excluding domestic); Natural abrasives, n.e.s. (incl. industrial diamonds); Explosives and pyrotechnic products; Civil engineering and contractors' plant and equipment	Furniture, Processed Food, Cotton Fabric and Garments, Construction, Machinery
Chad	Côte d'Ivoire, South Africa, Senegal, Cameroon, Morocco	Special yarn, special textile fabrics and related; Petroleum oils or bituminous minerals > 70 % oil; Motor vehicles for the transport of persons; Cotton; Motor vehicle for transport of goods, special purpose	Electricity, Plastic and Allied Products, Synthetic Fibre and Fabric, Chemical and Fertilizer, Cotton Fabric and Garments, Automotive
Comoros	Liberia, Congo, Equatorial Guinea, Seychelles, Namibia	Spices; Fish, fresh (live or dead), chilled or frozen; Motor vehicles for the transport of persons; Essential oils, perfume and flavour materials; Medicaments (incl. veterinary medicaments)	Food Products, Consumer Products, Automotive
Congo	Côte d'Ivoire, South Africa, Senegal, Morocco, Cameroon	Ships, boats and floating structures; Copper; Liquefied propane and butane; Feeding stuff for animals (no unmilled cereals); Petroleum oils, oils from bituminous materials, crude	Electricity, Plastic and Allied Products, Synthetic Fibre and Fabric, Chemical and Fertilizer, Construction, Electrical and Electronics
Côte d'Ivoire	Senegal, Kenya, South Africa, Mauritania, Seychelles	Petroleum oils or bituminous minerals > 70 % oil; Ships, boats and floating structures; Gold, non-monetary (excluding gold ores and concentrates); Fixed vegetable fats and oils, crude, refined, fract.; Perfumery, cosmetics or toilet preparation (excluding soaps)	Electricity, Plastic and Allied Products, Synthetic Fibre and Fabric, Chemical and Fertilizer, Gems and Jewellery, Processed Food, Consumer Products
DR Congo	Zambia, South Africa, Côte d'Ivoire, Morocco, Namibia	Copper ores and concentrates; copper mattes, cement; Ores and concentrates of base metals, n.e.s.; Inorganic chemical elements, oxides and halogen salts; Copper; Ships, boats and floating structures	Chemical and Fertilizer, Metal and Metal Products, Construction, Electrical and Electronics
Djibouti	Ghana, Sudan, Swaziland, Niger, Gabon	Live animals other than animals of division 03; Residual petroleum products, n.e.s., related matter.; Worn clothing and other worn textile articles; Flat-rolled prod., iron, non-alloy steel, coated, clad; Petroleum oils or bituminous minerals > 70 % oil	Leather, Food Products, Electricity, Plastic and Allied Products, Synthetic Fibre and Fabric, Chemical and Fertilizer, Steel Products, Garments
Egypt	South Africa, Morocco, Senegal, Côte d'Ivoire, Cameroon	Paper and paperboard, cut to shape or size, articles; Lime, cement, fabricated construction material (excluding glass, clay); Vegetables; Clay construction, refractory construction materials; Essential oils, perfume and flavour materials	Paper and Paper Products, Construction, Processed Food, Consumer Products

Equatorial Guinea	Côte d'Ivoire, South Africa, Senegal, Morocco, Cameroon	Petroleum oils, oils from bituminous materials, crude; Petroleum oils or bituminous minerals > 70 % oil; Liquefied propane and butane; Ships, boats and floating structures; Tubes, pipes and hollow profiles, fittings, iron, steel	Electricity, Plastic and Allied Products, Synthetic Fibre and Fabric, Chemical and Fertilizers, Steel Products
Eritrea	South Africa, Mauritius, Egypt, Nigeria, DR Congo	Oil seeds and oleaginous fruits (incl. flour, n.e.s.); Coffee and coffee substitutes; Spices; Vegetables; Glassware	Processed Food, Consumer Products
Ethiopia	Lesotho, Egypt, Swaziland, Burundi, South Africa	Vegetables; Live animals other than animals of division 03; Coffee and coffee substitutes; Lime, cement, fabricated construction material (excluding glass, clay); Spices	Leather, Processed Food, Construction
Gabon	Côte d'Ivoire, South Africa, Senegal, Cameroon, Morocco	Petroleum oils or bituminous minerals > 70 % oil; Petroleum oils, oils from bituminous materials, crude; Wood simply worked, and railway sleepers of wood; Wood in the rough or roughly squared; Veneers, plywood, and other wood, worked, n.e.s.	Electricity, Plastic and Allied Synthetic Fibre and Fabric, Chemical and Fertilizers, Furniture
Gambia	Egypt, Mauritania, Benin, Cabo Verde, DR Congo	Fabrics, woven, of man-made fabrics; Petroleum oils or bituminous minerals > 70 % oil; Worn clothing and other worn textile articles; Milk, cream and milk products (excluding butter, cheese); Sugar, molasses and honey	Processed Food, Garments, Confectionery, Electricity, Plastic and Allied Products, Synthetic Fibre and Fabric, Chemical and Fertilizers
Ghana	South Africa, Côte d'Ivoire, Senegal, Cameroon, Egypt	Gold, non-monetary (excluding gold ores and concentrates); Petroleum oils, oils from bituminous materials, crude; Liquefied propane and butane; Petroleum oils or bituminous minerals > 70 % oil; Civil engineering and contractors' plant and equipment	Electricity, Plastic and Allied Products, Synthetic Fibre and Fabric, Chemical and Fertilizers, Gems and Jewellery, Construction, Machinery
Guinea	Côte d'Ivoire, South Africa, Morocco, Cameroon, Senegal	Fish, fresh (live or dead), chilled or frozen; Coffee and coffee substitutes; Civil engineering and contractors' plant and equipment; Motor vehicle for transport of goods, special purpose; Articles, n.e.s., of plastics	Automotive, Processed Food, Construction, Plastic Products, Machinery
Guinea-Bissau	Egypt, Morocco, South Africa, Senegal, Tunisia	Fish, fresh (live or dead), chilled or frozen; Petroleum oils or bituminous minerals > 70 % oil; Fixed vegetable fats and oils, crude, refined, fractionated.; Mechanical handling equipment, and parts, n.e.s.; Cotton fabrics, woven	Processed Food, Electricity, Plastic and Allied Products, Synthetic Fibre and Fabric, Chemical and Fertilizers, Garments, Construction, Machinery
Kenya	Swaziland, Rwanda, Ghana, Lesotho, Sudan	Petroleum oils or bituminous minerals > 70 % oil; Tea and mate; Lime, cement, fabricated construction material (excluding glass, clay); Articles, n.e.s., of plastics; Soaps, cleansing and polishing preparations	Electricity, Plastic and Allied Products, Synthetic Fibre and Fabric, Chemical and Fertilizers, Processed Food, Beverages, Construction, Plastic Products, Consumer Products

Lesotho	Botswana, Mauritius, Djibouti, Swaziland, Tunisia	Apparatus for electrical circuits; board, panels; Footwear; Non-alcoholic beverages, n.e.s.; Men's clothing of textile fabrics, not knitted; Wool and other animal hair (incl. wool tops)	Electrical and Electronics, Garments, Beverages, Consumer Products
Liberia	Congo, Seychelles, Namibia, Equatorial Guinea, Gabon	Petroleum oils or bituminous minerals > 70 % oil; Ships, boats and floating structures; Natural rubber and similar gums, in primary forms; Aircraft and associated equipment; spacecraft, etc.; Liquefied propane and butane	Electricity, Plastic and Allied Products, Synthetic Fibre and Fabric, Chemical and Fertilizers, Tyre
Libya	Côte d'Ivoire, South Africa, Senegal, Morocco, Tunisia	Petroleum oils, oils from bituminous materials, crude; Liquefied propane and butane; Petroleum oils or bituminous minerals > 70 % oil; Flat-rolled prod., iron, non-alloy steel, not coated; Fertilizers (other than those of group 272)	Electricity, Plastic and Allied Products, Synthetic Fibre and Fabric, Chemical and Fertilizers, Steel Products
Madagascar	Djibouti, Swaziland, Namibia, Sudan, Libya	Articles of apparel, of textile fabrics, n.e.s.; Men's clothing of textile fabrics, not knitted; Miscellaneous no-ferrous base metals for metallurgy; Ores and concentrates of base metals, n.e.s.; Spices	Garments, Metal and Metal Products, Food Products
Malawi	Gambia, Sudan, Somalia, Djibouti, Mauritania	Tobacco, unmanufactured; tobacco refuse; Oil seeds and oleaginous fruits (excluding flour); Tea and mate; Civil engineering and contractors' plant and equipment; Feeding stuff for animals (no unmilled cereals)	Processed Food, Beverages, Construction, Machinery
Mali	Zimbabwe, Burundi, Malawi, Egypt, South Africa	Gold, non-monetary (excluding gold ores and concentrates); Fertilizers (other than those of group 272); Live animals other than animals of division 03; Petroleum oils or bituminous minerals > 70 % oil; Cotton	Gems and Jewellery, Cotton Fabric and Garments, Electricity, Plastic and Allied Products, Synthetic Fibre and Fabric, Chemical and Fertilizers, Processed Food, Leather
Mauritania	Zambia, Cameroon, Côte d'Ivoire, South Africa, Morocco	Fish, fresh (live or dead), chilled or frozen; Feeding stuff for animals (no unmilled cereals); Petroleum oils or bituminous minerals > 70 % oil; Paper and paperboard, cut to shape or size, articles; Motor vehicle for transport of goods, special purpose	Electricity, Plastic and Allied Products, Synthetic Fibre and Fabric, Chemical and Fertilizers, Processed Food, Paper and Paper Products, Automotive
Mauritius	Djibouti, Somalia, Liberia, Madagascar, South Africa	Articles of apparel, of textile fabrics, n.e.s.; Men's clothing of textile fabrics, not knitted; Knitted or crocheted fabrics, n.e.s.; Textile yarn; Cotton fabrics, woven	Textile and Garments
Morocco	Zimbabwe, Malawi, Libya, Swaziland, DR Congo	Fertilizers (other than those of group 272); Fish, aqua. invertebrates, prepared, preserved, n.e.s.; Motor vehicles for the transport of persons; Equipment for distributing electricity, n.e.s.; Fish, fresh (live or dead), chilled or frozen	Chemical and Fertilizers, Processed Food, Automotive, Machinery, Electricity

Mozambique	Morocco, Egypt, Senegal, Mauritania, Tunisia	Natural gas, whether or not liquefied; Petroleum oils or bituminous minerals > 70 % oil; Electric current; Coal, whether or not pulverized, not agglomerated; Fertilizers (other than those of group 272)	Electricity, Plastic and Allied Products, Synthetic Fibre and Fabric, Chemical and Fertilizers
Namibia	Botswana, Seychelles, Mauritius, Congo, Equatorial Guinea	Pearls, precious and semi-precious stones; Fish, fresh (live or dead), chilled or frozen; Ships, boats and floating structures; Alcoholic beverages; Live animals other than animals of division 03	Gems and Jewellery, Processed Food, Beverages, Leather
Niger	Sierra Leone, Togo, Central African Republic, Saint Helena, United Republic of Tanzania	Petroleum oils or bituminous minerals > 70 % oil; Vegetables; Liquefied propane and butane; Live animals other than animals of division 03; Animal or veg. oils and fats, processed, n.e.s.;	Electricity, Plastic and Allied Products, Synthetic Fibre and Fabric, Chemical and Fertilizers, Processed Food, Leather
Nigeria	Côte d'Ivoire, South Africa, Senegal, Morocco, Cameroon	Petroleum oils, oils from bituminous materials, crude; Petroleum oils or bituminous minerals > 70 % oil; Ships, boats and floating structures; Tobacco, manufactured; Liquefied propane and butane	Electricity, Plastic and Allied Products, Synthetic Fibre and Fabric, Chemical and Fertilizers, Processed Food
Rwanda	Gambia, Sao Tome and Principe, Cabo Verde, Guinea-Bissau, Angola	Petroleum oils or bituminous minerals > 70 % oil; Ores and concentrates of base metals, n.e.s.; Coffee and coffee substitutes; Meal and flour of wheat and flour of meslin; Tea and mate	Electricity, Plastic and Allied Products, Synthetic Fibre and Fabric, Chemical and Fertilizers, Processed Food, Beverages
Saint Helena	Mauritius, Seychelles, Chad, Nigeria, Cameroon	Aircraft and associated equipment; spacecraft, etc.; Fertilizers (other than those of group 272); Mechanical handling equipment, and parts, n.e.s.; Apparatus for electrical circuits; board, panels; Motor vehicle for transport of goods, special purpose	Electrical and Electronics, Machinery, Automotive
Sao Tome and Principe	Angola, Tunisia, Ghana, Rwanda, Burundi	Fruits and nuts (excluding oil nuts), fresh or dried; Oil seeds and oleaginous fruits (incl. flour, n.e.s.); Flat-rolled prod., iron, non-alloy steel, coated, clad; Ships, boats and floating structures; Manufactures of base metal, n.e.s.	Processed Food, Metal and Metal Products, Machinery, Automotive
Senegal	Mauritius, Seychelles, Guinea-Bissau, Mali, Burkina Faso	Petroleum oils or bituminous minerals > 70 % oil; Lime, cement, fabricated construction material (excluding glass, clay); Edible products and preparations, n.e.s.; Fish, fresh (live or dead), chilled or frozen; Tobacco, manufactured	Electricity, Plastic and Allied Products, Synthetic Fibre and Fabric, Chemical and Fertilizers, Processed Food, Beverages, Construction
Seychelles	Mauritius, Nigeria, Ghana, Madagascar, Egypt	Fish, fresh (live or dead), chilled or frozen; Mechanical handling equipment, and parts, n.e.s.; Feeding stuff for animals (no unmilled cereals); Photographic apparatus and equipment, n.e.s.; Fish, aqua. invertebrates, prepared, preserved, n.e.s.	Processed Food, Construction, Machinery

Sierra Leone	Botswana, Namibia, Mauritius, Libya, Nigeria	Pearls, precious and semi-precious stones; Ferrous waste, scrape; remelting ingots, iron, steel; Mechanical handling equipment, and parts, n.e.s.; Civil engineering and contractors' plant and equipment; Articles, n.e.s., of plastics	Steel and Steel Products, Gems and Jewellery, Plastic Products, Machinery, construction
Somalia	Djibouti, Egypt, South Africa, Liberia, Burundi	Office machines; Radio-broadcast receivers, whether or not combined; Crude vegetable materials, n.e.s.; Mechanical handling equipment, and parts, n.e.s.; Civil engineering and contractors' plant and equipment	Machinery, Electrical and Electronics, Processed Food, Construction
South Africa	Namibia, Egypt, Ghana, Libya, Botswana	Petroleum oils or bituminous minerals > 70 % oil; Motor vehicle for transport of goods, special purpose; Pearls, precious and semi-precious stones; Civil engineering and contractors' plant and equipment; Motor vehicles for the transport of persons	Electricity, Plastic and Allied Products, Synthetic Fibre and Fabric, Chemical and Fertilizers, Machinery, Gems and Jewellery, Automotive, Construction
Sudan	Côte d'Ivoire, South Africa, Senegal, Cameroon, Morocco	Petroleum oils, oils from bituminous materials, crude; Petroleum oils or bituminous minerals > 70 % oil; Oil seeds and oleaginous fruits (excluding flour); Live animals other than animals of division 03; Cereals, unmilled (excluding wheat, rice, barley, maize)	Electricity, Plastic and Allied Products, Synthetic Fibre and Fabric, Chemical and Fertilizers, Processed Food, Leather
Swaziland	Somalia, Egypt, Sudan, Djibouti, Mauritius	Essential oils, perfume and flavour materials; Miscellaneous chemical products, n.e.s.; Pulp and waste paper; Sugar, molasses and honey; Carboxylic acids, anhydrides, halides, per.; derivative	Consumer Products, Confectionery, Chemical and Fertilizers, Paper and Paper Products
Togo	Burundi, Comoros, Gabon, Guinea-Bissau, Ghana	Lime, cement, fabricated construction material (excluding glass, clay); Petroleum oils or bituminous minerals > 70 % oil; Electric current; Ships, boats and floating structures; Residual petroleum products, n.e.s., related mater.	Construction, Electricity, Plastic and Allied Products, Synthetic Fibre and Fabric, Chemical and Fertilizers
Tunisia	South Africa, Morocco, Cameroon, Senegal, Kenya	Lime, cement, fabricated construction material (excluding glass, clay); Metallic salts and peroxysalts, of inorganic acids; Paper and paperboard, cut to shape or size, articles; Fruits and nuts (excluding oil nuts), fresh or dried; Structures and parts, n.e.s., of iron, steel, aluminium	Construction, Chemicals and Allied Products, Paper and Paper Products, Processed Food, Steel Products, Machinery, Automotive
Uganda	Rwanda, Burundi, Niger, DR Congo, Djibouti	Lime, cement, fabricated construction material (excluding glass, clay); Coffee and coffee substitutes; Tea and mate; Sugar, molasses and honey; Animal or veg. oils and fats, processed, n.e.s.;	Construction, Confectionery, Processed Food, Beverages
United Republic of Tanzania	Namibia, Mauritius, Swaziland, Egypt, Sudan	Gold, non-monetary (excluding gold ores and concentrates); Fixed vegetable fats and oils, crude, refined, fractionated; Tobacco, manufactured; Made-up articles, of textile materials, n.e.s.; Maize (not including sweet corn), unmilled	Gems and Jewellery, Processed Food, Textile and Garments

Zambia	DR Congo, Zimbabwe, Namibia, Swaziland, Lesotho	Inorganic chemical elements, oxides and halogen salts; Copper; Sugar, molasses and honey; Lime, cement, fabricated construction material (excluding glass, clay); Gold, non-monetary (excluding gold ores and concentrates)	Gems and Jewellery, Confectionery, Construction, Electrical and Electronics, Chemical and Fertilizer
Zimbabwe	DR Congo, Botswana, Namibia, Mauritius, Niger	Electric current; Tobacco, unmanufactured; tobacco refuse; Gold, non-monetary (excluding gold ores and concentrates); Nickel ores and concentrates; nickel mattes, etc.; Wood simply worked, and railway sleepers of wood	Steel and Steel Products, Electricity, Processed Food, Furniture, Gems and Jewellery

Source: UNCTAD, Exim Bank Research

There are two major categories of GVCs—producer driven and buyer driven. Producer-driven GVC have high barriers of entry as these involve high capital and technology intensive production. These value chains are mostly coordinated by lead firms who control the design of products, as well as the assembly which is usually fragmented across geographies. Buyer-driven GVC, on the other hand tend to have low barriers to entry, and the focus in this case is on marketing and sales. Retailers and branded marketers influence the production in case of buyer-driven GVCs. As medium and high technology sectors are dominated by producer-driven GVCs, formation of RVCs in sectors such as automotive will require creation of an enabling environment for setting up of production by lead firms.

STRATEGIES

Regional Value Chain Development Agenda

Foreign investments are indispensable for creation of regional and global value chains. The low share of intra-regional FDI in total inward FDI for the continent is therefore a matter of concern. As infrastructural deficiencies are a reality, intra-regional investments can first be incentivised at the REC level, and then be scaled up for the entire continent as transportation and transaction costs gradually decline at the back of policy and investment measures. The firms in RVCs can then gradually integrate into the GVCs, once they gain experience by accessing similar and easily accessible African markets. Micro, Small and Medium Enterprises (MSMEs) are more likely to succeed in regional markets where the competition is lower and buyer's taste and preferences are better known.

RECs can identify opportunities for value chains and recognize current policy bottlenecks which inhibit intensive value chain engagements. Based on this, a comprehensive regional value chain development agenda can be formulated in close consultation with key stakeholders, including the private sector. The agenda should be developed based on a rigorous assessment of local markets, connectivity, industrial base, existing supply chains, business environment, and availability of land and labour. The agenda should also include a thorough assessment of broad policies and procedures which inhibit private investment in the countries.

Capacity Building of Special Economic Zones in Africa

Globally, Special Economic Zones (SEZs) have been used as a strategic tool for incentivizing foreign investments. Units in SEZs benefit on account of easier clearance procedures, lesser control, stable business environment, and fiscal benefits. According to Brautigam et al (2010), nearly 60 percent of African countries have special economic zone (SEZ) programmes[32]. The Chinese Government has provided assistance in establishment of many of these SEZs in countries such as Algeria, Egypt, Ethiopia, Mauritius, Nigeria and Zambia. Evidence suggests that Chinese SEZ has allowed Egypt to move up on the oil and gas value chain, and the country currently manufactures petroleum drilling rigs and related components for use by international oil companies operating in the country[33]. Other than China, several other subnational entities and private players have also engaged in establishment of SEZs in Africa.

However, most of the African SEZs have been not so successful in achieving the desired results on account of the inadequacy of the incentives to attract investors. The general investment climate in the countries adversely impacts the investor perception and discourages investment even in the SEZs. The linkages between export oriented units in SEZs and local firms is also low on account of the pronounced dichotomy of regulations and tax regimes within the national boundary. This has been particularly noted in the case of Tunisia (Box 3).

[32]Brautigam, D., T. Farole and X. Tang (2010), "China's investment in African special economic zones: prospects, challenges, and opportunities", World Bank

[33]Global Value Chains and Africa's Industrialisation, African Economic Outlook 2014

Box 3: Analysis of Tunisian Policies for Integration in Global Value Chain

Tunisia is well integrated into the European production networks and the trade linkages are fairly well-established between the export sector of the country and the markets of Europe. The export sectors of textiles and apparel, electrical machinery, business services and tourism have benefitted significantly on account of these linkages.

The association accord signed by Tunisia with the EU in 1995, led to the establishment of a free-exchange zone between the two parties, which took effect on 1 January 2008 for industrial products. The national programme for industrial upgradation at the end of 1990s allowed the domestic industries in Tunisia to become competitive and enabled their integration into the GVCs. Several international donors also set up branches in the country and/or developed subcontracting agreements, thereby enhancing the engagement of Tunisian companies with the global economy.

In 2013, there were 2614 wholly exporting enterprises in the country, with a significant number of them engaged in textile and clothing, and electrical, engineering and electronics industry. Since early 2000s, development of ICT has also enabled the growth of new service activities in the country, and further integrated Tunisia into GVCs.

This development model has led to substantial exports and job creation. However, the impact of this model on the domestic economy has been limited. The job creation has been in activities with little value added and involved unskilled personnel. More significantly, strict regulations pertaining to onshore and offshore sectors, have led to development of export activities in isolation with the broader domestic economy, thereby limiting the potential for further upgradation and employment creation. The model has also not encouraged technology transfers and upward movement in the value chain. On the contrary, level of sophistication of Tunisian exports has been declining for several years. It has also led to regional disparities as majority of exporters are located near the logistic export zones (ports and airports).

Source: Global Value Chains and Africa's Industrialisation, African Economic Outlook 2014

While the SEZs in African continent have achieved little success, they remain realistic vehicles for establishing the much needed RVCs in the African continent. For SEZs to provide a holistic enabling environment for exporting units, Governments should focus on the following aspects:

- Strategy for SEZ development needs to be developed at the national level, which should be in consonance with the regional value chain development agenda of the RECs. Priority sectors defined in the agenda should receive focus in the SEZ programs initiated at the national level.
- A sound legal and regulatory framework is considered a necessity. The framework should clearly define the roles and responsibilities of various stakeholders, and the mechanism for protection of interests of developers and investors.
- As per research, SEZs implemented by private sector perform better than the Government-led SEZs. Private sector participation should therefore be encouraged in planning, development and operation of such zones.
- Benefits available in SEZs, especially those pertaining to administrative and procedural simplifications should gradually be made available in the rest of the country as well. According to Zeng (2015), developing countries often cannot create enabling infrastructure and business environment nationwide all at once. A pilot approach is therefore essential at the initial stages , and SEZs can serve as an effective vehicle in this process[34].

[34]Douglas Zhihua Zeng (2015), Why are more countries embracing industrial zones?, World Bank

- These zones should have linkages with the rest of the economy and leverage the country's comparative advantages. Linkages with MSMEs can generate substantial spill over effects.

Overcoming Barriers to Trade

As noted in Chapter 1 of the Study, the share of intra-regional trade in Africa's total trade has not changed much over the past two decades. A host of reasons including tariffs, border inefficiencies, weak infrastructure, and non-tariff barriers have inhibited the realisation of full potential for trade in the continent. Trade policy reforms and trade facilitation can alleviate some of the constraints.

Although tariffs are lower and more transparent in the continent, there is substantial scope for further reduction. Reduction of tariff barriers can enhance intra-regional integration. There is high modularity in some value chains such as automotive, metals, textiles and garment, leather and footwear, as a result of which the production process is highly fragmented and requires multiple cross-border movements. The effect of tariffs is therefore amplified in these value chains. For countries to form efficient RVCs in these segments, tariff reforms will be critical.

In Africa, some of the RECs such as EAC have substantially reduced barriers to trade. However, tariffs are relatively higher for intra-regional trade than for trade with rest of the world. Countries can benefit significantly from tariff reduction/ removal at the regional level. According to OECD estimates, countries of DR Congo, Cameroon, Djibouti, Rwanda and Nigeria would benefit the most from trade policy reforms[35]. Further, GVC participation of North African countries of Morocco and Tunisia can increase by 15 percent or more if trade policies are further liberalized in these countries.

Non-tariff barriers (NTB) are also a major impediment for regional trade in Africa. NTBs such as inefficient customs and administrative procedures, non-harmonized regulations, weak infrastructure add much more to trade costs than tariffs. While tariffs are estimated to account for 0-10 percent of total trade costs, and physical trade another 10-30 percent, non-tariff related costs account for nearly 60-90 percent of the costs[36].

Tripartite Free Trade Area

A major step taken by African countries in reducing the barriers to trade is the signing of the agreement for establishing the Tripartite Free Trade Area (TFTA), and ongoing negotiations for establishment of the Continental Free Trade Area (CFTA). Comprising the RECs of COMESA, EAC and SADC, the TFTA will be the largest free trade area in Africa once the requisite number of members ratify the agreement. The TFTA agreement acknowledges that intensification of trade linkages in the African continent hinge not only on tariff liberalisation but also on addressing issues pertaining to rules of origin, NTBs and trade facilitation.

The NTB mechanism under the TFTA is already operational and enables stakeholders to report and monitor the resolution of barriers encountered as they conduct their business in the countries covered under the TFTA. It enhances transparency and allows expeditious follow-up of reported and identified NTBs. This web-based reporting, monitoring and eliminating mechanism of NTBs is accessible to economic operators, government functionaries, academic researchers and other stakeholders.

One-stop border posts (OSBP) have also been proposed under the TFTA. These will enhance trade facilitation by reducing the number of stops incurred in a cross border trade transaction by combining the activities of countries' border organizations at a single location with simplified procedures and joint processing and inspections, where feasible. The Chirundu OSBP is a pilot trade facilitation project initiated by the COMESA-EAC-SADC tripartite in December 2009 through a Bilateral Agreement between Zimbabwe and Zambia. It is the first functioning OSBP in Africa and has rendered substantial economic gains.

[35]Participation of Developing Countries in Global Value Chains: Implications for Trade and Trade-Related Policies. OECD Trade Policy Paper No. 179

[36] Africa Competitiveness Report 2015

The wait time for commercial traffic has dropped from 3-5 days to same day clearances. Other countries in the region should draw lessons from this for embarking upon similar initiatives. This shall improve efficiency and thereby create a favourable environment for RVCs.

The TFTA Agreement will clearly provide an impetus to the process of formation and strengthening of RVCs in the African continent. However, the agreement requires 14 ratifications to enter into force, and is still far from the mark. The TFTA will serve as a stepping stone for the CFTA which will have a far wider impact on trade integration in the continent.

Informal Cross Border Trade

The large informal cross border trade (ICBT) in Africa has implications for production and trade networks. While there is no universal definition of ICBT, it is usually referred to legitimately produced goods and services, which escape regulatory framework for taxation and other procedures set by the Government, and often go unrecorded or incorrectly recorded in the official national statistics of countries. According to Afrika and Ajumbo (2012), in West Africa, informal cross border trade is estimated to range from 20 percent of GDP in Nigeria to 75 percent in Benin. ICBT is particularly pervasive in the trade of agricultural goods and petroleum products. ICBT further accounts for nearly 30-40 percent of intra-SADC trade[37]. ICBT is relatively more discernible in East Africa than other parts of the continent. According to Informal Cross Border Trade Report 2014 by the Bank of Uganda and Uganda Bureau of Statistics, informal trade during 2014 was nearly 20 percent of the formal trade by the country during the year. Presence of ICBT not only reduces revenue collection of national Governments, but also impacts the planning and decision making process. Therefore, their formalization should be a priority area for Governments

An essential first step for African countries should be to outline a common definition of what constitutes the informal sector and estimate the size of informal trade across borders. This shall aid formulation of national policy for formalizing the informal trade links. Tariff liberalization and trade facilitation can further assist this process.

Trade Finance

Trade finance and financial intermediation assists firms in managing risks associated with international trade, while concomitantly improving their liquidity positions and enabling further investments for enhancing growth. Access to trade finance is a major constraint for firms operating in Africa.

According to the AfDB, the market for bank intermediated trade finance in African countries is close to US$ 330-350 billion, with the trade finance gap being close to US$ 110-120 billion[38]. Other estimates peg the financing gap at US$ 225 billion a year. There are several reasons for this large unmet demand for trade finance, the lack of US dollar liquidity and limited financing capacity of banks being the chief ones. The shortage of financing is even more acute in case of MSMEs on account of limited collateral guarantees provided by these units. Close to half of the MSMEs firms in Sub-Saharan Africa turn to informal financial providers to finance transactions that were rejected by formal banking system[39]. This unmet demand for trade finance through the formal banking system in Africa is hindering the development of production and export capacities in the continent.

Several multilateral institutions have played an important role in alleviating some of these constraints. The trade finance facilitation programmes of institutions such as the AfDB, European Bank for Reconstruction and Development, IFC and Inter-American Development Bank have provided much needed risk mitigation support in Africa. However, this alone is insufficient for meeting the existing gaps.

Capacity building of banks and structural reforms in the banking system can be the medium to long term strategy for meeting the trade finance gap in the

[37]Jean-Guy K. Afrika and Gerald Ajumbo (2012), Informal Cross Border Trade in Africa: Implications and Policy Recommendations, Africa Economic Brief, AfDB

[38]Trade Finance in Africa, AfDB, December 2014

[39]Trade Finance Gaps, Growth and Jobs Survey, Asian Development Bank, 2016

continent. New and innovative mechanisms will also be required to bridge this trade financing gap. An innovative mode for addressing trade finance concerns is the warehouse receipt finance. It can be used for pre-shipment financing in the agriculture sector. Under this mechanism, producers/ traders of agricultural products can avail of finance by using warehouse receipts, issued against commodities deposited in licensed warehouses, as collateral. There are three models for financing under this mode—collateral management agreements model, targeted farmer groups model, and the regulated warehouse receipt model.

Under a collateral management agreements model, a tripartite collateral management agreement is entered by the bank, the borrower and the independent collateral manager, which is an inspection company assuming the role of a warehouse operator. Borrowers deposit their stocks in owned/leased warehouses. The control of the warehouses is then passed on to the collateral managers for a fee. The collateral manager in turn issues warehouse receipt for the stored commodities. The collateral manager provides a guarantee to hold the stock with insurance against stock losses. Such a system is largely used by large scale borrowers for financing their trade transactions. They have limited role in strengthening access to trade finance by farmers and small scale producers.

The targeted farmer groups model is a model promoted by donors and NGOs. Under this, warehouses with low capacities are constructed in villages and managed by farmer groups. The warehousing operations are monitored under the NGO/donor funded project, and guarantees are offered to banks and microfinance institutions for up to 100 percent of the value of credit. This model allows small producers and farmers to access credit. However, the model suffers from sustainability issues as it requires high level of supervision by NGOs. As a result, the scope of the programmes is usually limited to select farmer groups. Moreover, as these warehouse receipts are not transferable, they cannot be used to facilitate trade transactions.

The third model of regulated warehouse receipt is already being used in several African countries such as Tanzania, Malawi, Uganda and Zambia. In Tanzania, farmers, traders and companies sell their produce through rural cooperative societies, and are issued with receipts against their produce. These depositors then avail loan of nearly 50-80 percent of the value of the commodity, based on the warehouse receipts. The model can be emulated in other African countries as well. Adoption of this model necessitates warehouse legislation and establishment of competent regulatory authorities, and therefore the commitment of National Governments will be crucial in this regard.

Factoring can also be used as an instrument for trade finance in Africa. Jones (2010) defines factoring as a traditional product which allows suppliers to pre-finance its receivables whereby the factor pays a percentage of the face value of the receivables based upon its assessment of the credit risk and the underlying payment terms[40]. Several developing countries have used factoring facilities for improving access to finance for smaller suppliers. In Mexico, for example, the Cadenas Productivas program provides cash against receivables via a secure and online technology platform.

Payment Systems

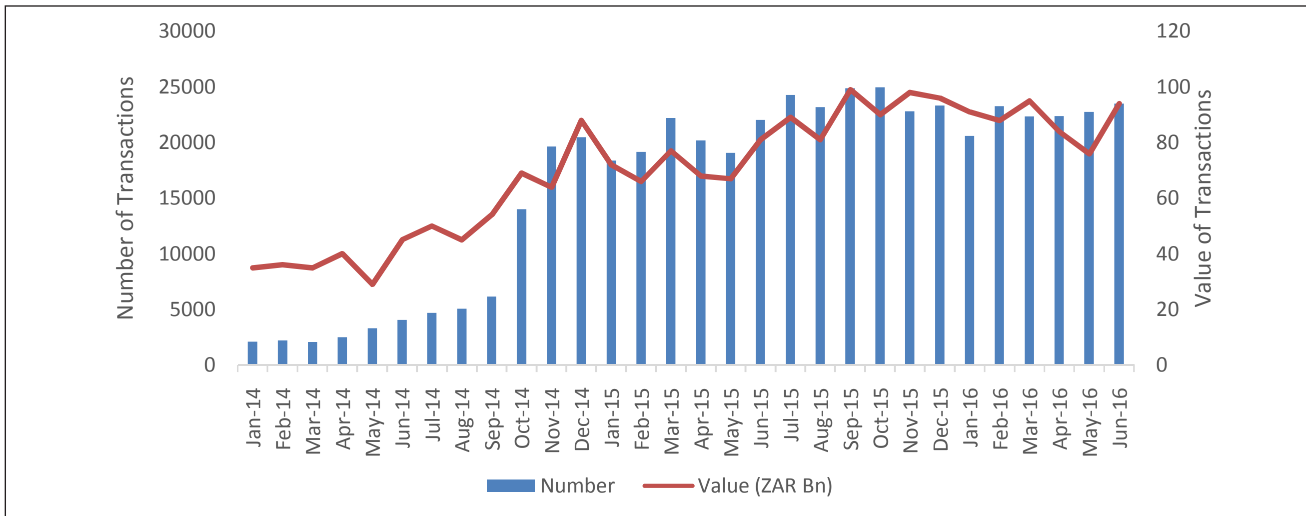
Effective cross-border payment systems can provide an impetus to intra-regional trade in Africa. Such payment systems promote economic efficiency and reduce settlement risk, thereby encouraging producers to intensify trade engagements. Several RECs have taken steps towards upgrading payment systems, either by linking various national payment systems in a network or by setting up specific clearing and settlement mechanism dedicated to cross-border transactions.

The countries of Kenya, Tanzania, Uganda and Rwanda in the EAC region have implemented a multicurrency regional payment system interlinking their national payment systems. The payment system facilitates cross border fund transfers and thereby supports the trade of goods and services.

The SADC countries have also been working towards regional payment system, and the SADC Banking

[40]Jones (2010), Trade Credit Insurance, World Bank

Exhibit 3.5: Number and Value of Transactions settled through SIRESS



Source: SIRESS Settlement Statistics and Indicator for June 2016, Exim Bank Research

Association acts as a platform for the countries to work together towards this end. The first phase of the SADC Integrated Regional Electronic Settlement System (SIRESS) has already been completed and the System has been in use by South Africa, Lesotho, Namibia and Swaziland since July 2013. Participants in SIRESS include Central Banks and financial institutions in SADC countries that are authorised by their Central Bank to participate in the settlement system. This system allows for settlement of payment transaction at a central location using Rand as the settlement currency. The number and value of transactions settled through SIRESS has remained range bound over the past few months (Exhibit 3.5), and creates a case for awareness and capacity building programs for enhancing the usage of the platform.

The ECOWAS Monetary Cooperation Programme had also proposed the formation of a West African Monetary Zone (WAMZ). The WAMZ programme aims to increase trade among the ECOWAS/WAMZ member countries, decrease transaction costs, simplify cross-border transactions through the use of a single currency, develop safe, secure and efficient payment systems, and build a payment system that will facilitate monetary policy management for the WACB. A grant of US$ 30 million was approved by the AfDB for the WAMZ payments system development project for upgrading the payment systems in Gambia, Guinea, Sierra Leone and Liberia, and these countries have made substantial progress towards development of regional payment system.

The COMESA has also launched a regional payment and settlement system (REPSS) to facilitate cross-border payments and settlement among Central Banks in the COMESA region.

The WAEMU has a single central bank— Banque Centrale des Etats de l'Afrique de l'Ouest, which had launched a regional Real Time Gross Settlement System (RTGS) in 2004 and a regional Automatic Clearing House (ACH) in 2008. The Central Bank of Central African States also launched a regional RTGS system in 2007 as part of a project for upgradation of payment and financial systems.

There has been varying level of progress across RECs towards establishment of efficient cross border payment systems. In RECs such as the AMU, there have been no initiatives for such payment systems. Even the models adopted by various RECs are not uniform. Therefore, there is a need for more coordinated efforts amongst RECs for ensuring lesser incongruity in transactions across RECs. Further, there is a need to increase awareness about these payment systems amongst bankers and exporters, so that greater levels of trade can be routed through these channels. Capacity building programs can be organized by Central Banks of respective countries for this purpose.

4. Financial Integration

Regional financial integration refers to development and expansion of financial linkages within a region, either through market-driven factors or at the back of institutionalised processes. Financial integration is often associated with macroeconomic growth and stability in economies. It allows countries to borrow funds in times of economic distress and lend in better times, thereby leading to consumption smoothing and ensuring macroeconomic stability. It also enables investors to diversify their risks, and is especially relevant in the context of countries where domestic markets provide lesser opportunity for asset diversification.

Financial integration also has positive implications for the manufacturing sector. It provides a larger pool of funds for domestic firms and consequently boosts domestic investments. It also enhances FDI flows and leads to associated spill over benefits. This is especially relevant in the African context as the intra-regional FDI still accounts for only a small share of the total FDI inflows in the continent (Exhibit 4.1). Regional financial integration also has advantages for MSME units. As integrated financial markets lead to diversification of risks, lenders are more comfortable in lending to MSMEs.

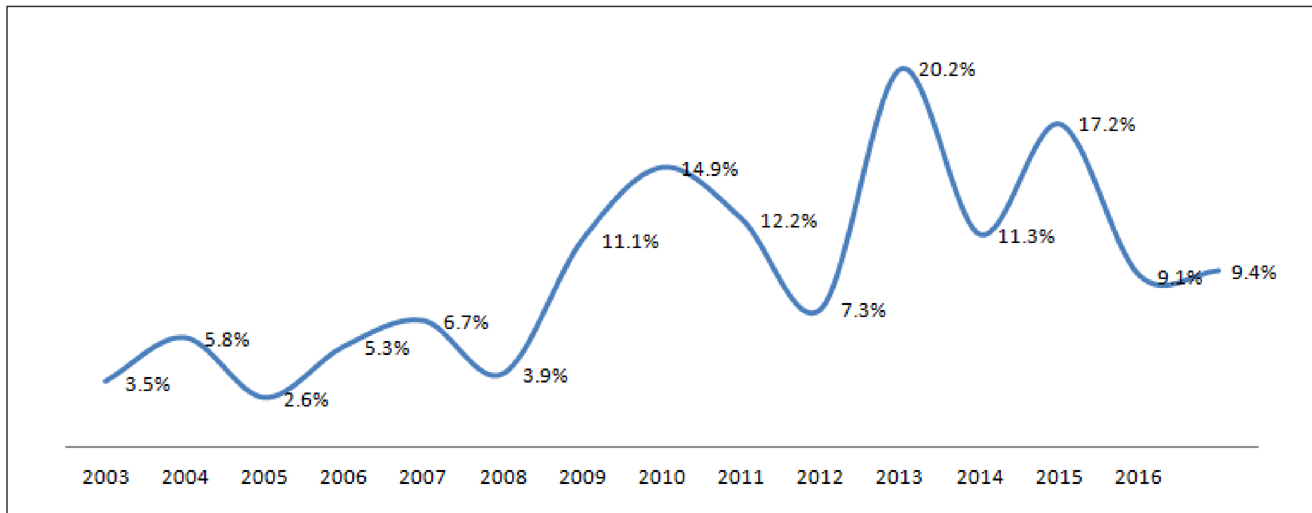
Most economies in Africa have small and fragmented financial markets, and could benefit from financial integration. However, achieving this objective has its own set of challenges and would entail interventions in the financial sector infrastructure comprising framework of laws, regulations, supervision and institutions. Strengthening the infrastructure for payment systems, and regulatory and supervisory mechanisms can help achieve economies of scale. Harmonization of the legal framework can facilitate operation of firms outside their national boundaries, thereby creating additionality. While some progress has been made towards financial integration in Africa, a lot more needs to be done. The following sections of this chapter highlight the current status of financial integration in Africa and outline a broad set of strategies that could facilitate closer financial integration within the continent.

STATUS OF REGIONAL FINANCIAL INTEGRATION

Monetary Integration

Monetary unions can be categorized into three types, each involving current and capital account convertibility, but having a different structure—informal exchange rate union, formal exchange rate union and a full monetary union. An informal exchange rate union is

Exhibit 4.1: Share of Intra-Regional FDI in Total FDI Inflows of Africa



Source: fDi Markets

one in which countries have separate currencies and their parities are fixed but only within margins. A formal exchange rate union also has separate currencies but the rates fluctuate within very close or zero margins. Such a system entails high degree of coordination among the Central Banks. A full monetary union is the highest form of integration. It involves a single currency and supervision by a single central bank.

Several regional monetary integration initiatives already exist in the African continent involving one or the other forms of monetary integration, while some others are currently under deliberation. The Common Monetary Area (CMA) based on the South African Rand is a formal exchange rate union, comprising the countries of South Africa, Namibia, Lesotho and Swaziland. There are two full monetary unions as well, namely the WAEMU and CEMAC.

The EAC had also signed the East African Monetary Union (EAMU) protocol in November 2013 which lays the groundwork for a monetary union within 10 years of its adoption. The protocol envisions the gradual convergence of the currencies of EAC member countries into a single currency as part of the integration process.

Select West African countries also created the WAMZ in April 2000 with the goal of establishing an economic and monetary union of the member countries. In 2001, a West African Monetary Institute (WAMI) was also created by the WAMZ to undertake preparatory activities for the establishment of the West African Central Bank (WACB), and the subsequent initiation of a monetary union. However, member countries have been unable to meet the convergence criteria. There has also been unsatisfactory adherence to the requisite macroeconomic performance. As a result, the implementation of the new monetary union has been postponed several times over the past decade.

Capital Markets Integration

Capital market integration allows investors to mobilize resources across borders and leads to efficient allocation of capital across the region. There are several stock exchanges in the African continent which present an opportunity for regional integration. With a market capitalization of more than US$ 1 trillion, the Johannesburg Stock Exchange is the oldest stock exchange in the African continent. It is the largest exchange in Africa and is supported by a robust and efficient regulatory system. In fact, South Africa ranked third in terms of regulation of securities exchanges in the World Economic Forum's Global Competitiveness Survey 2016-17.

Other than South Africa, there are several medium sized stock exchanges in the countries of Egypt, Nigeria, Zimbabwe, etc. Some new exchanges such as the Botswana Stock Exchange have also witnessed rapid and robust growth. A comparative assessment of some of these exchanges indicates the diversity in the capital markets of countries (Table 4.1). The market capitalization of listed domestic companies in the exchanges taken into consideration range from 0 - 234 percent of the GDP of the respective countries.

Several initiatives for capital market integration are already underway in the continent. The *Bourse Régionale des Valeurs Mobilières* (BVRM), which covers eight West African countries, is the only fully integrated regional capital market in Africa. Beginning operations in 1998, the BVRM's operations are much smaller than many of the large and medium size exchanges in the continent. It has little impact on the liquidity situations and had only 71 listed companies in 2014. Other regional initiatives include the formulation of a strategy for development of an integrated real time network of securities markets within the SADC by the Committee of SADC stock exchanges. The Committee has achieved harmonization of listing rules in the countries.

Initiatives have also been taken to integrate angel investors in the continent. The African Business Angel Network (ABAN) is a non-profit association which supports the development of early stage investor networks in Africa. The ABAN began as a consortium of independent investor networks including the Lagos Angels Network, Cameroon Angel Network, Ghana Angel Network, Venture Capital for Africa, Silicon Cape, and was supported by the European Business Angel Network, the LIONS Africa Partnership and DEMO Africa. The objective for setting up the association was

Table 4.1: Comparative Statistics of Select Stock Exchanges in Africa

Country	Year	Total Listed Domestic Companies	Market Capitalization of Listed Domestic Companies (US$ Mn)	Market Capitalization (% of GDP)	Value of Stocks Rraded (US$ Mn)
Egypt	2015	250.0	33323.0	16.7	14760.1
Kenya	2011	58.0	10202.6	24.3	917.3
Mauritius	2015	71.0	7568.3	62.0	460.8
Malawi	2012	14.0	753.6	12.6	16.1
Namibia	2011	6.0	1.2	0.0	12.8
Nigeria	2015	183.0	29792.4	10.3	4084.9
Tunisia	2011	57.0	9662.0	21.1	1050.7
Uganda	2012	10.0	7294.1	31.0	11.3
Zambia	2011	20.0	3184.5	13.6	20.5
South Africa	2015	316.0	951320.3	234.0	233988.4

Source: World Federation of Exchanges database, World Development Indicators

not only to support new investors and new networks, but also to connect the African investors with the global counterparts and create synergies in their operation.

Institutional Framework

The role of integration of institutional framework in the overall financial integration process cannot be overemphasized. The two major facets of institutional framework are financial infrastructure and the legislative framework. Integration of the financial infrastructure and harmonization of legislative framework are prerequisites for an effective financial integration.

According to IFC, financial infrastructure comprises the underlying foundation for a financial system and includes all institutions, information, technologies and rules and standards which enable financial intermediation. Integration of financial infrastructure involves involves merger of payment systems, credit information bureaus and collateral registries[41]. This leads to cost savings and ensures greater efficiency.

Several RECs have achieved varying levels of success in integration of payment systems, as elucidated in Chapter 3 of the current Study. Progress with regard to collateral registries has been less encouraging. Collateral registries are important tools for overcoming the lending constraints, especially in the context of new entrepreneurs with limited or no credit history. However, only a few African countries such as Ghana, Liberia, Malawi and Nigeria have collateral registry systems. Given their importance in improving access to finance, there is a need for National Governments to launch such systems and ensure their regional integration.

Credit information bureaus are also an important part of the financial infrastructure in countries. They collect information pertaining to a borrower's obligations from various sources and produce a comprehensive credit report which can be referred by potential lenders. These are critical for overcoming information asymmetries in financial markets as they help lenders in correct assessment of risk profiles. Several African countries have reformed the credit information systems and credit reporting systems have been developed. However, the relatively smaller size of credit markets in the African countries hinders the progress of credit information systems as credit bureaus rely on economies of scale to cover the large costs associated with preparation of credit reports.

Finally, and most importantly, harmonization of national regulation will be essential to bind the mosaic

[41]International Finance Corporation (2010), Access to Finance. Annual Review Report 2010

of elements in financial markets of African countries. There is a need for convergence in regulations pertaining to accounting standards, laws, safeguards, banking supervision, corporate governance, etc. Various RECs are making headway in terms of development of common policies, institutions and establishing regional frameworks. However, the progress has been moderate.

Harmonization of policies has been slow on account of the disparate and difficult policy alternatives facing national Governments based on various national, regional and global programs. Overlapping membership in RECs further complicates the financial integration agenda of countries. Moreover, costs associated with the integration process are also considered prohibitive, especially in context of smaller economies.

STRATEGIES

Promoting Integrated Cross-Border Banking Model

The banking sector forms the cornerstone of financial markets in African countries. Therefore, attempts at financial integration should promote banking across borders, and especially outside the key regional financial centres. There are already several pan-African banks in the continent which have positively influenced the financial sector linkages across countries. According to IMF (2015), the continent has seven major pan-African banks in at least ten African countries with systemic presence in around 36 countries. Three of these banks are headquartered in Morocco, two in Togo, and one each in Nigeria and South Africa[42].

This increase in cross-border banking has not led to commensurate improvement in banking efficiency and their outreach has been limited. Most banks have limited services in the lower end of markets. Building robust financial infrastructure, such as payment systems and credit registries, across countries can help expand the benefits from cross-border banking. More importantly, the "fortress banking" model[43] in practice across African countries is limiting the economies of scales required for efficient operations. For stability reasons, host country regulators in Africa require banks to open self-standing subsidiaries. As part of indigenization policies, countries require banks to inter alia employ more of local labour, establish local IT systems, and institute local risk management and board structures. The stand-alone subsidiaries model adopted by banking sector in Africa therefore emerges out of the regulatory environment in the countries. More efficient banking models can lead to substantial cost savings and improve outreach[44].

More integrated banking models need to be adopted by cross-border banks in Africa. According to Fiechter et al (2011), an integrated banking model which relies on branches or subsidiaries that are closely linked to the parent bank, implies that funding, asset allocation and risk management are centralized in order to maximise returns at the consolidated level[46]. It leads to optimisation of funding and capital utilization, and the cost of doing business is therefore lower for this model. It therefore makes service provisions at the lower end of the market more cost-effective and attractive.

Host country regulators can encourage an integrated model by reducing the complexity and length of licensing process, reducing the minimum capital requirements for bank subsidiaries with provisions for these requirement to grow in line with the portfolio and risk exposures of the banks, allowing full mobility of labour, and encouraging the use of centralized and common IT systems, as also the audit and risk management systems.

Cost of cross-border banking can also be reduced by reducing the regulatory requirements for bank branches than those for subsidiaries. However, the European experiences evince the need for harmonization of

[42]IMF (2015), Pan-African Banks: Opportunities and Challenges for Cross-Border Oversight
[43]Fortress banking emerges when subsidiaries are forced to have stand-alone systems
[44]Thorsten Beck, Michael Fuchs, Dorothe Singer and Makaio Witte (2014), Making Cross-Border Banking Work for Africa,
[45]Fiechter, Jonathan, Inci Ötker-Robe, Anna Ilyina, Michael Hsu, André Santos, and Jay Surti (2011), "Subsidiaries or Branches: Does One Size Fit All?"
[46]Thorsten Beck, Michael Fuchs, Dorothe Singer and Makaio Witte (2014), Making Cross-Border Banking Work for Africa

regulatory and supervisory frameworks, as also the establishment of financial sector safety nets, for integration through branches to be successful. On account of such pre-conditions, such models can more easily be adopted in case of monetary unions.

Capacity Building of Regulatory Agencies

Harmonization of regulatory structures is a prerequisite for financial integration in the African continent. Central Banks and regulatory agencies in Africa, however, have critical capacity related gaps both in terms of human resource capacity and financial market infrastructure. Capacity building of these institutions will therefore be important in the harmonization process.

As financial landscape in African countries is at variance with each other, the capabilities of regulators and the need for capacity building are very different. For example, South Africa has been among the pioneers in implementation of the Basel 3 guidelines, and has a deep and sophisticated financial market. Regulators in the South African market are focusing more on reforms in the shadow banking sector and improvement in capabilities to manage distressed banks. On the other hand, some African countries are at the formative stages of building oversight capacity, and reforms in several countries are focusing on improvement in bank capitalization and risk management.

Capacity constraints persist at the level of regional regulatory bodies as well. For example, the reports of the IMF and the World Bank Financial Sector Assessment Programs highlight the inadequate capacity of the Central African Banking Commission (COBAC), which is the regulatory supervision authority in the CEMAC region, to carry out inspections, and collect and analyze data for off-site supervision. Resource constraints of the COBAC affect its effectiveness in terms of implementation of new prudential regulation and supervisions[47].

Regional training and research institutes can be set up to build human resource capacity in the financial regulations segment. Such capacity building activities have been actively pursued in other regions of the world. For example, South East Asian Central Banks Research and Training Centre has played an important role in the capacity building of Central Banks and monetary authorities in Asia Pacific. It contributes through various training programs, research activities, and acts as a networking and collaboration platform for capacity building in central banking knowledge. The ASEAN Insurance Training and Research Institute also plays an important role in capacity building for the insurance sector in ASEAN.

Technical assistance from bilateral and multilateral institutions can also help improve oversight capacity and drive cooperation and harmonization agenda. The IMF has already been providing assistance in this regard. It is also liasioning with multilateral and National Governments for enhancing supervisory capacities, especially in context of operations of cross-border banks. More extensive technical assistance with support from other development partners will be critical for improving national capacities. Capacity building for regional supervision of financial institutions will also be important for enhancing cross-border cooperation and consolidated supervision.

Greater cooperation among regulators is also required for cross-border supervision, information sharing, joint inspections, etc. Regulators can enter into Memoranda of Understanding for upgrading regional supervisory cooperation and removing legal obstacles for information exchange.

Macroeconomic Convergence

The attainment of similar inflation rates along with sustainable budget deficits is important for creation of monetary unions. Therefore, several RECs have adopted macroeconomic convergence criteria in their agenda for establishment of regional monetary unions. The convergence criteria include monetary, fiscal and real sector variables and the performance across RECs have been generally below the set targets.

The convergence criteria for RECs are not reflective of

[47]Ricardo Gottschalk (2014), Institutional Challenges for Effective Banking Regulation and Supervision in Sub-Saharan Africa

the different characteristics and transitory challenges in individual countries. The fact that macroeconomic convergence need not be symmetrical across countries has not been fully recognized in the convergence framework of African RECs. There is need to provide for special circumstances that can lead to weak performances of some of the countries[48].

The regional convergence targets should also be aligned to the national priorities. Inability to meet the convergence criteria has been chief reason for the continuous postponement of the launch of the monetary union and the single currency in the WAMZ. National Governments are expected to commit resources towards policy implementation only if the regional targets contribute towards strengthening of national economy. Therefore, consensus in development of the criteria is important to ensure political commitment. Further, for the member States to achieve sound macroeconomic performance, the convergence criteria should also focus more on private sector dimensions. There is also a need for continuous review and revision of the criteria.

Stock Market Integration

Stock exchanges may adopt a gradual approach for integration, beginning with dual listings or cross-membership for enhancing liquidity and increasing cooperation. Over time, greater integration can be ensured through development of similar characteristics in terms of listing, membership, disclosure and reporting requirements, accounting systems, etc. Commonality in trading and legal systems, as also the accounting standards will be essential for stock market integration in this latter phase. There is also a need for exchanges to leverage the latest computer and technology solutions. This shall improve trading infrastructure in exchanges, and thereby facilitate successful cross-border listing and integration.

According to International Organization of Securities Commissions (2001), successful integration requires reforms in legal and ownership structure through demutualization[49]. Demutualization is the process of changing the legal status, structure and governance of an exchange from a non-profit, member owned entity to profit oriented, share-holder owned body. Most of the successful exchange integration in the EU, the US and Asia-Pacific had undertaken demutualization.

African stock exchanges should therefore embark on the process of demutualization to enhance competiveness. This shall ensure that the decision making process is robust. It shall also provide the exchanges with much needed capital for entering into alliances and mergers. It shall also lower costs to members and better serve investor interests.

[48]Supporting Macroeconomic Convergence in African RECs, Regional Integration Policy Papers, AfDB, November 2014

[49]Issues Paper on Exchange Demutualization. Report of the Technical Committee of the International Organization of Securities Commissions, June, 2001.

5. Free Movement of People

Free movement encompasses three types of freedoms: visa-free entry for short visits; right of residence, including the ability to work; and the right of establishment, the ability to sell services or establish a business without discrimination based on nationality[50]. Labour mobility is essential for establishment of production and trade linkages. Cross-border movement of people also improves competitiveness and holds benefits for companies and countries. It further promotes entrepreneurship and innovation across borders, and alleviates shortage of human capital.

Free movement of people is also important for the development of tourism sector in the African countries. According to the World Tourism Organization, more than half of all trips taken worldwide are for tourism and most tourists visit destinations within their region. In Africa, currently nearly one-third of international visitors are from within the continent[51]. The World Tourism Organization estimates that intra-regional travellers will account for nearly 75 percent of all tourists in Sub-Saharan Africa by 2021. Given the important role of tourism in employment generation, poverty alleviation, investment promotion and infrastructure development, there is a need for concerted efforts at the regional levels to remove barriers for movement of people.

As per the Africa Visa Openness Index, which measures how open African countries are when it comes to visas by looking at what they ask of citizens from other countries in Africa when they travel, less than one-fourth of African countries provide liberal access at entry for all African citizens[52]. The performance of some regions has been better than others. West Africa has high visa openness index on account of the Free Movement of Persons Protocol. East Africa also has a high visa openness score on account of the favourable visa on arrival policies. Central Africa and North Africa were the regions that scored the lowest on the index within the continent[53].

A good indicator of regional mobility is the level of open reciprocity which means having reciprocal visa exemptions between regional and economic blocs. Together with the Schengen Area in Europe, ECOWAS has the highest level of open reciprocity among its members at 100 percent. SADC has an open reciprocity level of 44 percent. However, the open reciprocity among members and non-members in the RECs of Africa is comparatively lower. While it stands at 25 percent and 15 percent for Schengen Area and ASEAN, respectively, it is a mere 8 percent in case of SADC and even lower at 2 percent for ECOWAS[54].

Labour migration in Africa is often governed by bilateral agreements for recruitment, employment and return of foreign workers. Labour mobility is also an important consideration for RECs such as ECOWAS, SADC, COMESA and EAC—each of them having adopted legal instruments for dealing with movement of labour.

POLICIES IN ECOWAS

Since its inception, ECOWAS members have sought mutual exemption of citizens from visitors' visa and residence permit requirements, and attempted to encourage labour mobility across the region. The Protocol on Free Movement of Persons, Residence and Establishment was adopted by the ECOWAS in 1979, and provides a legislative framework for the free movement of persons in ECOWAS. The first phase, which was ratified in 1980, allowed 90-day visa-free right of entry to citizens of member states, provided they had travel documents and health certificates. The second phase which was enforced in 1986 provided the citizens of

[50]AfDB
[51]U.S. International Trade Commission
[52]Africa Visa Openness Report 2016
[53]Ibid
[54]UNWTO, Visa Openness Report 2014

member states the freedom to reside and work in other member states. The ratification of Phase III on the Right of Establishment is still pending. Phase III shall provide citizens of member states the right to settle, establish enterprises and get the same conditions as nationals in other member states.

Several instruments such as the 2008 ECOWAS Common Approach on migration supported the implementation of the protocol. The Common Approach is the region's benchmark policy paper on regional migration and highlights the linkages between movement of people and developmental goals. It takes up several pertinent issues such as refugee, women migrants, migrants' rights and trafficking. Further, the Common Approach also recommends establishment of a regional fund for financing cross-border cooperation, and a regional territorial strategy for developing new growth and development areas. It also provides a framework for harmonization of development and migration related policies.

The ECOWAS's Regional Labour and Employment Policy and Plan of Action, 2009 also supports regional labour market flexibility and human capital development. The implementation of the policy however remains limited. The implementation of the Free Movement Protocol in the region has also not been without setbacks, and there have been several instances of mass deportation. However, in spite of the implementation issues and the occasional disruptions in the process, the protocol has accelerated labour migration and is one of the most comprehensive free movement policy frameworks in Africa[55].

The standardized regional travel certificate and uniform passports adopted by ECOWAS have simplified cross border movement and lowered cost. Citizens of member states can travel within the region with either of the following documents: ECOWAS travel certificate, common passport, or national identity cards. Further, the ECOWAS Brown Card scheme has facilitated inter-regional travel by motor vehicle insurance policyholders.

POLICIES IN EAC

The Protocol on the Establishment of the EAC Common Market, enforced on 1 July 2010, provides five regional freedom of movement, including goods, persons, labour, services and capital, and two specific migration rights: establishment and residence. The Common Market Protocol inter alia provides for visa-free entry, freedom of movement and stay, and full protection of regional citizens in other member states.

The citizens of Kenya, Rwanda and Uganda can travel across borders by using only national identity cards. According to the Africa Visa Openness Report 2016, this has led to an increase of 50 percent in cross-border trade. These countries also issue a single tourist visa, thereby forming a sub-region for international tourists, and as per the Rwanda Development Board, this has led to a 17 percent increase in arrivals to Rwanda in one year. Single immigration entry or departure card has also eased the procedure of issuing entry and work permit in the EAC.

POLICIES IN SADC

The SADC Treaty provides for the elimination of obstacles to regional movement of people. The Draft Protocol on the Facilitation of Movement of Persons, 2005 implements the provisions of the SADC treaty with respect to movement of people. The Protocol allows citizens visa-free entry for visits of up to three months. The Protocol also deals with several pertinent issues. It provides for exchanging personal information for security purposes, thereby focusing on cooperation in migration not just for developmental needs, but also for security reasons.

However, only select member countries, namely Botswana, Lesotho, Mozambique, South Africa, Swaziland and Zambia have ratified the Protocol as of June 2016[56]. As the minimum number of ratifications has not been achieved, the protocol remains unenforced. Currently, national immigration laws and bilateral agreements regulate labour migration in the region.

[55]Fioramonti (2016), Regional Migration Governance in the African Continent. Current state of affairs and the way forward, Stiftung Entwicklung und Frieden

[56]Ibid.

South Africa has an MOU with Botswana, Lesotho, Mozambique, Swaziland and Zimbabwe for facilitating movement of labour.

Notwithstanding the national legislations, member States endorsed the SADC Regional Labour Migration Action Plan 2013 – 2015, under which members have committed to harmonizing labour data collection systems, immigration policies, and addressing health vulnerabilities of regional migrants. Apart from this, the Draft SADC Labour Migration Policy Framework has been signed by member states for promoting sound management of labour mobility in the region. The SADC Protocol on Employment and Labour has also been signed which is expected to strategically guide employment, labour and social security policies and promote policies which facilitate movement of labour. However, the ratification of both Labour Migration Policy and Protocol on Employment and Labour has been delayed.

STRATEGIES

Developing Research Capabilities

Policies for labour mobility affect the domestic labour market and consumer spending, and are therefore important areas for policymakers. The decision making process needs to be backed by data-based, empirical and evidence-based analysis. Research on the various economic aspects of labour mobility, such as its effect on the labour market, regional and international trade, innovation capacities and consumption patterns would add value to migration policies under development.

It is therefore essential to create a platform at the regional or continental level for the researchers, representatives of government institutions and civil society organization to exchange information and opinions. Institutions like the AfDB, which regularly conduct independent, rigorous research on development issues, can play a critical role in this regard. This platform can be used for development of policy recommendations for ensuring that the regional integration in the form of labour mobility is advantageous and attractive for all countries in the region.

Intra-Africa Talent Mobility Partnership Programme (TMP) can be used as a tool for assessment of the impact of increased labour mobility, especially in context of skilled labour. The TMP is a voluntary program which attempts to set up a Schengen type mechanism for movement of skilled labour. The TMP is based on the understanding that there is a movement of skills from regions of surplus to deficit, and therefore an efficient labour mobility framework would create a balance in terms of supply of talent within RECs, as also the continent. These initiatives provide evidences of enhanced mobility leading to substantive outcomes for the economy in the form of more efficient processes and lower costs. Such initiatives may embolden the Government to adopt radical and innovative approaches to migration governance.

Ratification of International Instruments

Apart from regional policies, there are several international instruments which impact free movement of people. Conventions such as International Covenant on Civil and Political Rights (ICCPR) and the International Convention on the Protection of the Rights of All Migrant Workers and Members of their Families (ICPRMW) safeguard the interests of migrants and their right to work in other countries. According to ICCPR, any person lawfully within a country shall have the liberty of movement and freedom to choose his/her residence and shall also be free to leave any country, including his/her own. The ICPRMW is specifically designed for the issues of migrant workers and members of their families, and seeks non-discrimination against migrants. It upholds their human rights, including their freedom of movement, association and speech.

Further, the 1981 African Charter on Human and Peoples' Rights provides individuals with freedom of movement and residence within the borders of a country and the right to leave any country, including their own, and to return there. The Protocol Relating to the Status of Refugees (PRS) is another international instrument which safeguards refugee rights and wellbeing.

Conventions such as the United Nations Educational, Scientific and Cultural Organization (UNESCO) Regional Convention on the Recognition of Studies, Certificates, Diplomas, Degrees and other Academic Qualifications in Higher Education provide recognition of qualifications internationally and thereby encourages

Table 5.1: Ratifications of Migration-related International Instruments (as of July 2016)

Country	ICPRMW	ICCPR	ILO CO 97	PRS	UNESCO RCRAQ	African Charter
ECOWAS						
Benin	Sig	SP	X	SP	Ratified	Ratified
Burkina Faso	SP	SP	Ratified	SP	Ratified	Ratified
Cote d'Ivoire	X	SP	X	SP	Ratified	Ratified
Gambia	X	SP	X	SP	X	Ratified
Ghana	SP	SP	X	SP	X	Ratified
Guinea	SP	SP	X	SP	Ratified	Ratified
Guinea Bissau	Sig	SP	X	SP	X	Ratified
Liberia	Sig	SP	X	SP	X	Ratified
Mali	SP	SP	X	SP	X	Ratified
Niger	SP	SP	X	SP	Ratified	Ratified
Nigeria	SP	SP	Ratified	SP	Ratified	Ratified
Senegal	SP	SP	X	SP	Ratified	Ratified
Sierra Leone	Sig	SP	X	SP	X	Ratified
Togo	Sig	SP	X	SP	Ratified	Ratified
EAC						
Burundi	X	SP	X	SP	Ratified	Ratified
Kenya	X	SP	Ratified	SP	X	Ratified
Rwanda	SP	SP	X	SP	Ratified	Ratified
Tanzania	X	SP	X	SP	X	Ratified
Uganda	SP	SP	X	SP	X	Ratified
South Sudan	X	X	X	X	X	X
SADC						
Angola	X	SP	X	SP	X	Ratified
Botswana	X	SP	X	SP	X	Ratified
DR Congo	X	SP	X	SP	X	Ratified
Lesotho	SP	SP	X	SP	Ratified	Ratified
Madagascar	SP	SP	Ratified	X	X	Ratified
Malawi	X	SP	Ratified	SP	X	Ratified
Mauritius	X	SP	Ratified	X	X	Ratified
Mozambique	SP	SP	X	SP	X	Ratified
Namibia	X	SP	X	SP	X	Ratified
Seychelles	SP	SP	X	SP	Accessions	Ratified
South Africa	X	SP	X	SP	X	Ratified
Swaziland	X	SP	X	SP	Ratified	Ratified
Tanzania	X	SP	X	SP	X	Ratified
Zambia	X	SP	Ratified	SP	Ratified	Ratified
Zimbabwe	X	SP	X	SP	X	Ratified

Note: SP— State Party; Sig— Signatory; X— Non ratification/ no action; ICPRMW—International Convention on the Protection of the Rights of All Migrant Workers and Members of their Families; ICCPR—International Covenant on Civil and Political Rights, 1966; ILO CO 97—Migration for Employment Convention (Revised), 1949 (No. 97); PRS—Protocol relating to the Status of Refugees, 1967; UNESCO RCRAQ – Regional Convention on the Recognition of Studies, Certificates, Diplomas, Degrees and other Academic Qualifications in Higher Education in the African States, 1981

Source: L Fioramonti (2016), Regional Migration Governance in the African Continent. Current state of affairs and the way forward, Stiftung Entwicklung und Frieden

people possessing these qualifications to move to other countries where these may be in demand.

The International Labour Organization (ILO) addresses migration issues through a multilateral framework on labour migration and also through international conventions. For example, the Migration for Employment Convention of the ILO provides comprehensive definitions of the rights of migrant workers, advocating for equal treatment, non-discrimination and equality of opportunity. It also calls on state parties to treat lawful migrant workers equal to their own nationals on work matters ranging from working conditions, to benefits and taxes, membership in trade unions, and collective bargaining.

An analysis of the ratification of migration related instruments in the three RECs of ECOWAS, SADC and EAC indicates that while the commitment to human rights related instruments such as the ICCPR and PRS has been high across-the-board, similar levels of ratification is not evident for instruments which are more closely related to the issues of migrant workers (Table 5.1). The ICPRMW for example has comparatively lower rates of ratification, especially in the EAC and SADC. Even UNESCO RCRAQ which has implications for labour migration and TMP have received lower ratification from member states.

These migrations related international instruments need to be ratified by African countries, and the legislative framework in the countries needs to be efficiently redesigned to comply with the conventions and treaties.

Creation of Regional Fund

Facilitating free movement of people will require setting up of joint infrastructure and necessitate development actions in the border area. In this regard, it will be essential to set up a regional fund for financing these investments. The ECOWAS member states under the Common Approach on migration had proposed the setting up of a Regional Cross-border Cooperation Fund for:

- Facilitating free movement through concrete actions such as the setting up of joint border posts, border markets, joint health centres, shared schools, etc.;
- Supporting border populations through development actions geared towards the poorest, most marginalized populations;
- Developing good neighbourly relations rooted in ground realities among ECOWAS Member countries, and between the ECOWAS zone and its neighbours.

However, the Fund has not been made operational. Member countries should seek support from development partners to operationalise this fund. Other RECs can also consider launching such funds for promoting mobility within their respective regions.

Addressing Restrictions in the Visa Process

Visa restrictions in African economies increase the cost and time for movement of people across the continent. This has severe economic consequence and impedes the larger process of integration of economies. It is therefore essential for more African countries to adopt visa on arrival programs for intra-continental movement of people, simplify visa processes, provide longer-period visas (ten years or more), encourage visa-free movements within RECs, ensure positive reciprocity between countries, and make provisions for regional bloc visas as in the case of EAC.

Countries can also leverage ICT for improving the visa process. The Rwanda National Migration Policy is exemplary in this context. Since 2005, the Directorate General of Immigration and Emigration in Rwanda has embraced the utilization of ICT in service delivery. The country is currently one of the nine African countries that have provisions for electronic visas or eVisas. The country processes more than 90,000 eVisas in a year, comprising of nearly 95 percent of the total visitors to the country. Further, the Automated Passenger Clearance System for Rwandan national at the Kigali Airport in Rwanda leads to significant time savings. This self-service system has been effective in speeding up clearance as nationals account for close to one-third of all arrivals into the country.

6. India's Role in Integrating Africa

As a traditional development partner, India is ideally placed to understand and appreciate the needs of the resurgent continent in myriad developmental areas, of which regional integration is a key dimension. An invigorating and empowering development partnership between Africa and India in this sphere can foster real, palpable change in the continent. Cooperation will be essential in the dimensions of infrastructure development, capacity building, and knowledge and skill transformation for enhanced productivity and competitiveness.

A resurgent Africa and a rising India could create a new paradigm for South-South Cooperation. While trade and investment have lately become the catchphrase in India's multi-faceted relationship with Africa, an ambitious and all-encompassing action plan is necessary to further strengthen the cooperation between the two landmasses, of which engendering regional integration would form a key component.

EXPORT-IMPORT BANK OF INDIA

According to the ICA, India had committed US$ 524 million to African infrastructure projects in 2015, up from US$ 424 million in 2014. The Export-Import Bank of India (Exim Bank) has been among the principal agents for supporting India's development partnership with the African continent in the infrastructure sector.

The African continent has always been a focus region for Exim Bank, and thus a critical component of the Bank's strategy to promote and support two-way trade and investment. As a partner institution to promote economic development in Africa, the commitment towards building relationships with the African region is reflected in the various activities and programmes which Exim Bank has set in place.

To enhance bilateral trade and investment relations, Exim Bank has in place several Lines of Credit (LOCs) extended to a number of institutions/agencies in Africa. LOC is a demand driven, development oriented and non-prescriptive program which supplements the Focus Africa programme of the Government of India. The LOCs are in line with the Indian policy of nurturing development partners for mutual growth as opposed to the traditionally more hierarchical relationship implied in a donor and recipient relationship. The projects financed under the LOCs cover a variety of sectors including infrastructure, thereby imparting a fresh resonance to development in many countries of the African region. The Bank has also financed regional projects under the LOC program, an example of which is the electricity interconnection project between Cote d'Ivoire and Mali (Box 4). Exim Bank has also provided a US$ 300 million LOC to the Ethiopian Government for a railway link to improve regional connectivity and boost economic growth in the country. In the Third India-Africa Forum Summit held in 2015, India has further announced US$ 10 billion of assistance to Africa under the LOC program.

The Bank also extends funded and non-funded facilities for overseas industrial turnkey projects, civil construction contracts, supplies, as well as technical and consultancy service contracts. In Africa, Indian companies have implemented numerous projects, spanning various sectors, with support from Exim Bank. These projects, in turn, facilitate and support infrastructure development in host countries, thereby contributing to the overall development process in the region.

The Bank's strong emphasis on increasing project exports from India has been enhanced with the introduction of the of the Buyer's Credit under GOI's National Export Insurance Account (BC-NEIA) Programme. The BC-NEIA is a unique financing mechanism that not only provides a safe mode of non-recourse financing option to Indian exporters, but also serves as an effective mechanism to augment both physical and social infrastructure in host countries, thereby fostering the partner countries' developmental objectives.

Box 4: Exim Bank Success Story: Electricity Interconnection Project between Cote d'Ivoire and Mali

Exim Bank has extended three LOCs of US$ 30 million, US$ 45 million and US$ 36 million to the Government of Mali for financing the electricity transmission and distribution project from Cote d'Ivoire to Mali. Through this financial support, a 225 kV transmission line has been constructed from Ferkesseédougou in Cote d'Ivoire to Sikasso in Mali. Moreover, substations have been constructed at Ferkessedougou, Sikasso, Koutiala and Ségou. The transmission lines project has been successfully completed in 2012.

The interconnection transmission line covers a distance of 524 kms from border town of Ferkesseédougou in Cote d'Ivoire to Ségou in Mali. The transmission line has helped Government of Mali to import power from Cote d'Ivoire at a much lower cost. Increased and affordable power supply has encouraged increased economic activity and is generating more income. The project has also contributed in development of small local industries such as welding and lathe industries, thus, providing employment to many. Increased and stable power supply has benefited the industrial regions such as Sikasso and attracted more industries to it. It has helped in the growth of mining industry, especially of gold and phosphates. The entire project has greatly contributed towards social and economic development of Mali. It has resulted in many positive externalities such as creation of economic and industrial activities, employment, poverty reduction, better health facilities, increased production, etc.

Exim Bank also works very closely with development banks in the region, including the AfDB. Exim Bank has extended its own commercial Lines of Credits to various regional financial institutions and parastatal entities in Africa, such as, PTA Bank (Eastern and Southern African Trade and Development Bank, covering 17 countries in the eastern and southern African region), Banque Ouest Africaine De Development (West African Development Bank, covering 8 countries in the west African region), Indo-Zambia Bank, Central Bank of Djibouti, Nigerian Exim Bank, East African Development Bank, and Afreximbank.

Exim Bank has also been consciously forging a network of alliances and institutional linkages to help further economic co-operation with the Africa region. Towards this end, Exim Bank has taken up equity in Afreximbank, West African Development Bank (BOAD), and Development Bank of Zambia. These endeavours are supplemented by the various Memoranda of Cooperation/ Memoranda of Understanding, the Bank has in place, with key institutions in the Africa region including: AfDB; PTA Bank; Afreximbank; Nigerian Export-Import Bank; Banque Internationale Arabe de Tunisie, Tunisia; Board of Investment, Mauritius; Industrial Development Bank of Sudan; Industrial Development Corporation of South Africa Limited; Foreign Investment Promotion Agency, Tunisia; Societe Tunisienne de Banque, Tunis, and ECO Bank.

STRATEGIES FOR STRENGTHENING REGIONAL INTEGRATION

Co-Financing Projects

Regional infrastructure projects require large scale investment which may require involvement of multilateral institutions, development agencies and donors. In this regard, co-financing is a well-established form of leveraging resources for reaching developmental outcomes.

Several initiatives have already been taken by financial institutions in India and Africa for promoting co-financing of infrastructure projects. In the past, Exim Bank and the AfDB Group had signed an agreement for co-financing projects in Africa which envisaged joint financing of projects (priority being given to projects of small and medium enterprises) in regional member countries of the AfDB Group. An example of incidental co-financing by Exim Bank in the African continent is the Itezhi - Tezhi Hydro Power Project in Zambia, which was supported in collaboration with the AfDB and

other lenders. Such financing arrangements should be encouraged especially in case of regional infrastructure projects.

Special facilities can also be considered by the Government of India (GOI) and the AfDB specifically for co-financing the regional infrastructure projects in Africa. Concessional loans can be provided by the GOI under this proposed facility. Some National Governments have set up such facilities in collaboration with multilateral financing institutions, for financing projects in Africa. For example, through the Accelerated Co-financing Facility for Africa, the Japan International Cooperation Agency provides co-financing support for AfDB's sovereign projects. Further, the AfDB and the People's Bank of China have established a US$ 2 billion co-financing fund—the Africa Growing Together Fund, to finance eligible sovereign and non-sovereign guaranteed development projects in Africa.

Implementing PPP in Africa – Lessons from the Indian Experience

As highlighted in Chapter 2 of the Study, PPPs can supplement the limited public sector capacities to meet the growing demand for infrastructure development. The GOI has taken various policy initiatives and established an institutional mechanism to encourage private sector participation in infrastructure projects. These have yielded positive results in several sectors and can be emulated in the African continent for enhancing the role of private sector in infrastructure.

A Viability Gap Funding (VGF) scheme was notified by the Government in 2006 to enhance the financial viability of competitively bid infrastructure projects which are justified by economic returns, but may not be financially viable on their own. The facility reduces capital cost of projects through credit enhancement, and makes them attractive for private investments through grant funding. At the stage of project construction, grant assistance of up to 20 percent of total project cost is provided by the Central Government to PPP projects undertaken by any Central Ministry, State Government, statutory entity or local body.

The Ministry of Finance, Government of India had also created a fund—the India Infrastructure Project Development Fund (IIPDF) to provide interest free financial support for meeting development expenses, including the cost of engaging consultants for the projects. Under this, nearly 75 percent of the project development cost is provided by the Central Government as long as there is commitment from the sponsoring authority to provide the remaining 25 percent. The sponsoring authority reimburses the project development expenses to the IIPDF along with a fee. Commercial projects undertaken by the private sector are charged a success fee of 40 percent. For efficiency enhancement projects, where there is low private sector investment or none at all, the IIPDF charges a success fee of 25 percent. For non–revenue-generating projects with high economic returns, no success fee is charged.

Institution building has also been an important aspect of the PPP mechanism in India. The India Infrastructure Finance Company Ltd. (IIFCL) was set up with an authorized capital of Rs. 2.0 billion and paid up capital of Rs. 1.8 billion for providing long term loans to infrastructure projects. This was considered essential as the banks alone were not able to address the financing requirement in the sector. IIFCL raises resources under Government of India guarantee. It can provide long term funding to commercially viable infrastructure projects for up to 20 percent of the capital costs of the project, and subordinate debt of up to 10 percent of the project cost.

A cohesive and coherent framework for PPP is a pre-requisite for successful implementation of projects. In this regard, the Model Concession Agreement (MCA) forms the cornerstone of policy and regulatory framework for implementation of PPP projects in India. The MCA addresses several crucial issues pertaining to a PPP framework like mitigation and unbundling of risks; allocation of risks and returns; symmetry of obligations between the principal parties; precision and predictability of costs and obligations; reduction of transaction costs and termination. It also allocates risk to parties best suited to manage them[57].

[57]Planning Commission, Government of India

To encourage innovative financial products, the Reserve Bank of India (RBI) has also provided a lucid policy framework for takeout financing. Under takeout financing arrangement, the bank/ financial institution financing infrastructure projects have an arrangement with another financial institution for transferring to the latter the outstanding in respect of such financing in their books on a predetermined basis. If there is no pre-determined agreement, a standard account in the books of a bank can still be taken over by other banks/ financial institutions, subject to guidelines prescribed by the RBI. The RBI prescribes no ceiling or floor on repayment period of the loans, except in case of special regulatory requirement for some assets.

A well-designed institutional setting complements these initiatives of the Government of India. The institutional framework comprises the Department of Economic Affairs as a coordinating agency, an approval committee for ensuring checks and balances, and nodal agencies located in concerned implementation agencies for responsibility pertaining to implementation. Technical assistance is also provided to these agencies by individual experts and a panel of advisors. Capacity building activities are also undertaken through extensive training programs, as well as through online knowledge facilities.

The key takeaways for the African continent from the Indian experience with PPPs can be summarised as under:

- In case of regional projects in Africa, if potential income from user charges is not sufficient to recover costs of infrastructure projects, national Governments can use the VGF route to enhance the viability of the projects;
- Countries should adopt a robust framework for PPP encompassing the strategic objectives, enabling financial instruments, strong regulations and guidance, and competent institutional mechanism;
- There is need for innovative financial instruments to offset existing market inadequacies, as also for effective utilization of the public resources to catalyse private finance;
- Institutional structure needs to be adequately defined and should be supported through capacity building activities such as training, online platforms, etc;
- Mechanisms for meeting project development cost in the African continent also need to be devised;
- It may be noted that not all PPP projects in India have been successful, and many have failed on account of inadequate project preparation or ineffectual risk allocation. Such inadequacies may also surface in the African continent, which could be alleviated through embracing an adaptive PPP policy which may be improved over time by the coordinating agency based on its experiences.

Collaboration among Project Preparation Facilities

Lack of bankable projects is a major constraint for regional infrastructure in Africa, and various institutions have responded to this by creation of project preparation facilities. Exim Bank has also taken steps in this direction and has floated the Kukuza Project Development Company (KPDC) in partnership with the Infrastructure Leasing and Financial Services Ltd (IL&FS), the AfDB and State Bank of India to facilitate Indian participation in infrastructure projects of Africa (Box 5).

According to an assessment conducted by the ICA, many of the project preparation facilities in the African continent have insufficient resources, as a result of which the project financed may be very small and spread over a number of projects and activities. On the other hand, regional infrastructure projects would typically entail large cost of project preparation[58]. Therefore, the KPDC can consider collaborating with other PPFs in the region in key regional projects through the Project Preparation Facilities Network (PPFN). The PPFN is a network of funding facilities dedicated to sustainable infrastructure in Africa. It should be leveraged by the KPDC and other PPFs for forging mutually beneficial partnerships for preparation of regional infrastructure projects.

[58]Assessment of "African Infrastructure Project Preparation Facilities - Lessons Learned and Best Practice", Infrastructure Consortium of Africa, December 2015

Box 5: Kukuza Project Development Company

Addressing the limited institutional capacity in Africa for conceptualisation, management, and execution of project development activities, Exim Bank, IL&FS, and State Bank of India have joined hands with the AfDB, and promoted a Project Development Company for infrastructure development in Africa — 'Kukuza Project Development Company (KPDC)'.

The KPDC has been incorporated in Mauritius in July 2015. 'Kukuza' in Swahili means 'a cause to growth'. Reflecting the name, the KPDC is expected to provide specialist project development expertise to take the infrastructure project from concept to commissioning in the African Continent. The KPDC will provide the entire gamut of project development expertise to various infrastructure projects, such as project identification, pre-feasibility/ feasibility studies, preparation of detailed project reports, environmental and social impact assessment, etc.

The KPDC shall utilise the domain expertise of each partner during the project development process to establish a bankable and sustainable implementation format based on an in-depth understanding of the concerns of all the stake holders - public authority, users community, developers/ investors and lenders.

Encouraging Indian Investments for Regional Value Chain Development

The right kind of investments need to be channelled into Africa, focusing on a set of twin objectives, viz. accessing the market coupled with development of manufacturing capacities; seeking low cost labour while focusing on human resource development; and exploring the natural resources along with improving the infrastructural facilities. Although Indian firms have been investing in Africa, there exists substantial scope for such investments to build RVCs and lead to associated spill over benefits. According to fDi markets, during the period January 2003- December 2016, India accounted for nearly 4.4 percent of greenfield capital expenditure in the African continent, and was the seventh largest investing country.

In their efforts to integrate into the GVCs, several African countries have shown little regard to the impact of the development model on the domestic economy. This has been particularly noted in case of Tunisia wherein the integration into European production network was not associated with commensurate benefits for the domestic economy in form of job creation, technology transfer, and upgradation in value chain.

As against this, in an impartial commentary by Harry G. Broadman, Economic Adviser for the Africa Region at the World Bank, India's investments in Africa have been regarded as less vertically integrated, preferring to procure supplies locally or from international markets (rather than from Indian suppliers), engaging in far more sales to private African entities, and encouraging the local integration of their workers[59]. Indian companies have the potential to foster significant economic change in Africa as they rely more on local labour than imported contractors, thereby creating greater employment opportunities and increasing the aggregate demand.

Innovative financing mechanism can be adopted by countries to promote investments by Indian companies in African RVCs. To promote investments by Indian companies in Africa, an Alternative Investment Fund can be jointly floated by institutional investors in India and Africa. Any public sector bank/ financial institution can take lead at the behest of the Government of India for setting up this Fund. The proposed Fund can invest in equity or equity linked instruments of overseas JV/subsidiary of Indian Companies in the African continent, especially in the agriculture and natural resources sector. These investments can be guided by the Regional Value Chain Development Agenda of RECs. Evidence suggests that among the portfolio companies that engaged in cross-border M&A, about 80 percent completed their first cross-border M&A deal only after the initial private equity investment. The proposed Fund

[59]Harry G. Broadman (2008), China and India Go to Africa: New Deals in the Developing World

can adopt a buy and build strategy wherein investments are made in a platform company with a well-developed management team and infrastructure, and thereafter more companies are acquired to build and grow the platform company. This buy and build strategy can strengthen RVCs in Africa.

Promoting Trade Finance through Capacity Building

As highlighted in Chapter 3 of the Study, the unmet demand for trade finance through the formal banking system in Africa is hindering the development of production and export capacities in the continent. The role of development partners will be important in capacity building of banks and structural reforms in the banking system. The experiences of Indian financial institutions can be of particular relevance in African countries that seek to set up institutions and strengthen capability to create support structure for international trade and investment.

Exim Bank has rendered assistance to various institutions in the African continent for enhancing the overall export financing framework in their countries. For example, Exim Bank had undertaken an assignment for institution capacity building for export credit and insurance to enhance trade competitiveness in Rwanda, under the 'Supporting Indian Trade and Investment for Africa' project of International Trade Centre, Geneva. Exim Bank also provided support to the Nigerian Export-Import Bank for expanding its exposure in financing films. In the past, Exim Bank of India has provided technical assistance for institution building in South Africa and Zimbabwe also. Such capacity building support can provide an enabling environment for trade finance in African countries, and thereby encourage formation of RVCs.

Skill Development

Skill development is essential in the process of value chain upgradation. A skilled workforce is necessary for development of new capacities, adopting new protocols and meeting the quality standards required for industrial upgradation. Demand-driven training will therefore be important in regional value chain development agenda of African countries.

Human resource development and capacity building has been the insignia of India's Development Partnership. The focus on innovation and development-driven partnership is reflected in the Pan-African e-network initiative which links citizens in African countries with top educational institutions and hospitals in India and thereby supports telemedicine and tele-education. Further, the Indian Technical and Economic Cooperation (ITEC) Programme is one of India's flagship initiative on South-South Cooperation. Initiated in 1964, thousands of African women and men have been trained under ITEC in agriculture, accountancy, hydrology, IT, management, etc.

Private companies can also promote skill development in Africa through their supply chains. Several Indian private companies are already contributing to this as part of their value chain expansion process. Several Indian companies have invested in education and training programs in the African continent to enable participation in value chains in Africa. Some of the key examples of such investment are:

- India-based Wipro, an IT services company, invested in a new learning centre in Johannesburg, South Africa in 2014. Specifically focusing on the local market, the new facility has a capacity to train 100 students.
- Mahindra & Mahindra South Africa, a subsidiary of the India-based Mahindra Group, opened a new training centre in South Africa in 2013. The centre had training bays fully equipped with a two-post hoist, diagnostic and measuring equipment and a full range of hand tools. The facility also has a working, sectioned example of the Mahindra M-Hawk diesel engine, as well as manual gearboxes, automatic transmissions, a power take-off unit and rear axles. Staffed by a training expert from the parent company, the centre attempts to provide training to a wide range of dealers initially in South Africa but later aims to encompass other countries as well.

Governments in African countries can strengthen linkages with the Indian private sector for encouraging demand-driven training programs. Government's role as a facilitator of training initiatives will encompass coordination and information sharing. Bringing together multiple stakeholders such as the Indian private sector, local labour, private financiers, etc. will critically hinge on the coordination efforts of National Governments. Further, Government can also play an instrumental role in providing labour market information to private players who can then drive industrial upgradation by matching the existing demand and supply gaps for labour, and incorporating measures for bridging these gaps in their business plan.

Development of ICT Infrastructure

A robust ICT infrastructure will be crucial for integration at various levels. Integration of financial infrastructure in Africa such as regional payment systems, collateral registries, credit bureaus, etc. will necessarily require a strong ICT base in countries. Increased accessibility to ICT can also improve productivity of firms and thereby enhance competitiveness of regional value chains. It can also facilitate movement of people in the continent as evinced by the success story of Rwanda, highlighted in Chapter 5 of the current Study. India's competence in ICT can be leveraged by the African countries for creating mutually beneficial arrangements. Exim Bank's flagship programs can be utilised for financing these infrastructure.

Alternate Credit Rating Mechanism

Several African countries have issued foreign currency denominated bonds in recent times, and some of the countries have been able to raise bond financing without a credit rating, indicative of the growing appetite for African sovereign debt. Credit ratings will be important for increasing the quantum of investments from institutional investors as they rely on credit ratings while making investment decisions. It is therefore a matter of concern that many African countries do not have a credit rating, and those who do, have a rating typically below investment grade. Adoption of credit ratings based on emerging market scale can help attract institutional investors in infrastructure assets.

Analysts have criticized existing Credit Rating Agencies (CRAs) for focusing more on ideological and geo-political parameters and less at real fundamentals. Although CRAs publish their rating methodologies, these procedures lack rigorous validation and peer review. The promptness of rating actions has also been a moot point. Therefore, there is a need for more robust framework for credit ratings. Such a framework is crucial as rating actions have a greater impact on the developing markets than the developed. For example, Britain's post-Brexit downgrade did not lead to an increase in the borrowing cost. On the contrary, there was concurrent fall in the benchmark Gilt yields to a new record low. On the other hand, Brazil's downgrade had severe repercussions on the economy.

Recognizing the need for a credit evaluation framework that benchmarks risks across emerging markets, India mooted the proposal with other BRICS countries for exploring the feasibility of an alternate credit rating agency. Subsequently, the Goa Declaration at the 8th BRICS Summit welcomed experts exploring the possibility of setting up an independent BRICS Rating Agency based on market-oriented principles, in order to further strengthen the global governance architecture.

The establishment of an alternate framework will be crucial as developing countries now have the necessary savings and foreign exchange reserves to establish institutions such as the New Development Bank and the Asian Infrastructure Investment Bank which are expected to provide a big push to infrastructure development in developing countries. These institutions require a structure wherein projects can be evaluated relative to the risks in emerging markets. An emerging markets scale shall facilitate optimal allocation of capital within developing countries, including those in Africa, and help meet the infrastructure financing demands.

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As part of its endeavour in enriching the knowledge of Indian exporters and thereby to enhance their competitiveness, Exim Bank periodically conducts research studies. These research studies are broadly categorized into three segments, viz. sector studies, country studies and macro-economic related analysis. These studies are published in the form of Occasional Papers, Working Papers and Books. The research papers that are brought out in the form of Working Papers are done with swift analysis and data collation from various sources. The research papers under the series provide an analytical overview on various trade and investment related issues.

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