



African Development Bank Group

BUSINESS OPPORTUNITY SEMINAR

The AfDB's Policy on Regional Integration and Opportunities for the Private Sector

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Outline

- **Why is Regional Integration in Africa an Imperative for Inclusive Growth and Private Sector Development (PSD)?**
- **What is the Bank's Approach on Regional Integration?**
- **What are the Opportunities & Challenges for the Private Sector?**
- **What are the Key Policy recommendations?**



Why is regional integration in Africa an imperative? [1]

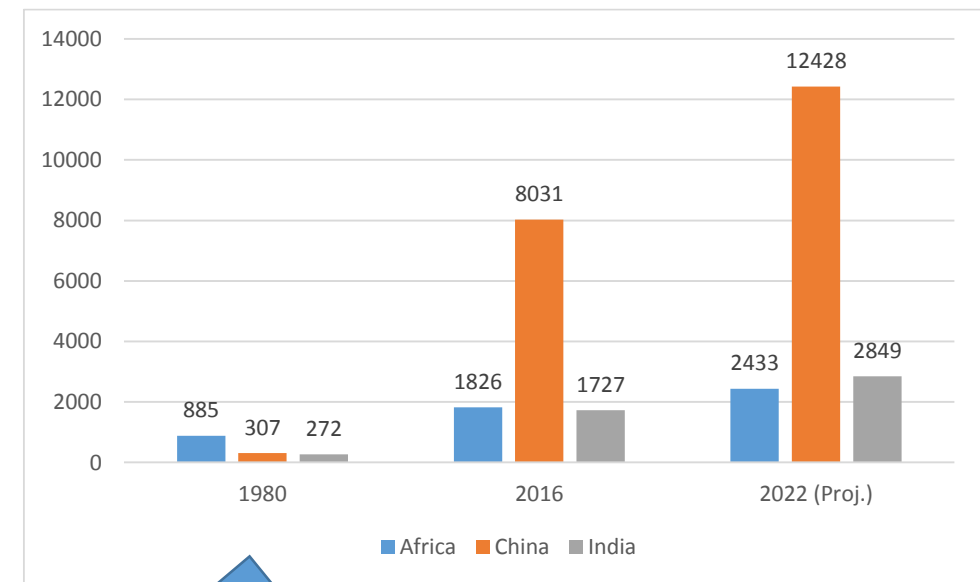
1. Reduce the gap between Africa and the other developing regions (such Asia) which has widened considerably in the 90s and continue to worsen

Share of the Nominal Gross Domestic Product (GDP) (in the World GDP in %) of China, India and Africa in the last three decades (Table 1)

Nominal Gross Domestic Product (GDP)	1980		2016		2022 (Proj.)	
	(Trillion of US dollars)	Share (%)	(Trillion of US dollars)	Share (%)	(Trillion of US dollars)	Share (%)
Emerging Markets and Developing Economies	2.69	24.1%	29.2	38.8%	44.28	44.3%
Africa	0.4247	3.8%	2.18	2.9%	3.29	3.3%
China	0.30535	2.7%	11.22	14.9%	17.71	17.7%
India	0.18944	1.7%	2.26	3.0%	3.94	3.9%

Sources: International Monetary Fund (IMF) and United Nations (UN).

Per capita GDP of China and India have significantly outpaced Africa in the last three decades (Figure 2)

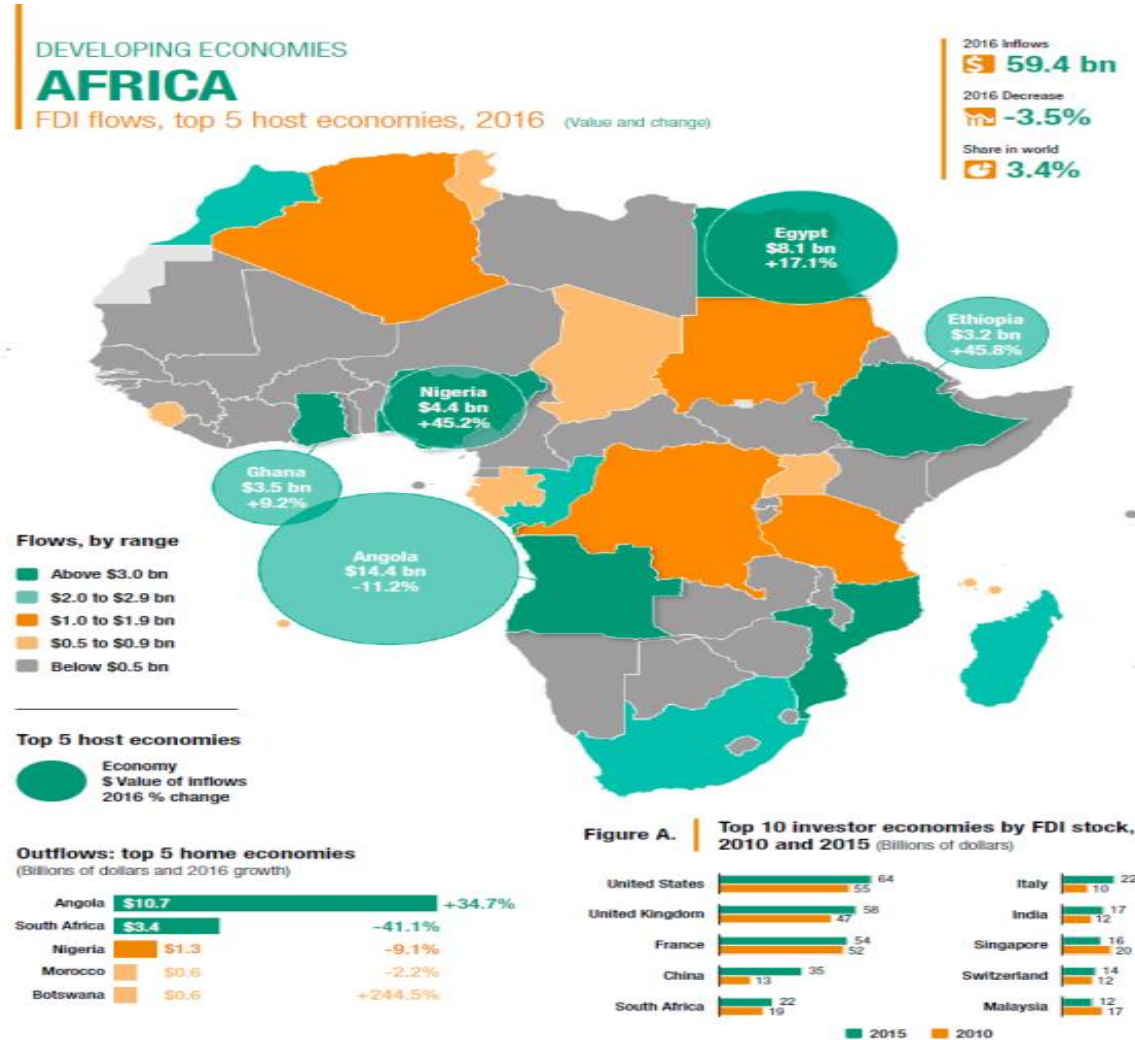


Why is regional integration in Africa an imperative? [2]

2. Attract more investments

...

- The continent continue to receive less than 5 percent of world foreign direct investments (FDI)
- According to the UNCTAD World Investment Report 2017, Africa received about 3.3 percent of world FDI in 2016 (compared to 25.3% for Developing Asia)



Source: UNCTAD.

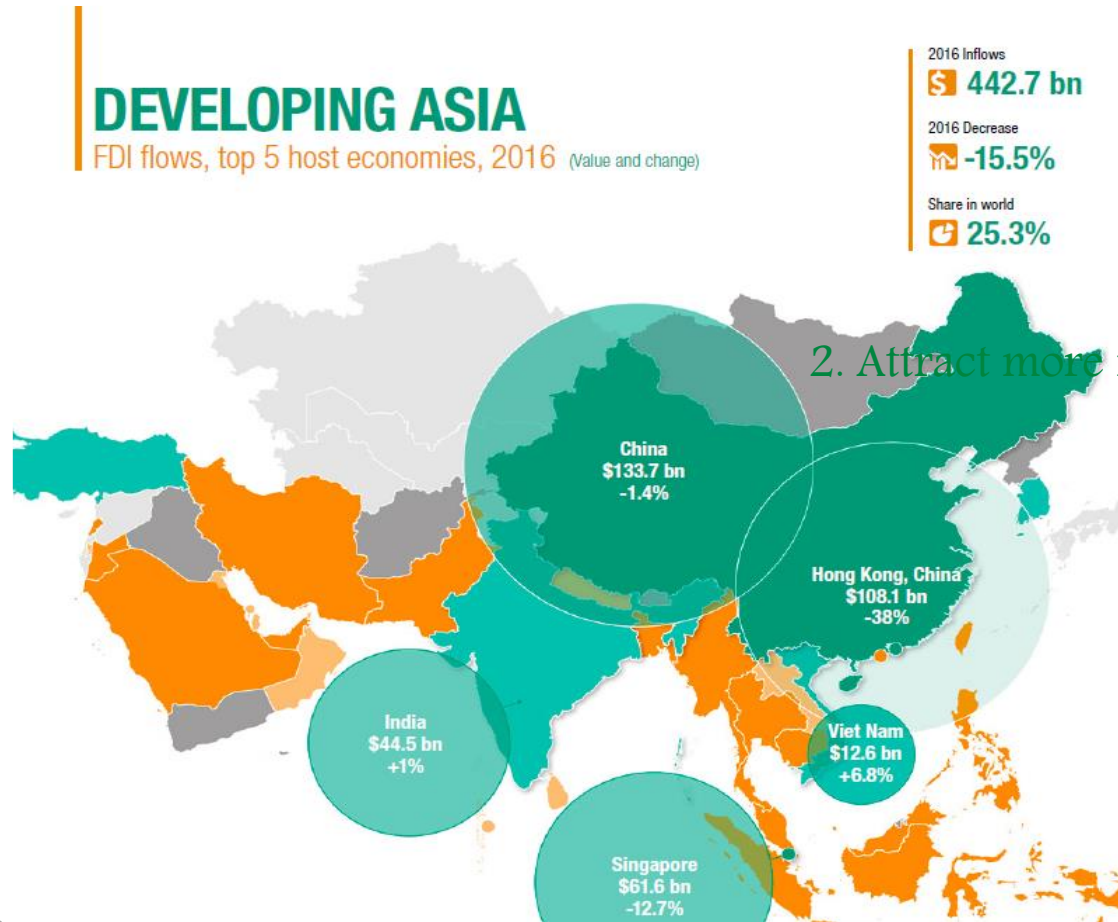
Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. Final boundary between the Republic of Sudan and the Republic of South Sudan has not yet been determined. Final status of the Abyei area is not yet determined.



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Why is regional integration in Africa an imperative? [3]

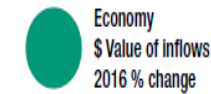
2 (continued) ... And reduce progressively the gap with other developing regions (e.g. Developing Asia)



Flows, by range



Top 5 host economies

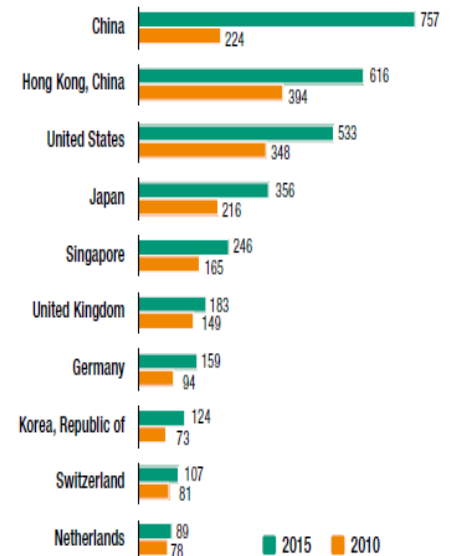


Outflows: top 5 home economies

(Billions of dollars and 2016 growth)



Figure A. Top 10 investor economies by FDI stock, 2010 and 2015 (Billions of dollars)



Source: ©UNCTAD.

Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. Dotted line represents approximately the Line of Control in Jammu and Kashmir agreed upon by India and Pakistan. The final status of Jammu and Kashmir has not yet been agreed upon by the parties.



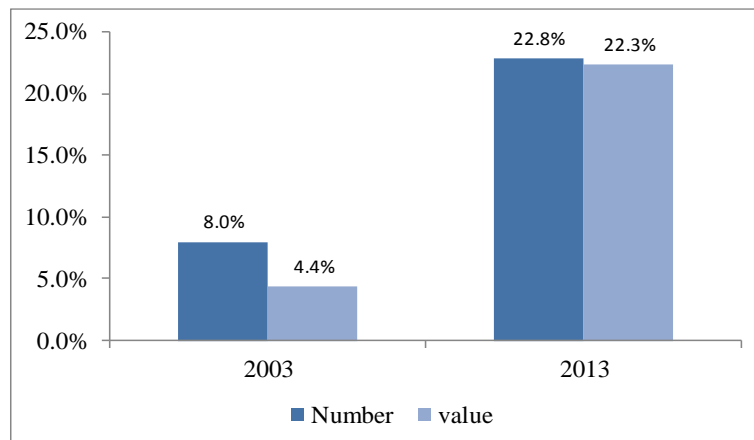
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Why is regional integration in Africa an imperative? [4]

3. Sustain the dynamism & interest of “intra-African investors” for cross-border investments (CBI)

Global Intra-African Investment trends

Share of intra-African Greenfield FDI projects between 2003 and 2013



Source: FDI Intelligence and Ernst & Young's Attractiveness survey Africa 2014

Intra-regional FDI projects has grown rapidly in absolute terms but not necessarily in relative terms (Four year sum and % of intra- and extra- REC Greenfield FDI projects*)

	2005-2008	2005-2008 (%)	2009-2013	2009-2013 (%)
Intra-EAC	30	68	77	61
Extra-EAC	14	32	49	39
Intra-ECOWAS	16	24	44	26
Extra-ECOWAS	50	76	125	74
Intra-SADC	49	25	168	36
Extra-SADC	151	76	304	64

Note: * No intra and extra-SADC data for Seychelles, Lesotho and Swaziland. For ECOWAS no intra- and extra- ECOWAS data for Benin, Burkina Faso, Cabo Verde, The Gambia, Guinea Bissau, Liberia, and Sierra -Leone.

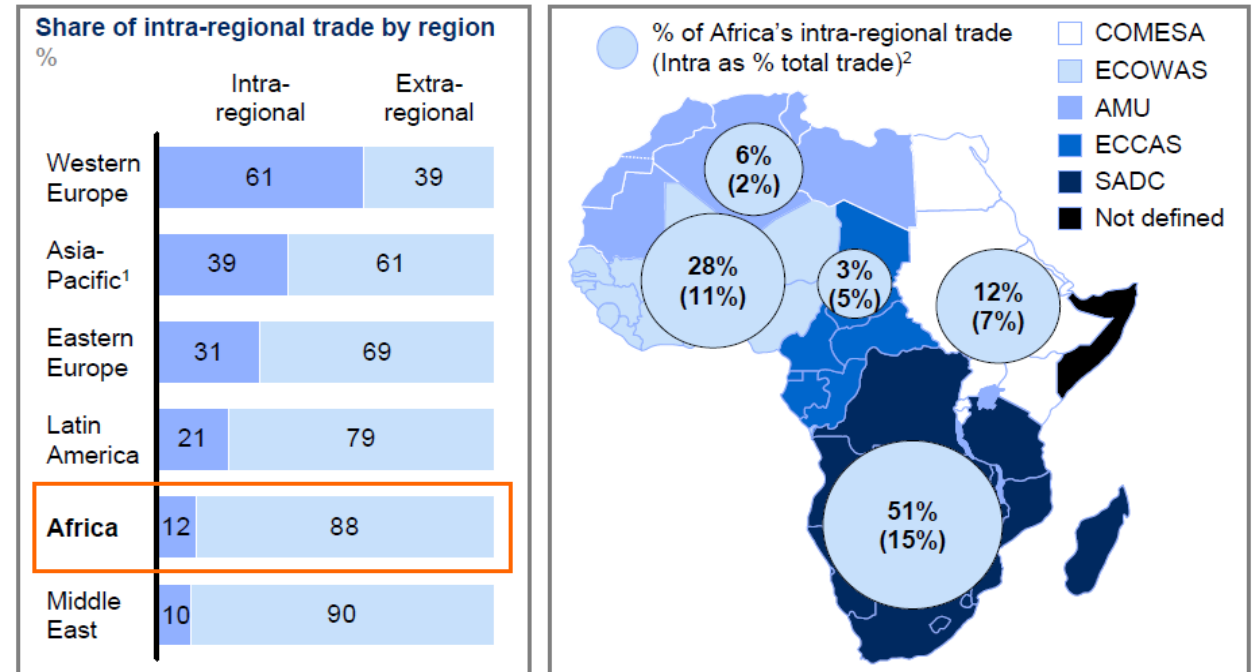
Source: Financial Times FDI database.

Why is regional integration in Africa an imperative? [5]

4. Expand pan-African markets through closer integration.

- **Trade flows (goods & services)**(implementation of the Continental Free Trade Area -CFTA)
- **Cross-border investments** (create larger and more competitive markets sector) & Scale up the role of the private)
- **Free movement of people**
- **Infrastructure connectivity** (implementation of the PIDA)
- **Connect landlocked countries, small island states and countries in transition**

Intra-African trade remains low compared with other regions



¹ Figures have been adjusted to remove the impact of Chinese re-exports through Hong Kong.

² Common Market for Eastern and Southern Africa (COMESA); The Economic Community of West African States (ECOWAS); Arab Maghreb Union (AMU); Economic Community of Central African States (ECCAS); Southern African Development Community (SADC)

What is the Bank's Approach on Regional Integration? [1]

The Policy & Strategic Context

Continental/Regional/ National Priorities

AU's Vision for 2063

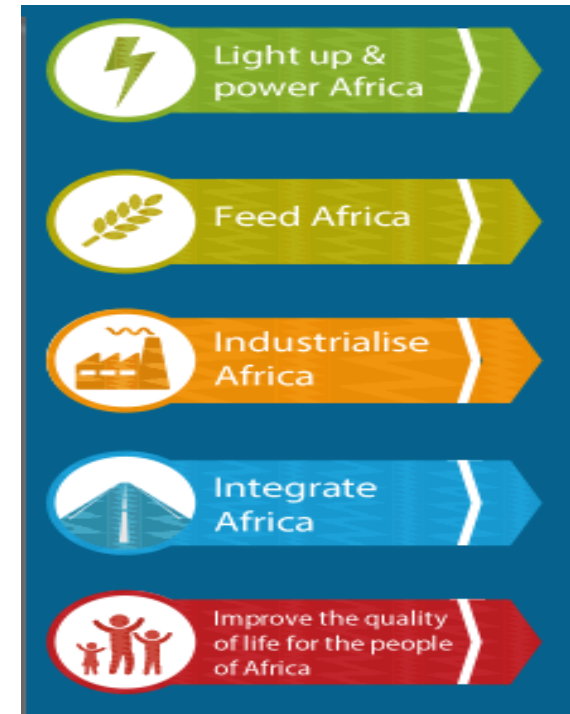
- Intra-African trade would grow from 10% in 2012 to about 50% by 2045 as a result of deeper integration
- Expanding pan-African markets through closer integration and expanded flows of trade, investment, data and people

Alignment with the New DBDM

- improve Bank effectiveness by observing key principles of communication, coordination and efficiency
- closer proximity to clients through decentralization
- implementation through the Regional Integration Strategy Papers (RISPs) & Country Strategy Papers (CSPs)

Alignment with the Bank's High Fives

The High 5 for transforming Africa
Le Top 5 pour transformer l'Afrique



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What is the Bank's Approach on Regional Integration? [2]

Bank's Strategic Priorities (Pillars)



Infrastructure
Connectivity
(Hard & Soft)

- Develop transport corridors and logistic services & hubs
- Improve access to reliable energy supply: energy markets including power pools & interconnections
- ICT fiber-connectivity and digitization of the economy
- Trans-boundary water resource management
- Infrastructure Project Preparation (Programme for Infrastructure Development in Africa – PIDA) (*USD68 billion gap, PIDA Priority Programme alone*)



Trade,
Investment &
Industrialization

- Trade Facilitation: addressing thick borders and transit issues
- NTMs, SPS etc.
- Regional value chains development
- Support commodity-based VCs
- Factor market integration



Financial
Integration

- Promote financial markets & financial institutions development & integration
- Increase the scale of operations and competition
- Increase financial system efficiency and productivity



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What are the Opportunities for the Private Sector? [1]

What are the two categories of Private Sector activities supported by the Bank

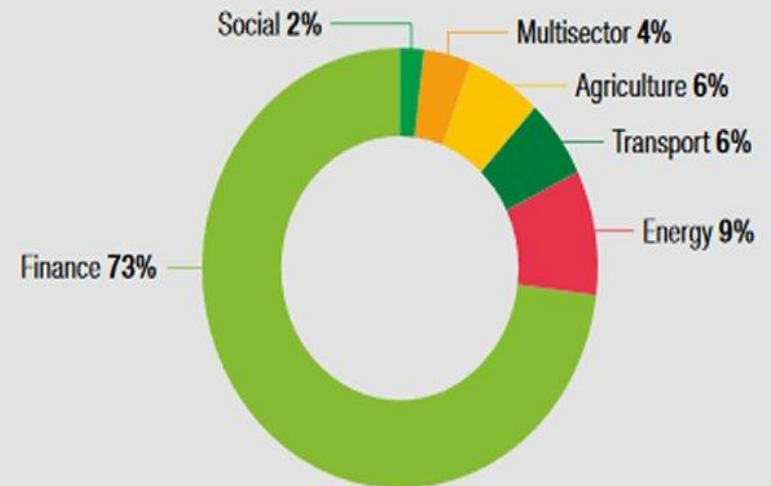
- Non-sovereign guaranteed (NSG) lending activities in the area of Industries & Services, PPPs & Infrastructure

(Private & Public Entities)

- Non-lending activities including studies, initiatives and new programs

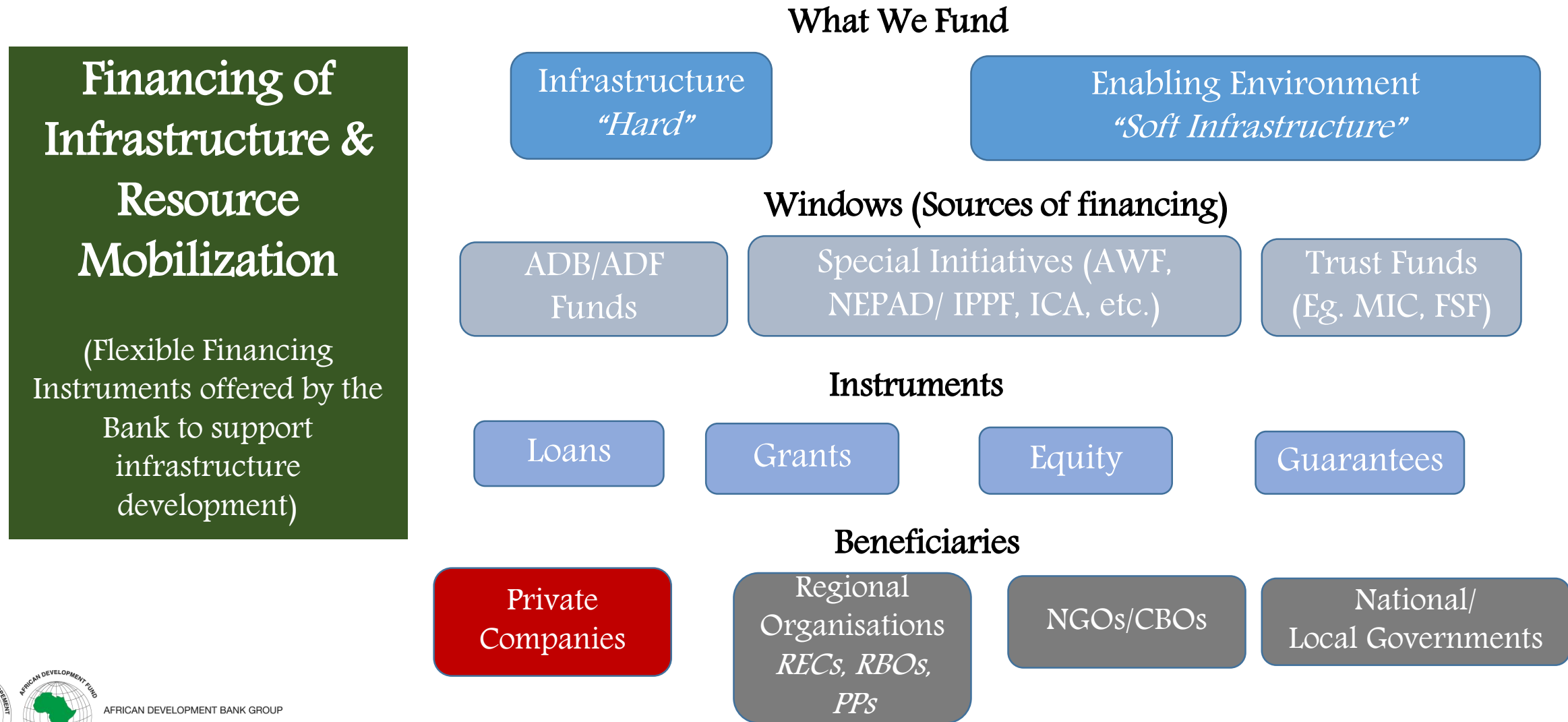
Bank's private sector interventions in 2016 (which emphasized co-financing, syndication, and strategic partnerships with the private sector) (Figure 2)

Private Sector Operations by Sector, 2016



Source: AfDB Statistics Department.

What are the Opportunities for the Private Sector? [2]



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Source: <https://www.afdb.org/en/topics-and-sectors/sectors/private-sector/>

What are Key Policy Recommendations [1]

- Gather the **political will** and **prioritize the implementation of the RI agenda**
 - Focus on **efficient RI and cooperation business models** (RI driven by institutions versus RI driven by the private sector/ or an efficient combination)
 - Adopt a **pragmatic, gradual and realistic approach**, involving all of the stakeholders at the national and regional levels
 - Invest in **priority regional infrastructure projects** (also in border posts) to close the missing links for connectivity
 - Scale up **trade and investment facilitation assistance** (and deliver efficient logistics services) through harmonization and/or mutual recognition of regulations, procedures and standards
- **Remove restrictions** on the movement of people, goods and investments



What are the Opportunities for the Private Sector? [3]



Modalities of intervention of the private sector (Infrastructure development):

- Suppliers of goods and services
- Contractors
- Consultants
- Opportunities for sub-contracting arrangements & Joint Ventures

Financing & Investment Mobilization Private Sector Financing (Infrastructure development):

- Participation of the private sector in PIDA projects (e.g. through PPPs)
- Participation through **dedicated Investor Platforms**: Partnership between the Bank and private sector institutions to convene dedicated platforms (e.g. public & private on specific PIDA projects to mobilize financing)
- Participation in **Infrastructure Skills Training** (e.g.: Skills training in specific infrastructure sectors to develop a core infrastructure expertise in Africa around PIDA Projects)

What are the Opportunities for the Private Sector? [4]

Trade, Investment & Industrialization

(Flexible support offered by the Bank to promote trade, investment & industrialization)

- ❑ Increasing **capacity and efficiency of private sector** at the regional/continental levels
- ❑ Encouraging **technology transfers** and industrialization
- ❑ Fostering the involvement of home-grown enterprises (MSMEs, LSEs ...), including through joint ventures, subcontracting, licensing, franchise arrangements and by **using local suppliers of goods and services in the regional value chains (RVCs)**
- ❑ External investors supply long-term capital, skills and technology, and **Cross-Border Investments (CBI)** creates a virtuous circle that **encourages greater foreign investment**



What are the Opportunities for the Private Sector? [5]

- ❑ Helping African countries to **add value to their immense natural resources** (e.g.: oil, gas, mining products, agricultural products).
- ❑ Supporting **pro-poor development and job creation** through strengthening enterprises, business relationships, improving market structures and the business environment.
- ❑ Offering local producers, including small- and medium-sized enterprises (SMEs), **opportunities to access fast-growing and more easily accessible markets across the continent**.



What are the Opportunities for the Private Sector? [6]

Financial Sector Integration

(Flexible support offered by the Bank to promote financial markets & financial institutions development & integration)

- ❖ Supporting the issuance of major bonds to finance regional projects
- ❖ providing an enabling environment for domestic financial reforms
- ❖ increasing the scale of operations and competition, thereby increasing financial system efficiency and productivity
- ❖ enabling African intermediary institutions and investors to grow into regional and ultimately global players in financial markets
- ❖ Strengthening financial markets to serve their intermediary role in ensuring resources are properly allocated to competitive industries
- ❖ Providing Investment and funding (Promote Regional Value Chain financing, access to finance, etc.)

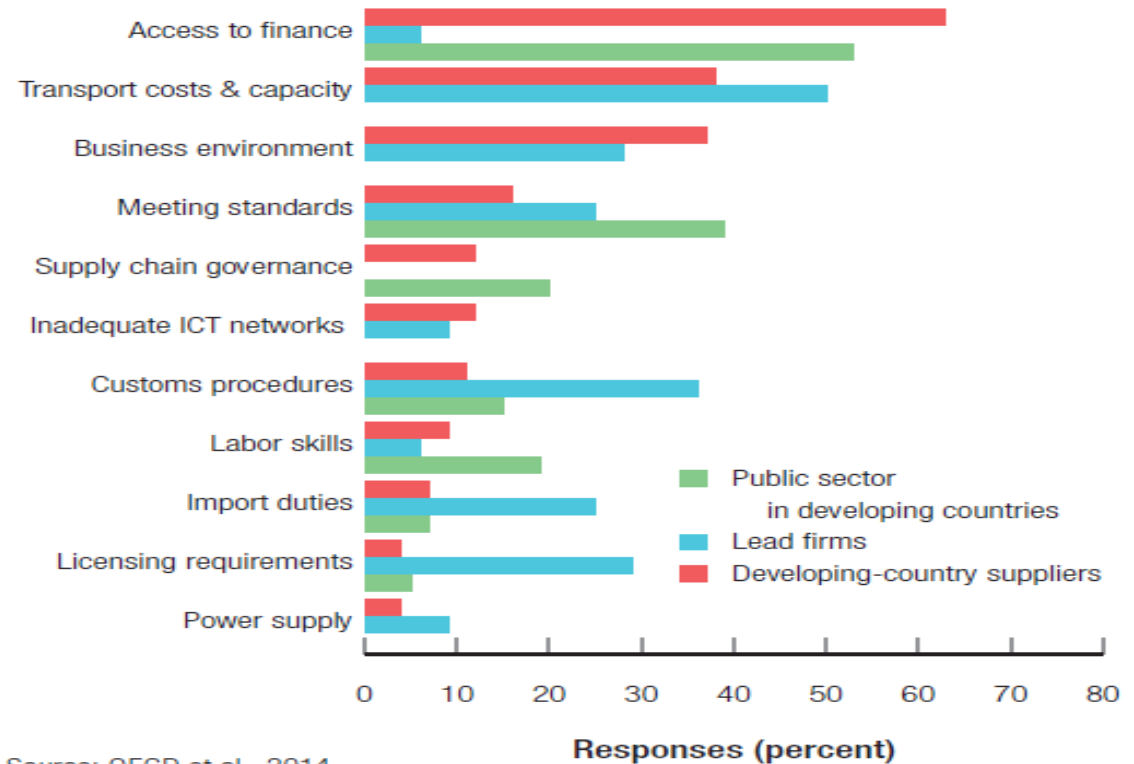


What are the Major Challenges for the Private Sector?

Africa's Low private sector development appear to be the result of a combination of negative:

- ✓ Institutional, structural and economic factors.
- ✓ Factors compounded by the inhibiting nature of the business environment,
- ✓ Lack of competitiveness of African Economies
- ✓ Low degree of economic integration and cooperation
- ✓ Lack of information on profitable investment opportunities.

Barriers to entering value chains: Private- and public-sector views



What are the Key Policy Recommendations [2]

- **Improve access to profitable markets and production resources** by smallholders to increase efficiency and add value to primary production
- **Assist in developing local micro and small enterprises** to help in overcoming constraints such as poor market access
- **Improve market structures and business environment to support pro-poor development and job creation** through strengthening enterprises, business relationships



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United Nations: www.un.org

UNCTAD: www.unctad.org

World Trade organization: www.wto.org



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Thank you

(for your kind attention)

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