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 as 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)

<table>
<thead>
<tr>
<th>Nominal Gross Domestic Product (GDP)</th>
<th>1980</th>
<th>2016</th>
<th>2022 (Proj.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emerging Markets and Developing Economies</td>
<td>2.69</td>
<td>29.2</td>
<td>44.28</td>
</tr>
<tr>
<td>Africa</td>
<td>0.4247</td>
<td>2.18</td>
<td>3.29</td>
</tr>
<tr>
<td>China</td>
<td>0.30535</td>
<td>11.22</td>
<td>17.71</td>
</tr>
<tr>
<td>India</td>
<td>0.18944</td>
<td>2.26</td>
<td>3.94</td>
</tr>
</tbody>
</table>

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

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

2. Attract more investments …
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

<table>
<thead>
<tr>
<th>Year</th>
<th>Intra-EAC</th>
<th>Extra-EAC</th>
<th>Intra-ECOWAS</th>
<th>Extra-ECOWAS</th>
<th>Intra-SADC</th>
<th>Extra-SADC</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>30</td>
<td>14</td>
<td>16</td>
<td>50</td>
<td>49</td>
<td>151</td>
</tr>
<tr>
<td>2013</td>
<td>68</td>
<td>32</td>
<td>24</td>
<td>76</td>
<td>25</td>
<td>76</td>
</tr>
</tbody>
</table>

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.

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*)

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

<table>
<thead>
<tr>
<th>Region</th>
<th>Intra-regional</th>
<th>Extra-regional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Europe</td>
<td>61</td>
<td>39</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>39</td>
<td>61</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>31</td>
<td>69</td>
</tr>
<tr>
<td>Latin America</td>
<td>21</td>
<td>79</td>
</tr>
<tr>
<td>Africa</td>
<td>12</td>
<td>88</td>
</tr>
<tr>
<td>Middle East</td>
<td>10</td>
<td>90</td>
</tr>
</tbody>
</table>

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

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

Financing of Infrastructure & Resource Mobilization
(Flexible Financing Instruments offered by the Bank to support infrastructure development)

What We Fund
- Infrastructure “Hard”
- Enabling Environment “Soft Infrastructure”

Windows (Sources of financing)
- ADB/ADF Funds
- Special Initiatives (AWF, NEPAD/IPPF, ICA, etc.)
- Trust Funds (Eg. MIC, FSF)

Instruments
- Loans
- Grants
- Equity
- Guarantees

Beneficiaries
- Private Companies
- Regional Organisations RECs, RBOs, PPs
- NGOs/CBOs
- National/Local Governments

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]

- 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

Trade, Investment & Industrialization

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

- 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

Source: OECD et al., 2014.
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
Selected References (for more information) [1]

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Official Websites:

African Development Bank Group:
www.afdb.org
https://www.integrate-africa.org/rankings/regional-economic-communities/

African Union: www.au.int
International Monetary Fund (IMF): www.imf.org
United Nations: www.un.org
UNCTAD: www.unctad.org
World Trade organization: www.wto.org
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(for your kind attention)

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