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**ANNUAL REPORT ON INTEGRATION IN AFRICA (ARIA)
MAIN MESSAGES**

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ANNUAL REPORT ON REGIONAL INTEGRATION IN AFRICA (ARIA)

MAIN MESSAGES

I. The objective of ARIA

The ARIA initiative was conceived to fill an important vacuum that currently exists, namely the absence of reliable data on economic integration which can provide a means of evaluating the integration process and identifying constraints and opportunities. Extensive and diverse studies, meetings and writings by a host of actors in the field of Africa's integration, although helpful, are often subjective, selective and ad-hoc in nature and scope. Starting from the maiden edition in year 2001, ARIA will provide an annual assessment of the status of Africa's regional integration. Thus, it will serve as an instrument for keeping track of progress on integration and a reference material for all parties involved (member States, RECs, development partners etc) for engaging in a more meaningful and structured dialogue on progress and shortcomings, and on how the agenda can best be supported.

In this context, the ARIA-2001 assessment focused on:

- ◆ gauging progress of overall integration in Africa
- ◆ status of RECs integration agenda not only in trade liberalization but also in all sectors where objectives have been established
- ◆ drawing lessons and a Way Forward to guide efforts to accelerate progress on Africa's integration.

The preparation of ARIA-2001 is almost completed. Work is in progress to pull all the different parts of the assessment together. These include sub-regional reports assessing progress at the level of each Regional Economic Community (REC), and showing the contribution of each member State of the REC in that regard, and sector reports which tried to deepen the appraisal from a sectoral perspective across each subregion in particular and Africa in general. The sectors analyzed include human development and labour mobility, trade and market integration, monetary cooperation, industrial cooperation, transport and communications, agriculture and food security, water cooperation, and peace and security.

This very brief report has been prepared to highlight the main messages from the research materials providing the basis for the consolidation of ARIA-2001 in the coming weeks prior to the 2001 African Development Forum scheduled for 9-13 December, and the final publication of the ARIA report thereafter.

II. Main achievements or efforts in progress

Human Development and Labour Mobility

Inferring from the REC treaties, human development is perceived as a tripartite responsibility involving national level efforts, creation of common sub-regional or regional institutions and the private sector. The appraisal, therefore, examined each of the three components. At the national level, there is a host of policies favouring human resources development in general, with emphasis on free primary education and support to secondary and tertiary education. At the REC or Africa-wide level, a number of common capacity-building and training institutions has been established. In

terms of the private sector, policy shifts to free market principles and permissive environment are providing encouragement to private sector participation in all areas of economic activity including education and training, areas which, hitherto, were confined to governmental or public sector control and ownership. Keen efforts are being made towards harmonization of educational policies within the RECs, while a number of measures has been adopted to promote free movement of people, particularly in terms of abolition of entry visas and issuance of common travel documents by some RECs. Best practices in this respect are evident in RECs such as ECOWAS and EAC.

Trade and Market integration

The assessment revealed that this is a cluster where a great deal of investment in effort has been expended by the RECs. The majority of RECs have adopted trade liberalization programmes to gradually eliminate customs duties and other non-tariff restrictions to trade among countries of the grouping. At end of 2000, three RECs (CEMAC, SACU and UEMOA) had already achieved 100% tariff reduction, while other RECs are at varying stages of the reduction process. The trade liberalization schemes are further buttressed by trade facilitation and promotion measures such as ASYCUDA (i.e. computerized customs procedures) and harmonization and simplification of road transit and customs documents. Best practices in this regard are evident in COMESA. In terms of intra-REC trade, which is an important indicator to gauge the impact of the trade liberalisation programmes, there were encouraging prospects in the intra-REC export trade over the period 1994-2000 for such RECs as IGAD, EAC, ECOWAS, UEMOA and SADC. On intra-REC imports, SADC, EAC, ECOWAS and IGAD reflect best performances. When compared with the trade liberalisation schedules envisaged under the Abuja Treaty framework, satisfactory progress has been made as the AEC trade liberalisation provisions envisage free trade areas by 2017. The AEC time table may probably need to be revisited given the pressures for Africa to integrate rapidly as a result of the challenges of globalization. At the apex of the positive scale of achievement in this cluster is the fact that three RECs, namely UEMOA, SACU and CEMAC, are currently fully functioning Customs Unions.

Regional Industrial development co-operation

Industrial co-operation did not reveal much by way of achievements. However all RECs have initiated what may be described as "soft" measures to galvanize growth in the industrial sector. These measures have generally consisted of support to intra-industry trade through the trade liberalisation programmes. Data on intra-industry trade revealed that ECOWAS and UEMOA recorded some growth in intra-REC exports of manufactures in the total RECs imports.

Monetary, Fiscal and Financial Integration

The most striking feature under this cluster is that two RECs, namely CEMAC and UEMOA, exist as monetary unions and have a single currency. Plans for monetary and financial harmonization are in place in COMESA and ECOWAS, while the objective is also being vigorously pursued in the Common Monetary Area (CMA) countries within SACU and SADC through official dialogue between the Reserve Bank of South Africa and monetary authorities of the other members. EAC has achieved an appreciable level of currency convertibility within the Community. Many RECs have, at least, established parameters on macro-economic convergence to help orient their member States' efforts towards macro-economic reforms and stability. On capital markets development, the existence of several stock exchanges within almost all the REC zones, a number of which have a sub-regional outreach, is helping to foster some cross-border portfolio investment. Community financial institutions, such as the COMESA Trade and Development Bank, are established and functioning relatively well.

Transport and Communications

On transport and communications, all RECs have agreed common policies and practices to achieve transport integration. Some RECs, such as COMESA, ECOWAS and SADC, have even concluded binding agreements and protocols in this regard. EAC has a binding protocol on road transportation. The West African sub-region has a relatively well-linked road network through the Trans-West African Highway system, but has limited rail links. UMA has fairly well developed road network, and SADC and EAC have good levels of road and rail linkages. All RECs have instruments in one form or another to achieve unimpeded transit facilitation, reduce costs and improve overall efficiency. The SADC region has, for instance, adopted the concept of "One-Stop-Border-Posts" and "Transport Corridor Planning Committees" among other measures to improve transit transport along the major international transport corridors. COMESA has a number of instruments, the Yellow Card (Brown Card in ECOWAS), uniform system transit charges, Carriers License and Advance Cargo Information system to improve transit facilitation.

On telecommunications, PANAFTEL and Intercom I projects have now provided full linkages of the inter-State networks in the ECOWAS region. Some RECs have developed significant telecom projects. They include the COMESA COMTEL project estimated to cost US\$172 million to interconnect COMESA countries and resolve inter-State network deficiencies. The South African Telecommunications Association (SATA) is coping with very rapid growth in demand for telecommunication services by building a broad band regional trunk line to link all member States. The project is estimated to cost US\$180 million and will take about six years to complete. CEMAC countries have decided to set up a fibre optic back-bone having earth connections in Douala for the SAT project and Point Noire for the Africa One satellite project.

Continental initiatives such as RASCOM is enabling various African countries to cooperate successfully in pooling resources. Other telecommunication development programmes to connect African countries are underway. Examples are: fibre optic submarine cable systems, Africa 1, Atlantis, SAFE, satellite transmission equipment and DAMA of Intelsat.

Energy Resources integration

Development of energy cooperation plans exist or are in their formative stage. These include the establishment of power pools in West Africa and Southern Africa for electricity generation and distribution, the most operational and successful so far being the South African Power Pool (SAPP), possibly because it was created with the assistance of a strong utility (ESKOM). Several oil and gas pipelines are planned in North Africa to optimize the subregion's energy potential and ECOWAS has a Master Plan for Regional Energy Development. There are also joint hydroelectric schemes worth mentioning: These include Kariba supplying Zimbabwe and Zambia with some 35% and 30% respectively of their total electricity needs over the 1994-1999 period. Some 42%, 19% and 23% respectively of electricity requirements were supplied from *Société Internationale de l'Electricité des Pays des Grands Lacs* (SINLEC) to Rwanda, Burundi and DRC.

There are other non-REC energy initiatives. These include continental efforts towards the establishment of the Africa Energy Commission to provide a governance structure for Africa's energy sector; the Nile Basin initiative, launched in February, 1999, as a regional partnership within which countries of the Nile Basin have united in common pursuit of the long-term development and management of the Nile waters; and the New African Initiative which aims at increasing from 10% to 30% access to reliable and affordable commercial energy and lowering the cost of energy supply. All of these initiatives are, however, yet to materialize.

Water sector integration

SADC is keen to promote water integration through a protocol on shared water resources, while ECOWAS is implementing a multi-faceted programme focusing on developing community water supplies among other things. COMESA and EAC are supporting cooperation in the context of the Nile Basin initiative, Lake Victoria Basin Authority and KBO and ADB-sponsored master plan for irrigation project.

Agricultural Production and Food Security

Whatever REC activities have been in this area have focused on extension services and food security. A number of RECs have adopted food security programmes and established early warning systems, with SADC emerging as a "best practice", particularly in terms of the SADC Early Warning System and Food Security Training Programme.

Peace, Security and Governance

On peace and security, the ECOWAS region has been in the lead in mechanisms for conflict prevention and peace keeping. Other RECs such as IGAD and ECCAS are trying to develop mechanisms to promote regional peace and security, but they are yet to materialize into fully operational instruments.

III. Key constraints affecting rapid progress

The ARIA appraisal revealed a number of problems affecting progress or prolonging the achievement of objectives. The key constraints are as follows:

Implementation and structural bottlenecks

- ◆ Almost all RECs have begun to implement trade liberalization initiatives. Much investment in time and focus has been expended in this area, but majority are yet to attain full-fledged Free Trade Areas. Elimination of barriers to intra-regional trade has been generally incomplete as some members States are behind in their tariff reduction obligation.
- ◆ Infrastructure still remains a bottleneck, particularly in transport and communications, and energy. Diversified manufacturing capacity is still weak. All these factors have combined to produce high cost of doing business and low intra-subregional trade.
- ◆ By not achieving rapid unification of the sub-regional markets, RECs and their Member Countries have been slow in creating an important aspect of the enabling environment to encourage investment motivated by economies of scale.
- ◆ Inadequate internalization of agreed integration objectives at the national level is evident, and manifested in weak national mechanisms for coordination, implementation and follow-up of agreed integration objectives.
- ◆ A striking consequence of these deficiencies is manifested in low intra-REC trade, and thus compromises the potential role of intra-REC trade as an engine of growth and development.

Policy constraints

- ◆ The continued difficulty by countries in achieving robust macro-economic policy environment in the context of desirable convergence parameters has not been helpful to deepening the integration process.
- ◆ Certain sectoral policies, such as those relating to industrial cooperation and telecommunications, are primarily premised on public ownership and control with very limited role foreseen for the private sector. It should be said though that this may also be due to the inadequacies and weakness of the private sector itself to engage, for instance, in scale production taking advantage of the on-going efforts to enlarge the sub-regional/regional markets.
- ◆ The existence of several RECs and overlapping membership is complicating the overall continental integration agenda and putting enormous strains on governments' ability and resources to cope with diverse integration agendas and exigencies.
- ◆ How to cede sovereignty to RECs such that they can possess "supra-national" authority to enforce Community decisions has been a particularly difficult issue to grapple with.

Resource constraints

- ◆ There is a significant mismatch between resources and the substantial level of integration ambitions and targets as can be seen in some of the sectors indicated earlier on.
- ◆ There is no question that almost all RECs suffer from inadequate material, financial and manpower resources to enable them drive their respective integration agendas.

IV. Central messages in terms of the balance sheet of progress

- ◆ The continent is on the right track with its current emphasis on integration and a lot of energy, goodwill and effort to achieve results is generally evident and vary from REC to REC or sub-region to sub-region.
- ◆ This notwithstanding, there is a great deal of problems to overcome and intensified political commitment and commensurate resources are indispensable before more positive results leading to rapid integrated economies and markets will emerge. In this regard, time is of essence to develop the continent as an integrated bloc to meet the challenges as well as take full advantages of the opportunities of the rapidly evolving globalization phenomenon.
- ◆ So far efforts towards achieving objectives have been much more visible in the area of trade and market integration. However, achievement of the broader objective of establishing an African economic community or the African Union also requires that significant inroads should be made in certain key growth enhancing sectors (energy, transport networks, etc) within the RECs and across the continent.

- ◆ The role of the private sector in the integration process has largely been peripheral for two reasons: First, the integration agenda, as a tool for establishing an enabling environment for greater private sector investments across frontiers, has still not realized its fullest potential. Second, the indigenous private sector is still hamstrung with a number of difficulties of its own. FDI is yet to be fully motivated or attracted by Africa's integration efforts to expand its economic and market spaces.

V. Key challenges ahead to overcome constraints and increase achievements

- ◆ Political commitment cannot be taken for granted. It exists but it has to adequately manifest itself into provision of sufficient resources, national level implementation, and enhanced results of the integration agenda.
- ◆ How to provide a more effective interface between objectives/instruments of regional integration and national development planning and economic reforms is imperative. Adopting clear and consistent national policies taking into consideration agreed integration objectives, policies is important in this regard.
- ◆ Certainly, random national coordination of regional integration issues resulting in haphazard follow-up and implementation needs to be avoided.
- ◆ Sustaining and increasing the momentum to create an enabling environment through market expansion, free factor mobility, effective contribution to the provision of basic infrastructure, etc, is critical to induce investment, including intra-African resource movements.
- ◆ Ceding some aspects of national sovereignty and independence of action to the imperative of regional development.
- ◆ Creating convergence of macroeconomic policies to foster coherent sub-regional space necessary for economic integration at the sub-region and eventually the continental level is an essential ingredient for deeper integration.
- ◆ Avoiding the potential conflict, confusion and inefficiency resulting from individual country membership in more than one subregional REC can help in rationalizing RECs and promoting unity of purpose.

VI. Elements for a Way Forward towards enhanced integration

Proposals geared towards improving REC functioning and performance

- Refocusing the REC's Policies and Scope of Operations
 - ◆ Limit REC activities to areas of clear comparative advantage through
 - ◆ identifying areas in social sectors and other non-trade related areas where institutions other than RECs can play leading roles
 - ◆ agreeing within a two-year period on the appropriate division of responsibilities among RECs, subregional groups other than RECs, continental organizations, the national government, the private sector and other stakeholders

- ◆ paying attention to REC obligations in the WTO and building capacity to positioning themselves effectively for forthcoming negotiations with the European Union and a possible new round of multilateral trade negotiations.
 - ◆ Thus, RECs will not waste resources by being involved in activities where they lack comparative advantage vis-à-vis the countries themselves, other regional organizations and, possibly, all-Africa institutions
 - ◆ Recognize the role of the private sector, overcoming current attitudes that the role of government is to be investor/owner/manager of enterprises rather than promoters and enablers of private investment
 - ◆ Develop a coherent approach to working with other stakeholders including the private sector, national authorities and other subregional entities.
- Co-ordination, harmonisation and Rationalisation of RECs
- ◆ Improve Inter-REC coordination and cooperation through:
 - ◆ Staff exchange programmes among RECs
 - ◆ collaboratively reviewing REC experiences to avoid pitfalls
 - ◆ sharing and adopting successful ideas and best practices
 - ◆ establishing or strengthening consultation mechanisms among RECs
 - ◆ Have policies and programs consistent with reference to continental objectives and foresee the convergence of sub-regional goals because focusing on parochial subregional issues may result in loss of focus on broader continent wide building issues.
 - ◆ Address the problem of overlapping RECs within the same region by encouraging amalgamation of smaller RECs into larger regional groupings such as ECOWAS-UEMOA, SADC-SACU
- Improving “supra-national authority” of RECs
- ◆ Accelerate decision making and implementation process by establishing guidelines and time limits for actions
 - ◆ Introduce a system of sanctions and inducements linked to nonperformance; thus RECs will have a means of sanctioning non-fulfillment of country obligations to the RECs or slow or non-implementation of agreed policies and programs

□ Improving REC resources and implementation of activities

- ◆ Ensure RECs have financing sufficient to be endowed with:
 - ◆ adequate staff resources and generally enable them fulfill their mandates.
 - ◆ reduce reliance on external donor financing
- ◆ Establish a system of contributions by member governments with sanctions for arrears or late payments
- ◆ Ensure that decisions made to specific problems and protocols and instruments agreed upon, ratified are implemented in a timely manner
- ◆ Reduce the time taken between identification of needs and implementation of solutions, so that solutions are overtaken by events.

Proposals geared towards building an effective transition to the African Union.

- ◆ The RECs are to be seen as key building blocs for the African Union (AU) but it should be recognized that this may not be appropriate in all areas and sectors.
- ◆ Ensure coordination of REC activities and their consistency and coordination with policies to create the African Union
- ◆ Expand involvement of the private sector including transnational companies and recognize increasingly their inputs into building the AU.
- ◆ Strengthen interface between national, subregional and regional integration structures
- ◆ Pay attention to the interface between RECs and supporting entities (ADB), (OAU) and (UNECA) and on steps to create the African Union.

Proposals geared towards improving sectoral performance

- Rationalize and strengthen REC sectoral activities, emphasizing complementarities with trade
 - ◆ After rationalizing activities in all sectoral areas to those where the RECs have a comparative advantage and/or can make a significant input, together with national governments, RECs should develop effective investment promotion programs. REC goals should be modernized to emphasize primacy of private investment over state control and ownership,
 - ◆ Significant steps towards monetary union will hinge on sufficient improvements in meeting macro-economic criteria.

RECs are encouraged to:

- ◆ work with member government to develop plans for integrating their transport systems including uniform documentation and regulation of carriers and to maximize attractiveness to private investors
- ◆ continue working with national governments to assure maximum privatization in line with WTO objectives in basic telecommunications. This is one area that the REC role will diminish as the role of the private sector expands therefore allowing the REC to reallocate efforts.
- ◆ identify investment priorities in power generation and transmissions, develop the enabling environment for full private sector participation, ensure that energy pricing reflects full economic costs and work with AFREC to have an integrated African grid.
- ◆ together with national governments and the RBOs, RECs develop full cost recovery policies and formal water sharing agreement among basin countries.
- ◆ work with national governments and among themselves to ensure uniform and consistent mining legislation first within the REC and then throughout the continent.
- ◆ borrow from the ECOMOG experience and set up or deepen existing mechanisms to preempt those conditions that threaten peace and security and in cases of conflict, contribute to peacekeeping.
- ◆ give highest priority to completing programs to create internal free trades within their sub-regions, bearing in mind the linkage between trade, foreign and domestic investment and infrastructure development.
- ◆ agree to implement free trade within two years where the original date for implementation has passed--ECOWAS, UMA and ECCAS as well as the eleven countries not participating in the COMESA fast track. Derogations and exceptions when justified are advisable rather than simply ignoring deadlines.
- ◆ establish uniform documentation requirements for community wide flows of the factors of production within two years.

ANNEX

ACRONYMS

ABUJA TREATY: The Treaty Establishing the African Economic Community
ADB: African Development Bank
ARIA: Annual Report on Integration in Africa
ASYCUDA: Automated System of Customs Data
CEAO: Communauté Economique de l'Afrique de l'Ouest
CEMAC: Communauté Economique et Monétaire des Etats de l'Afrique Centrale
CEEAC: Communauté Economique des Etats de l'Afrique Centrale
CEPGL: Communauté Economique des Pays des Grands Lacs
CMA: Common Monetary Area
COMESA: Common Market for Eastern and Southern Africa
ECOWAS: Economic Community of West African States
EAC: East African Cooperation
GDP: Gross Domestic
IGAD: Intergovernmental Authority on Development
PANAFTEL: Pan African Telecommunication project
RASCOM: Regional African Satellite Communication project
REC: Regional Economic Community
SADC: Southern Africa Development Community
SACU: South African Custom Union
UEMOA: Union Economique et Monétaire Ouest Africaine
UDEAC: Union Douanière et Economique des Etats de l'Afrique Centrale