

Advancing Regional Integration in Southern Africa

An evidence-based, forward looking study on regional trade and integration in the Tripartite region, focusing primarily on Southern Africa

Final Report

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List of Acronyms

ACP	African, Caribbean and Pacific
AEO	Authorised Economic Operator
AEC	African Economic Community
AECF	Africa Enterprise Challenge Fund
AFD	Agence Française de Développement
AfDB	African Development Bank
AfT	Aid for Trade
AFTI	African Free Trade initiative
AgDevCo	African Agriculture Development Company
AGOA	African Growth and Opportunity Act
AICD	Africa Infrastructure Country Diagnostic
ANC	African National Congress
APEI	Accelerated Programme for Economic Integration
ASCCI	Association of SADC Chambers of Commerce and Industry
ASPB	Advisory Service for Private Business
ASYCUDA	Automated System for Customs Data
AU	African Union
BAA	Business Action for Africa
BAFICAA	Business Action for Improving Customs Administration in Africa
BACG	Beira Agricultural Corridor Group
BEE	Business Enabling Environment
BizAB	Business Across Borders
BMOs	Business membership organization
BOCCIM	<i>Botswana</i> Confederation of Commerce, Industry and Manpower
BRICS	Brazil, Russia, India, China & South Africa
CAADP	Comprehensive Africa Agriculture Development Programme
CBC	COMESA Business Council
CEN-SAD	Community of Sahel-Saharan State
CET	Common External Tariff
CFTA	African Continental Free Trade Area
CIDA	Canadian International Development Agency
CM	Common Market
COMESA	Common Market for Eastern and Southern Africa
CFM	Caminhos de Ferro de Moçambique
COSATU	Congress of South African Trade Unions
CSOs	Civil Society Organisations
CTTTFP	Comprehensive Trade and Transport Facilitation Programme
CU	Customs Union
DAC	Development Assistance Committee
DANIDA	Danish International Development Agency
DBSA	Development Bank of Southern Africa
DF	Development Fund
DFI	Development Finance Institution
DFID	Department for International Development
DFID HQ	Department for International Development Head Quarters
DFID SA	Department for International Development Southern Africa
DFQF	Duty-free and quota-free
DGIS	Directorate-General for International Cooperation
DRC	Democratic Republic of Congo
EABC	East Africa Business Council
EAC	East African Community
EAIF	Emerging Africa Infrastructure Fund
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	Empresa de Comercializacao Agricola
ECCAS	Economic Community of Central African States
ECDPM	European Centre for Development Policy Management
ECOSOC	Economic and Social Council

ECOWAS	Economic Community Of West African States
EDF	European Development Fund
EIB	European Development Bank
EIF	Enhanced Integrated Framework
EMBRAPA	Brazilian Agricultural Research Corporation
EPA	European Partnership Agreement
ESA	East & Southern Africa
ETG	Export Trading Group
EU	European Union
FCO	Foreign Commonwealth Office
FDI	Foreign Direct Investment
FESARTA	Federation of Eastern and Southern Africa Road Transport Associations
FIAS	Facility for Investment Climate Advisory Services
FOCAC	Forum on China-Africa Cooperation
FSE&CC	Federation of Swaziland Employers and Chamber of Commerce
FTA	Free Trade Area
FTF	Feed the Future
GDP	Gross Domestic Product
GIZ	Germany Development Agency
GSP	Generalised System Preferences
ICAI	Independent Commission for Aid Impact
IAIDA	Institutional Architecture for Infrastructure Development in Africa
ICA	Infrastructure Consortium for Africa
ICT	Information and communications technology
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IGAD	Intergovernmental Authority of Development
IMF	International Monetary Fund
INATTE	Instituto Nacional dos Transportes Terrestres
IOC	Indian Ocean Commission
IPC	Industrial Promotion Centre
IPPs	Independent Power Producers
IUMP	Industrial Upgrading and Modernisation Programme
ITC	International Trade Center
ITF	Infrastructure Trust Fund
JICA	Japan International Cooperation Agency
JIRCAS	Japan International Research Centre for Agricultural Sciences
KfW	Kreditanstalt für Wiederaufbau
KPL	Kilombero Plantations
LDC	Least Development Country
LICs	Low Income Countries
LHWP	Lesotho Highlands Water Project
LMICs	Lower-Middle Income Countries
MCC	Millennium Challenge Corporation
MCCI	Malawi Confederation of Chambers of Commerce and Industry
MDC	Maputo Development Programme
MDG	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
MISMEs	Micro, Small and Medium Enterprises
MRGP	Mozambique Regional Gateway Programme
MTE	Mid-Term Evaluation
NCCI	Namibia Chamber of Commerce and Industry
NEDLAC	National Economic Development and Labour Council
NEPAD	New Partnership for Africa's Development
NGO	Non-governmental Organisation
NIAF	Nigeria Infrastructure Advisory Facility
NMB	National Microfinance Bank
NORAD	Norwegian Agency for Development Corporation

NPC	National Planning Commission
NSC	North South Corridor
NTB	Non-Tariff Barrier
NTF	Namibia Trade Forum
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
OSBP	One-stop border posts
PACT	Programme for Building African Capacity for Trade
PAP	Priority Action Plan
PE	Political Economy
PEA	Political Economy Analysis
PIA	Private Investors for Africa
PIDG	Private Infrastructure Development Group
PIDA	Programme for Infrastructure Development in Africa
PPD	Public-private Dialogue
PPDF	Project Preparation Development Facility
PPF	Project Preparation Facilities
PPI	Public-private Infrastructure
PPIAF	Public-private Infrastructure Advisory Facility
PPIU	Project Preparation and Implementation Unit
PPP	Public-private partnerships
PSOs	Private Sector Organisations
PTA	Preferential Trade Area
REC	Regional Economic Community
REISP	Regional Economic Integration Support Programme
REM	Regional Electricity Market
RIAS	Regional Integration Assistance Strategy
RIDMP	Regional Infrastructure Development Master Plan
RIPA	Regional Infrastructure Programme for Africa
RIP	Regional Indicative Paper
RISDP	Regional Indicative Strategic Development Plan
RoOs	Rules of Origin
RTA	Regional Trade Agreement
SACAU	Southern African Confederation of Agricultural Unions
SACU	Southern African Customs Union
SADC	Southern Africa Development Community
SADCAS	Southern Africa Development Community Accreditation Service
SADCC	Southern African Development Co-ordination Conference
SADPA	South African Development Partnership Agency
SDP	Spatial Development Planning
SAGCOT	Southern Agricultural Growth Corridor of Tanzania
SAIIA	South African Institute of International Affairs
SAPs	Structural Adjustment Programmes
SAPP	Southern Africa Power Pool
SARPN	Southern Africa Regional Poverty Network
SATH	Southern Africa Trade Hub
SDI	Spatial Development Initiatives
SEZs	Special Economic Zones
SMEs	Small & Medium Enterprises
SSA	Sub-Saharan Africa
STA	SADC Trade Protocol
TAF	Trade Advocacy Fund
TAP	Tanzanian Agricultural Partnership
TFTA	Tripartite Free Trade Area
TGVC	Trade and Global Value Chain Initiative
TIC	Trade and Investment Center
TICAD	Tokyo International Trade Conference on African Development
TIFI	Trade, Industry, Finance and Investment
TMEA	TradeMark East Africa
TMSA	TradeMark Southern Africa

TSIs	Trade Support Institutions
TTA	Tripartite Trust Account
TTF	Tripartite Task Force
UKTI	UK Trade & Investment
UMA	Arab Maghreb Union
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
UNIFEM	United Nations Development Fund for Women
UNOPS	United Nations Office for Project Services
USAID	United States Agency for International Development
VfM	Value for Money
WB	World Bank
WEF	World Economic Forum
WTO	World Trade Organisation
ZACCI	Zambia Chamber of Commerce and Industry
ZINARA	Zimbabwe National Roads Administration
ZNCC	Zimbabwe National Chamber of Commerce

EXECUTIVE SUMMARY

With a number of evaluations of DFID-funded programmes in Southern Africa recently undertaken it is difficult to gain a consolidated, practical overview of: i) the experience and lessons learned in supporting regional integration in the Tripartite and Southern African regions; ii) the current policies, programmes, mechanisms and plans relevant to regional integration as well as other factors impacting regional integration; and iii) how a donor should strategically engage in the region if they wish to apply an innovative and Value for Money (VfM) approach. This has given rise to the demand for an evidence-based study on advancing trade and regional integration in the Tripartite area.

The aim of this study has been to prepare evidence-based recommendations for future interventions in regional trade and economic integration by DFID and other development partners in the Tripartite region, focusing primarily on Southern Africa. After reviewing past experience in supporting regional integration, mapping current policies and plans, and undertaking a horizon scan, this study then recommends innovative interventions and funding modalities for DFID and donors in terms of advancing trade and regional integration in the region.

The study is expected to serve the purpose of informing DFID Southern Africa (SA) and policy-makers in national governments, Regional Economic Communities (RECs), DFID Head Quarters (HQ) and other donor agencies on how to engage strategically and effectively on the regional trade and integration agenda in Southern Africa. The study has been funded by DFID SA.

Recent socio-economic trends

Average annual real per capita economic growth rates for sub-Saharan Africa (SSA) as a whole quadrupled in the 2000s relative to those of the 1990s, rising from around 0.5 percent per year on average to about 2 percent per year. The average growth performance masks wide variation in economic activity, trade levels, incomes and poverty within and between countries in the region. Despite the much better economic performance in Southern Africa and the Tripartite free trade area (TFTA) countries more generally (the TFTA spans the 26 members of the East African Community - EAC, the Southern Africa Development Community - SADC, and the Common Market for Eastern and Southern Africa - COMESA) poverty rates often remain very high and there has been little diversification of production and trade. Exports remain dominated by natural resource-based products and agricultural goods. Growth has been driven by improved macroeconomic management and the very high rapid increases in per capita incomes that have been achieved by Asian countries, most notably China. The associated increase in demand for commodities of all kinds has benefitted the countries in Southern Africa.

Levels of intra-regional trade remain lower than in other parts of the world, reflecting both “thick” borders and the sectoral pattern of investment, which is skewed towards natural resource extraction. The type of supply chain trade and integration into international production networks that has helped drive growth in Asia, Eastern Europe, Turkey, Mexico among other countries, with firms specializing in a wide range of manufacturing activities and related services, has not emerged in the tripartite region. One reason is that such patterns of specialization and trade require integrated markets, allowing companies to source and move goods and services rapidly, reliably and at low cost across borders and along transport corridors.

Slow progress towards integrating Southern African markets

Despite the much greater attention that has been given by governments to regional integration in the last decade and the increase in support by the donor community and development banks for regional integration efforts, progress has been slow and piecemeal.

The cost in terms of time and money of moving goods and services within Southern Africa remains much higher than in comparator countries.

While there is a solid economic case for regional integration, progress has been limited as a result of limited political will to implement what has been agreed. National political leaders take policy decisions at RECs without putting in place the institutional arrangements and accountability systems that are needed for follow through and implementation. Too often REC-level commitments and goals are empty statements. Political elites need to support implementation of regional policies for regional integration efforts to progress. A problem is that regional integration is a collective good, whereas leaders and ruling elites tend to be driven by a desire to control what material benefits of state sovereignty they can muster to strengthen their political authority, as well as to benefit personally from policy initiatives. Often regional integration projects may not do so, resulting in a failure to implement or to sustain implementation.

Two factors are important in understanding the dynamics of regional cooperation to date and the prospects for deeper regional integration in the future. First, an economically dominant South Africa is not providing the hub and catalyst role that was played by Japan, the European Union (EU) and the United States (US) in their respective regions to generate the types of investment flows and economic adjustments that drove the expansion of intra-regional manufacturing trade. Second, varying economic and political goals at the national level are a further impediment to the emergence of a regional trade growth dynamic. Both factors reflect underlying political economy forces and associated incentives for political elites that result in a disconnect between stated aims and ambitions and the implementation of regional integration initiatives. The political economy (PE) factors are important to consider in the design of support activities looking forward.

All three regional integration initiatives in Southern Africa have ambitious goals: taken together they aim to establish a customs/economic union and a common market (CM). A consequence of this high level of ambition is that implementation requires substantial administrative resources to be allocated and a high degree of economic policy convergence to be achieved. The poor record of implementation to date is in part a reflection of the failure to satisfy these necessary conditions. While there are serious capacity weaknesses and constraints, a fundamental reason for the limited progress that has been achieved is lack of political will to put in place the necessary conditions.

A positive feature of the Tripartite initiative is that it involves a shift away from the EU integration model that all of the Eastern and Southern African RECs have used as the template for their integration programmes. The Tripartite has rejected the presumption that integration should be pursued as a linear process – free trade agreement to customs union to common market. Instead, a three pillar approach is pursued: the free trade area; regional infrastructure development and regional industrialisation.

Removing tariffs and other barriers to trade

Lack of agreement in some major areas has led to a substantial watering down of ambition with respect to the TFTA: reportedly the TFTA will remove only 60 percent of all tariff lines on entry into force, with a further 25 percent of lines subject to negotiations and implementation over a 6 to 8 year period. It is likely that the TFTA will result in continuing existing trading arrangements within the three RECs, with an added set of new tariff schedules between countries and customs unions that are not in a common REC. In short, significant uncertainty prevails as to when the TFTA will be concluded or what it will entail, but it seems clear that tripartite intra-regional trade will not be tariff-free for at least another decade. The narrow focus on intra-regional tariff reduction and failure to eliminate nontariff barriers (NTBs) and facilitate trade limits the economic benefits of Southern African regional integration initiatives. Also important is the neglect of services trade and investment, at least

in the first phase of the TFTA, given that Southern African countries have high barriers and restrictive policies towards some important services sectors—e.g., air transport.

Confronting the political economy realities of regional integration

Regional integration initiatives need to be properly understood in terms of the motives that drive political elites and the domestic political and institutional support that exists – or could be mobilized through appropriate design of support mechanisms – for integrating markets for goods, services, capital and workers. It is important to analyze and consider the magnitude and distribution of rents that are generated by prevailing policies and situations that result in barriers to trade, and the types of power plays that any redistribution of rents may generate among different stakeholders. Those who stand to lose may act as blockers through different channels (including elections).

A political economy analysis (PEA) helps unpack the decision logics at play. Landlocked Zambia, for example, set priorities for investments that prioritised tarring rural roads over investing in the regional transport flagship of the Tripartite initiative, the North South Corridor (NSC). Despite the fact that this corridor is essential for unlocking Zambian transport and reducing transport costs, the government in a pre-electoral context prioritised rural road development, reflecting strong incentives for political elites to engage in short-run electoral harvesting by spreading out investments spatially rather than for prioritising the longer-term return from investing in the regional corridor.

A PE informed approach to regional integration in Southern Africa requires flexibility, a tolerance for risks related to experimentation, a focus on knowledge sharing and partnership development, engagement with national state and non-state stakeholders, and support for mechanisms that promote greater transparency regarding regional integration barriers and of outcomes. It requires embracing a multi-pronged support strategy and suggests delivering a diversified support portfolio for regional integration and cross-border cooperation through a network of DFID offices in the region as opposed to one centralized location.

Regional integration and poverty reduction

Regional integration has a strong potential positive impact on poverty through the effect it has on economic growth. The weight of evidence from the economic literature suggests that greater trade openness is an important element in expanding growth and history shows that this has been a central component of successful development strategies. The potential positive impacts of the TFTA on vulnerable groups and poor households could be substantial if it resulted in significant reductions in the costs of crossing borders for small traders, many of whom are women, and if it created greater opportunities for small and medium enterprises (SMEs) to link to regional value chains, provide services to newly established enterprises, and so forth.

The main links between regional integration and poverty are through higher household incomes associated with new employment opportunities and greater sales and through higher real incomes as prices of consumption goods decline. Of course, trade opportunities will not benefit everyone equally, and workers in protected industries and those that currently benefit from rents created by thick borders may confront a loss in income.

Much also depends on action in other policy areas – e.g., to ensure small firms have access to credit and the institutions governing women's access to land and other productive assets. To date the regional integration processes have not had significant impacts on poorer households and small-scale businesses.

Regional industrialization

The Tripartite initiative has industrialisation as its third pillar, alongside market integration through an FTA and infrastructure development. Regional integration can help to promote greater industrialisation in Southern Africa by increasing the size of the market and reducing costs for firms through trade facilitation initiatives and improvements in regional infrastructure. The industrial pillar of the Tripartite initiative is relatively underdeveloped compared to the two others and is more of a framework to make the TFTA more attractive to governments concerned about potential trade and economic polarisation following the removal of intra-regional trade barriers.

The Tripartite initiative plans to build upon regional industrial policies that have been identified by EAC and SADC. The EAC's Industrialisation Policy and Strategy, adopted in 2011, targets six industries and value-chains as well as a number of potential regional pilot projects, including an Industrial Park along the Northern and Central Corridors. SADC's Industrial Development Policy Framework, adopted in 2014, focuses on exploiting regional synergies in value-added. No information is available on the progress made to implement these regional industrialisation programmes.

Prospects for greater manufacturing activity and agro-industrial processing are a function of many factors that relate to the investment climate more generally. They also depend importantly on progress under the two other pillars of the Tripartite. Even if tariffs are removed, they will continue to impede cross-border movement of goods as a result of the need to comply with often restrictive rules of origin and associated documentation requirements and verification procedures. While restrictive rules of origin can encourage regional sourcing of inputs and industrial expansion within a region, to date the prevailing rules benefit South African industries to the detriment of industrialisation prospects for neighbouring countries. Efforts to promote regional value chains through regional infrastructure, development corridors or other spatial development zone approaches have yet to bear fruit.

Regional infrastructure development

Infrastructure development is a critical determinant of growth in Southern Africa. Major disparities in populations and economies, many of which are landlocked and dependent on neighbours for materials and factors of production, makes well-connected regional infrastructure essential to unlock economies of scale, connect markets, boost competitiveness and facilitate intra-regional trade and exports. If the region's infrastructure would be improved to the level of the strongest-performing country in Africa (Mauritius), regional per capita growth performance would be boosted by around 3 percent.

Narrowing Africa's infrastructure deficit requires major investment in regional transport networks and power pools. However, the investment response has not been forthcoming. Poor commercial rationales, high risk profiles and imprecise outcomes also contribute to projects not being "bankable", leading to a need for better project preparation. In addition, countries often lack the regulatory framework conditions for private investment, demonstrating macroeconomic instability, poor governance, political instability, weak public administration, corruption, weak legal frameworks and a lack of policy harmonisation across countries. Resolving these issues is hampered by a lack of comparative data, such as costs and delays in corridors, the impact of power pools on energy prices and the effects of truckers' cartels on transport costs.

Regional infrastructure projects also suffer from the inherent complexity of multi-country, public-private partnerships: the regional development corridor/ growth pole approach requires port, road, rail and industrial infrastructure to be provided in an integrated and coherent fashion for and by public and private stakeholders in different countries among whom benefits and costs are not shared symmetrically. An alternative to the current practice would be to decompose the project into its component parts, identifying who would benefit

and who would bear the costs for each component, allowing stakeholders to assess who benefits from the component relative to the costs that they bear.

There is also potential to do more to leverage extractive industries to provide the backbone for corridor development in some regions given the willingness (need) for investors to develop the required transport infrastructure on an enclave basis. Cooperating with companies to open their corridors to agriculture and industry would generate development benefits in regions where it is not economical to invest in infrastructure.

Limited private sector engagement

A key challenge for regional integration in Southern Africa and the Tripartite region is the relatively low level of private sector engagement in regional integration processes. Although there is an increasing interest of the private sector in investing in SSA, especially in Southern Africa, limited regional integration is among the major constraints hindering further investment flows in the region. Primarily, lack of stability and predictability of macroeconomic policy, and unfavorable investment climate are the main obstacles behind sustaining and attracting new business investment. Several stakeholders that have been consulted as part of this study have also stressed that efforts to promote a more enabling environment, especially for trade, have been focused on border crossings, but little has been done to support SMEs to increase production and integrate regional value chains through affordable long-term finance and technical support.

While the EAC and COMESA have private sector focal points in the region, SADC seems unable to facilitate dialogue with regional business organizations. At national level there have been several attempts over the years to establish trade negotiation fora with private sector representation but none of these initiatives seem to have been successful. In South Africa, business associations have more power to represent member's interests. However these groups are divided between companies that have successfully invested in eastern and southern Africa, but are reticent about initiatives to improve regional integration, and groups whose primary interest is to prevent import liberalization.

Our consultations revealed that the private sector is generally sceptical about engaging in dialogues with the RECs and are more inclined to work with local companies and national business associations, as well as supporting initiatives such as *Southern Agricultural Growth Corridor of Tanzania* (SAGOT) and Grow Africa. More effective partnerships with the private sector to address policy barriers to regional integration would clearly be beneficial.

The role of DFID and other international partners

DFID has played an important role in Southern Africa's development. Recently, TradeMark Southern Africa (TMSA), the main trade and regional integration programme for Southern Africa, was however closed following external reviews that argued that the programme had several weaknesses in terms of design and implementation. Looking forward, two projects are worth closer attention: the Mozambique Regional Gateway Programme (MRGP) and TradeMark East Africa (TMEA). MRGP has successfully combined a national and a regional component promoting synergies between DFID's country and regional offices to catalyse inclusive growth and economic development around main transport corridors in Mozambique. TMEA has been able to attract and harmonise bilateral donor funding, and it has built up considerable institutional expertise and experience in working linking regional programmes for coordinated regional integration work,

Among multilateral donors, regional integration efforts have been focused on hard infrastructure financing and private sector development, while bilateral donors have more diverse portfolios that include trade facilitation, trade policy, energy and environment, governance, health and education. Most of the development partners consulted for this study demonstrated strong positive interest in enhancing collaboration with DFID SA and other donors, as well as to engage in innovative partnerships.

Several Development Assistance Committee (DAC) donors have extensive portfolios of projects in Southern Africa and Danida and USAID's priorities for the region seem to be well-aligned with DFID SA's plans. Furthermore, several private financing institutions (such as Private Infrastructure Development Group - PIDG and African Agriculture Development Company - AgDevCo) have been created to overcome market failures to enable private sector investment in Africa and they have been appearing as innovative and efficient mechanisms to support economic growth in Africa. Finally, international private sector organisations, although facing difficulties to incorporate regional integration issues in their agendas, seem to be increasingly interested in promoting intra-trade and integration Africa which offer opportunities for future engagement.

Recommendations

Two over-arching lessons emerge from the findings in this study.

Firstly, the evolution of current DFID-thinking and corporate priorities on transformational economic growth and poverty reduction can be well-linked in the context of future programming on regional trade and integration in Southern African. Interviews with DFID staff across the organisation have confirmed that trade will continue to be a priority theme within DFID's work on growth and within the forthcoming economic development strategy. At the same time, there will be a stronger emphasis on working with the private sector and through DFID's bilateral programmes in priority countries and regions.

Taken together with the positive feedback from the private sector regarding DFID's continued engagement on the regional trade agenda in Africa,¹ it would be a wasted opportunity if, in the wake of the criticisms of TMSA in the recent Independent Commission for Aid Impact (ICAI) report, DFID SA did not move to develop and lead an ambitious, innovative and contemporary major new engagement on regional trade and integration over the next DFID programming cycle.

Secondly, the importance of understanding the PE framework and how PE issues can be included in future programming relate to – for example – negotiation and implementation of regional trade agreements, harmonising trade facilitation systems at borders, and accelerating regional infrastructure development. Indeed, PEA may help in the feasibility assessment of future directions of DFID's, as well as other donors, engagement on trade and regional integration in the region. In relation to future corridor work for example, more fine-grained political economy analysis on prospects, challenges, and entry points for supporting port reform and modernization would be important. Likewise, in relation to future support for the negotiation and implementation of regional trade agreements, a richer understanding of the dynamics between key players would allow identification of areas where there may be more traction for donor support.

Against the backdrop of these general findings, some more specific emerging lessons and potential directions for future support by DFID on regional trade and integration in Southern Africa are set out below. To varying degrees, these maybe more or less relevant to other DFID-supported vehicles (eg PIDG, AgDevCo, CDC, Public Private Infrastructure Advisory Facility - PPIAF, TMEA) and other development partners (World Bank, African Development Bank, IFC, as well as bilateral donors such as USAID, BIZ, EC and JICA).

Targeting DFID support in the Tripartite region. DFID and other donors support to regional trade and integration in Southern Africa will continue to be important, but due to differences in development levels across the region, there should be a more explicit focus on the countries that require assistance the most, namely Malawi, Zimbabwe, DRC, Mozambique and Zambia. Programming goals further need to be more realistic and better

¹ See for example the submission to the recent G8 Summit by Business Action for Africa.

aligned with each donors' capabilities and focus countries. A promising potential option for the future would be to concentrate efforts on developing regional value chains, reducing trade barriers and building more efficient trade facilitation infrastructure in the Zambia-Mozambique-Malawi sub-region to connect better with the faster integrating East Africa (including fast-growing Ethiopia, South Sudan and the DRC) rather than the traditional focus on the slower-integrating Southern cone and slower-growing South Africa.

Opportunities for increased regional integration may also lie in initiatives established by "coalitions of the willing" to implement the agenda more quickly. This is emerging in the EAC region and in the form of the Accelerated Programme for Economic Integration (APEI) among five (non-SACU) SADC countries. Opportunities may also arise from harnessing the extractive sector through promoting wider investment to promote both vertical and horizontal linkages to the broader economy. This may mean building on "new" initiatives such as the APEI currently being pursued by Mauritius, Mozambique, Malawi, the Seychelles and Zambia. It could also mean DFID seeking to expand the coverage of the innovative, durable platform provided by TMEA which allows multiple donors and their different regional and country offices to work in a highly joined-up manner on a comprehensive suite of regional trade and integration interventions.

Coordinating with DFID programmes & country offices. DFID support on regional trade and integration in Southern Africa (via TMSA) has operated very much at the regional level with COMESA, SADC and the Tripartite and there has been little cross-engagement between regional and country teams. There have been some notable successes. But there are major limitations in the implementation capabilities and mandates of the RECs (especially at the level of the Tripartite) across the range on programming areas on the regional trade and integration agenda.

Indeed, achieving impact-level results from initiatives like the TFTA process and the Tripartite industrialization and infrastructure pillars will be for the long term. TMSA support to the TFTA negotiations has been successful to a degree in its work to establish a strong negotiation platform and a framework for future progress in reducing barriers to trade and deepening regional integration. It has however also been found that TMSA has been perceived by some interviewees as being 'too close' to the negotiations and that it has underestimated some key PE issues (e.g. South Africa's defensive and protectionist negotiating position).

Moving forward, DFID SA should seek to link with and scale-up relevant new DFID bilateral and global programmes in the region which can provide potentially high-impact, quick-delivery interventions on the regional trade and integration agenda. This will require a new, more joined-up approach to planning and managing the DFID SA regional programme alongside the on-going country programmes, some of which already have a cross-border dimension e.g. the MRGP.

Predicting the outcome of the TFTA negotiations is difficult at this early stage. As suggested by the TMSA Mid-Term Evaluation (MTE), support to TFTA negotiations could therefore perhaps be more efficiently supported through other means. A particular focus on DFID priority countries could be more explicitly made. This support could be channelled through specialist DFID (or other) facilities that may be better placed to provide this kind of specialised technical assistance support. The DFID Trade Advocacy Fund (TAF) is for example already supporting the TFTA negotiations.

Effectively supporting infrastructure & trade facilitation. DFID and other donors must consider specifically and strategically how to engage on regional infrastructure and development corridors going forward, including the levels of its potential investment, the value they can add, the skills required and the timeframes within which programmes will expect to deliver impact. One potential avenue is for DFID to concentrate on using its

convening and coordination power to harness private sector participation in regional infrastructure projects, and involve the private sector at a very early stage of project programming to understand private sector interests. This role has already been performed by DFID as the lead Infrastructure Consortium Africa (ICA) donor on the North South Corridor.

A new paradigm for multi-country projects with private sector involvement finds that the challenge is to ensure that all the regional partners, public and private, as well as their external partners, have sufficient information to allow them to understand the benefits, costs and risk that will accrue to each partner. This suggests that one possible avenue for DFID and other donors to engage on regional infrastructure development through attracting private finance is to create an advisory facility that, at a very early stage of project design, could carry out a preliminary, rapid assessment of the regional costs and benefits of the project and of the potential for involvement of the private sector.

Furthermore, as suggested in the TMSA MTE, the Tripartite Project Preparation Implementation Unit (PPIU) could play a critical role in providing ongoing support to the preparation, packaging and promotion of regional infrastructure projects but it will need to be sufficiently capacitated and funded. DFID and other partners should engage with the RECs with a view to developing a sustainable work programme for the PPIU, either on its own or as a branch of a continental network of PPIUs anchored centrally by the AfDB. Also, some successes were made by TMSA on trade facilitation that DFID SA could continue to support/scale up (e.g. facilitating reform at borders and the NTB reporting mechanism) and demand for support in this area remains strong from the private sector. TMEA has also developed considerable expertise in the area of trade facilitation along corridors, at ports and through one-stop border posts (OSBPs) which DFID SA could seek to leverage.

Engaging the private sector. DFID SA and other donor's engagement with the private sector on the regional trade and integration agenda have not been extensive to date. This applies to local and international business as well as private sector organisations (PSOs). The report has found that extractive industries still dominate to a large extent the makeup of economic activity in the region. Apart from diversification and linking up with global value chains being essential in the region, the importance of scaling up investment for agriculture development through support to SMEs and their integration to nascent regional value chains has also been noted. Furthermore, business organisations can be key in taking the regional integration agenda forward with their advocacy efforts and putting pressure on Member States on implementation of trade agreements.

There are excellent opportunities for enhancing engagement with the private sector for expanding regional trade and investment in Southern Africa. The private sector sees Southern Africa as a growth market and business opportunity and there is appetite to engage (in the right way), potentially through more of a brokering and coordinating role, an approach that is being used to some extent in the SAGCOT and BAGC corridors and from which more might be learnt.

DFID and other donors can probably engage more with the private sector most easily and productively in the areas of (i) identification, advocacy and completion of priority trade and investment climate regulatory reforms at country level; (ii) regional infrastructure finance and (iii) impact funds investing with firms integrating into regional value chains (including those regional value chains managed by major South Africa or European corporates like Shoprite or Unilever who may have supplier diversity objectives for small-scale or women-owned businesses).

A potentially promising way to combine all three of these would be around Spatial Development Initiatives (SDIs) or sections of key corridors in DFID priority countries in Southern Africa, simultaneously increasing potential returns and reducing risks for a raft of

related-investments and bringing into play a number of different vehicles in a co-ordinated manner. There seems immediate scope for more progressive alignment between the impact investment and aid communities. It would be possible to leverage and crowd in well-established returnable capital vehicles such as PIDG, CDC and AgDevCo, which are often already operating in SDIs in the region and may include multiple donors as well as DFID.

Improving linkages to poverty reduction. The TMSA MTE found that the potential impact of the TFTA on vulnerable sectors and countries in the region had not been adequately considered in programming. This study has attempted to provide some evidence-based guidance on the linkages between trade, growth and poverty reduction. It has been found that at an aggregate level, openness to trade has a potential positive impact on poverty alleviation through the effect it has on economic growth. The study has also found that the potential effects of supporting women and trade through targeted interventions may be particularly impactful.

The study recommends that DFID SA and other donors should more thoroughly assess the poverty impact of its activities on trade and economic integration in the and in key priority countries. DFID SA should also learn from its past involvement in activities with potentially only weak links to poverty reduction. DFID should for example not necessarily engage on the Tripartite regional industrialisation agenda before further rigorous assessment of the potential effects of a common regional approach to industrial development is undertaken.

Given the well-documented links between informal trade, poverty and gender equality, DFID SA and other donors should also consider how to integrate women and trade in future programme design. A focus on women and girls is further currently a key strategic priority for DFID. With regards to this agenda, it is worth exploring the work being undertaken by the DFID-funded ITC Women & Trade programme as there may be opportunities for enhanced collaboration specifically in Southern Africa.

Working with other partners. A key issue to explore is how DFID and the Foreign Commonwealth Office (FCO) can engage with South Africa on the regional trade and integration agenda, despite the ending of the UK's bilateral aid programme. The study has also mapped the large and diverse portfolio of activities related to regional trade and integration undertaken in the region by traditional DAC donors as well as BRICS, and specifically South Africa, in the region.

There is much scope to improve coordination and enhance collaboration going forward in DFID programming on regional trade and integration. There is also excellent scope for enhanced collaboration with bilateral donor partners especially with Danish International Development Agency (Danida) and USAID as both agencies are currently working on the development of their new regional integration programmes in Southern Africa, with a strong emphasis on selected regional value chains.

DFID should also consider how best to engage the AfDB and WB going forward in Southern Africa. DFID has well-established working relationships with the World Bank across a range of sectors elsewhere, but there is room to do much more together in Southern Africa. The World Bank has signalled that it would welcome an approach from DFID and sees intrinsic, distinct value-added to be gained in working with DFID on regional trade and integration. DFID and other partners should also consider how to engage with the IFC which is currently working on trade facilitation at national level in the region, but it is seeking partners to develop a regional trade programme in Southern Africa.

The AfDB's approach and priorities for the Southern African region focuses on two pillars that closely align with DFID priorities: regional infrastructure and capacity building in support of infrastructure interventions. On regional infrastructure, AfDB focuses on the areas of transport, energy, and ICT, all anchored in the corridor approach. In the area of capacity

building, the Bank has supported the Tripartite in developing the FTA road map and is also providing technical assistance to countries and RECs strengthening their ability to design, manage and monitor infrastructure programmes. There are challenges in working with the AfDB, but this may be a good solution for larger regional infrastructure projects.

Inside South Africa, scope for co-ordination and collaboration could include the potential for engaging with the relevant key parastatals – Development of Southern Africa (DBSA), Eskom and Transnet – as well as central government ministries as these actors have a strong stake and growing footprint in cross-border regional infrastructure co-operation and investments. DFID SA would need a different trajectory of approach to working with South African parastatals to be effective as they are a non-traditional partner. Some initial investment up front would be required to better understand these agencies interests and existing plans for engagement in the Southern African region, as well as to build stronger relationships with the leadership of these organisations. Another option is to work collaboratively with South Africa in delivering its own aid programme through SADPA (South African Development Partnership Agency) that is expected to be operationalised in the near future. An important issue to explore in future programming is how DFID and other donors' future engagement on the regional infrastructure agenda in Southern Africa can take more explicit account of investments coming in from the BRICS (especially China).

Finally, there should be an explicit assessment by DFID SA in its future programming exercises of the potential to invest ear-marked funds through TMEA. As noted above, in contrast to TMSA, TMEA has been able to crowd-in and harmonize bilateral donor funding. DFID started to fund TMEA from a £20m regional programme in 2008. By 2013, TMEA had developed programmes based on a budget of USD \$500m. TMEA has also developed considerable institutional expertise and experience in working on a wide range of regional trade and integration activities and its design in terms of linking regional and national programmes is very functional for co-ordinating regional integration work (even intra-DFID coordination). One option that could therefore be explicitly considered is for DFID SA and DFID priority countries in SA (Malawi, Mozambique and Zambia) to make investments into earmarked country and sub-regional "funding windows".

At the same time, it is noted that TMEA clearly has a strong historical focus and mandate on East Africa, which some stakeholders may prefer to preserve and not extend. Moreover, TMEA's independent governance structure would mean that DFID SA and country offices would have to negotiate and agree any new partnership and funding arrangements with TMEA's top management and Programme Investment Committee.

INTRODUCTION & METHODOLOGY

With a number of evaluations of DFID-funded programmes in Southern Africa recently undertaken, it is difficult to gain a practical overview of: i) the experience and lessons learned in supporting regional integration in the Tripartite and Southern African regions; ii) the current policies, programmes, mechanisms and plans relevant to regional integration as well as other factors impacting regional integration; and iii) how a donor should strategically engage in the region if they wish to apply an innovative and Value for Money (VfM) approach.

This has given rise to the demand for an evidence-based study on advancing trade and regional integration in the Tripartite area. By reviewing past experience in supporting regional integration, mapping current policies and plans, and undertaking a horizon scan, this study recommends innovative interventions and funding modalities for donors in terms of advancing trade and regional integration in the Tripartite area (particularly in Southern Africa). The study, which has been funded by DFID SA, is expected to serve the purpose of informing DFID SA and policy-makers in national governments, RECs, DFID and other donor agencies of how to strategically engage in Southern Africa. The work may also help inform other stakeholders such as private sector associations, civil society organisations (CSOs) and think tanks in the region.

The aim of this study has been to prepare evidence-based recommendations to DFID's future interventions in regional trade and economic integration in the Tripartite region, focusing primarily on Southern Africa. The specific objectives have been to:

- **Review the experience, successes and lessons learned in supporting regional integration**, including through TMSA and a wide range of relevant regional trade, infrastructure and other related programmes implemented by DFID, other bilateral and multilateral agencies, and wider reviews.
- **Map current policies, programmes, mechanisms and plans, and develop a horizon scan of other factors** that will have an impact on regional integration in the short and medium term, such as the political economy and economic drivers.
- **Assess the implications of the above and provide recommendations** with options for the focus, approach and mechanism for future donor and others' support for regional trade and integration in the Tripartite region, particularly in Southern Africa.

After briefly outlining the methodology used below, the Report goes on to review three separate elements of the study:

- **Part 1:** A horizon scan of the Southern African economy including analysis of trade flows, political economy issues and links between trade and poverty.
- **Part 2:** Status quo and challenges in RECs and trade negotiations as well as forward-looking plans in the areas of industrialisation, infrastructure and private sector engagement.
- **Part 3:** Lessons learned and recommendations for innovative future DFID engagement in Southern Africa.

Methodology

The approach used for this study has been based on a rigorous and tested methodology, which includes a structured approach of answering key research questions, reporting and synthesising findings, drawing well-founded conclusions, and producing useful recommendations.

Kick-off meeting

A project kick-off meeting was held between DFID SA and key members of the project team. DFID SA provided some useful background to the project and stressed the importance of creating a solid evidence-base to support innovative recommendations. It was also emphasised that the study will need to explore and incorporate current DFID-thinking on economic growth, job creation and poverty reduction.

Desktop review

The desktop review work was led by Team Leader (Tom Pengelly) who actively managed the division of labour and ensured that all technical areas were adequately covered. In preparation for the majority of the field visits, the team also made updates to the lists of individuals and documents to consult as well as the semi-structured questionnaire.

A horizon scan was undertaken, analyzing regional and global factors that influence or may impact on regional integration dynamics and institutions, including their impacts on prospects for more inclusive economic growth and faster poverty-reduction. This review was combined with a mapping of current policies, programmes and plans of the various stakeholders in terms of regional integration. A review of the experiences, results and lessons related to the support by DFID, other donors and vehicles, such as TMSA, was also undertaken.

During the stakeholder consultations, the team was pointed towards key literature that was subsequently reviewed.

Consultations

A number of field visits were undertaken in parallel to the desktop review work. Visits to Botswana, Mozambique, South Africa, Uganda, Kenya and Tunisia were made. The team also held telephone interviews with a number of stakeholders. The field-based interviews with key stakeholders were used to better understand the drivers in the regional integration agenda as well as donor engagement in this area.

The consultation phase was extended to allow for some additional consultations with private sector organizations (Business Action for Africa - BAA, CDC, PIDG), Yara and others) as well as a VC with DFID country offices (attended by DFID Mozambique, Zambia & Zimbabwe).

Report drafting and finalisation phase

After each team member had undertaken their respective areas of work and drafted up findings by answering key research questions provided, the Team Leader led the effort on drafting the report itself with contributions from key team members.

As interim deliverables, the team submitted a Summary Note on Emerging Findings & Conclusions on 4th December and a PEA Note on 13th December.

Key sections of the draft report have been peer reviewed by Bernard Hoekman and it is envisaged that other Advisory Panel members will review the report in its entirety, together with comments received from DFID, before the submission of the Final Report.

Presenting the findings and engaging some key stakeholders on certain recommendations

A number of teleconference-meetings have been held with DFID SA during the course of the project to better understand their requirements and challenges. This has resulted in expansion of the team's research and consultations in some specific areas, as well as a modified timetable for the project. For example, a very useful teleconference was held in January 2014 with DFID SA, the study team and the author of the recent TMSA-funded econometric modelling study of scenarios of the TFTA in order to deepen understanding and interpretation of the findings for DFID SA's future strategy.

It has been suggested that it may be very fruitful to hold a workshop in London with the study team in attendance to present and discuss some of the recommendations in the Final Report related to infrastructure and engaging with the private sector with some key stakeholders (e.g. PIDG, AgDevCo, CDC, AfDB, WB, International Trade Center - ITC, BAA/Private Investors for Africa - PIA and their major corporate members) as well as DFID SA and DFID HQ senior staff.

Part 1: Horizon Scan

CHAPTER 1: REGIONAL SOCIO-ECONOMIC TRENDS AND KEY GROWTH DRIVERS

1.1 Introduction

Rather than providing a comprehensive overview of the Southern African economy this chapter points to some of the more salient trends and issues that hold relevance for i) understanding progress in Southern African regional integration to date, and ii) designing new instruments to help support the process.

In broad terms, while Southern Africa has seen relatively high GDP growth and poverty reduction in recent years, poverty levels remain stubbornly high in most countries. Foreign Direct Investment (FDI) is increasing, particularly from emerging economies such as China, India and Brazil. But a large part of this investment and thus GDP growth has been mineral-related with limited impacts on employment or linkages to the local economy. To address this, the goal of developing country policies, including in Southern Africa, is increasingly to encourage economic transformation towards higher value-added production, employment through new investment, firm expansion and access to markets through regional and global value chains (see e.g. UNECA, 2013; AEO 2013; UNCTAD, 2013; Brenton and Isik, 2012).

While tariff levels are now relatively low globally and particularly within regional trade blocs, implementation of agreed tariff reductions remain problematic for some countries, while non-tariff measures and transport costs remain high and increasingly visible. As Brenton and Isik (2012) point out, “Africa has integrated with the rest of the world faster than with itself”. The regional economic integration agenda, whether addressed through tariff reduction or trade facilitation, therefore features as *one of many* potentially important levers to promote economic transformation, investment, job creation and thus address low income and poverty issues.

However, establishing a clear link between regional economic integration and poverty reduction is no easy task. At the same time, Brenton and Isik (2012) point out that “Goods traded across borders in Africa will tend to be more employment intensive than minerals and the facilitation of such trade is likely to have a more direct impact on poverty in terms of the poor who both produce and trade the basic foodstuffs that dominate such trade”. Other studies show that addressing bureaucratic and physical barriers to trading across borders lowers the costs (and can lower the prices) of trading goods and services, providing cheaper inputs to firms, lower priced goods and services to consumers, and (potentially unwelcome) greater competition for producers (e.g. Winters at al., 2004). The estimated high levels of informal trade across borders also attest to the importance of promoting regional trade across a range of income groups and the reliance of specific groups, particularly women. What analysis of informal cross-border trade exists only serves to underline the difficulty of formalising such trade, even through dialogue, business support and trade facilitation measures (Lesser and Moisé-Leeman, 2009).

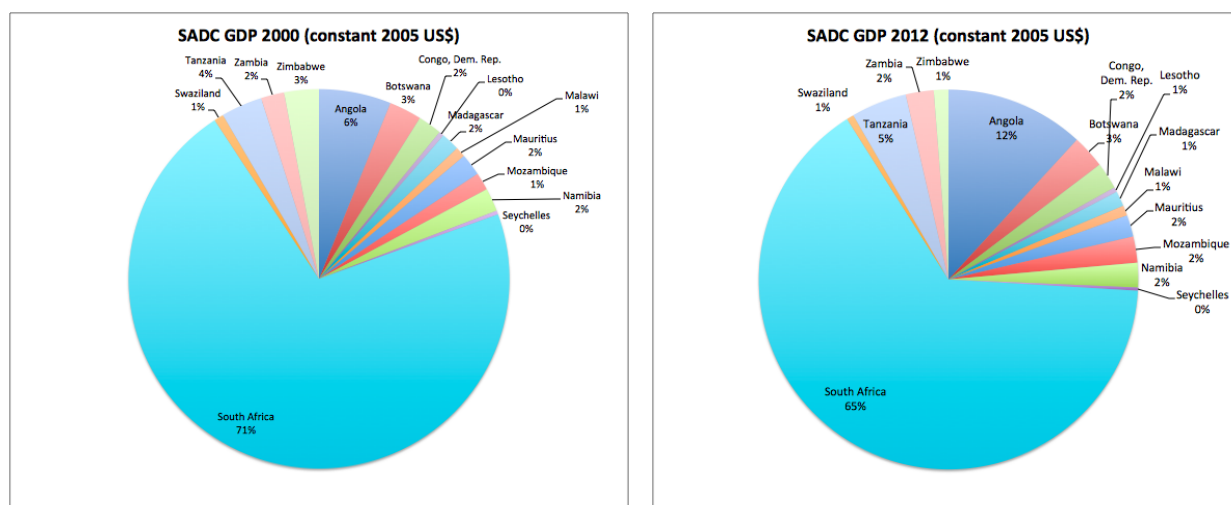
1.2 Recent socio-economic trends

1.2.1 GDP growth & shares in the region

Regional integration processes in Southern Africa are overwhelmingly characterised by economic imbalances in the region and the domination of the South African economy. Although declining, the South African share of SADC remained high at 71 percent in 2000 and 65 percent of regional GDP in 2012 (Figure 1). Apart from Angola and Tanzania, representing 12 percent and 5 percent in 2012, respectively, the remainder of the SADC economies represent 3 percent or less of overall SADC economic activity as measured by GDP. This economic dominance implies that intrinsically South Africa is unavoidably central

to efforts to promote regional integration in Southern Africa, whether or not donor support for these efforts is channelled through or in counterweight to this.

Figure- 1 - SADC GDP by country, 2000 and 2012 based on constant US\$



Source: Authors' calculations based on WDI 2013.

While almost all economies in the region have been growing in recent years, income per capita across the SADC region is also highly skewed, from US\$165 in DRC and US\$259 in Malawi to US\$14,302 in the Seychelles and US\$6,711 in Mauritius in 2012. Despite the wide range, the median per capita income has risen from US\$626 to US\$929 between 2000 and 2012, but remains relatively low compared with the mean across countries of US\$3122.²

GDP per capita growth rates have also varied widely across countries, with the average annual GDP growth rate across the region of 2.5 percent hiding an annual average fall in GDP per capita in Zimbabwe and Madagascar of -3.7 percent and -0.4 percent over the period 2000-2012, and positive growth rates ranging from 0.6 percent in Swaziland to 6.5 percent per annum in Angola. Other high performers on this measure include Mozambique with annual average growth in GDP per capita from 2001 to 2012 of 4.9 percent and Tanzania with 3.9 percent, while South Africa grew at only 2.1 percent. Looking beyond the SADC region to the Tripartite region, the SADC share of Tripartite GDP grew from 55 percent in 2000 to 58 percent in 2012, again underlining the importance of the South Africa led grouping in the Tripartite region despite the low growth rate of South Africa itself. As such, South Africa remains the dominant country in the tripartite region, representing 45 percent of GDP.³

Looking at more recent trends, the AfDB maintains that economic growth remains strong, “giving optimism that the region is on course to attain a projected annual average growth rate of 4.4 percent” (AfDB, 2013).⁴ The report points to the resurgence of non-oil and strong oil production in Angola, increased mining in Botswana and Namibia, mining and textiles growth in Lesotho, coal production in Mozambique, agriculture in Malawi, and Information and communications technology (ICT) in Mauritius, underlining the resource-related growth in the region. It also points to sluggish growth in South Africa, Swaziland, Zambia and

² Based on data from the World Bank, World Development Indicators accessed 12 November 2013: <http://data.worldbank.org/topic>.

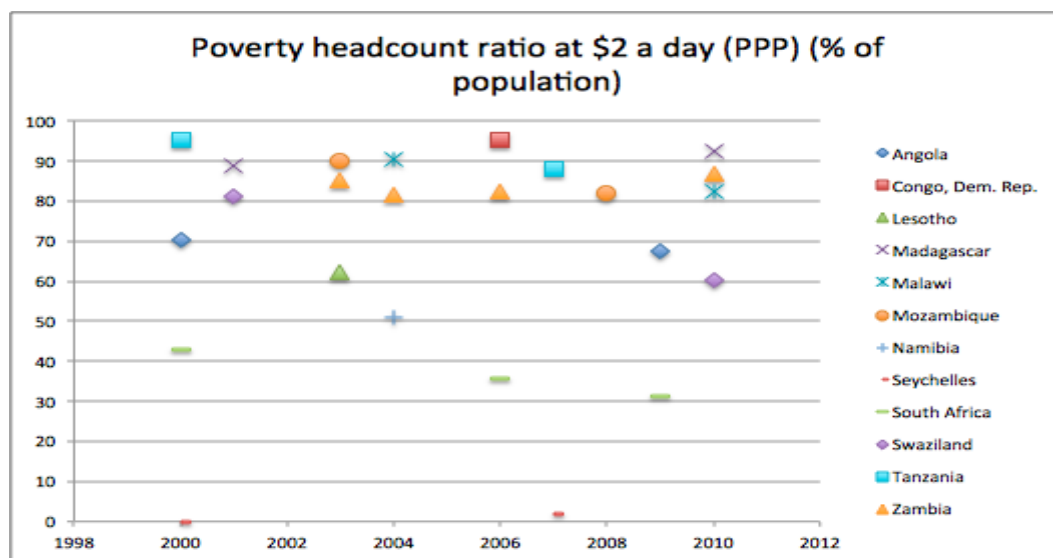
³ Based on data from the World Bank, World Development Indicators accessed 12 November 2013: <http://data.worldbank.org/topic>.

⁴ This covers Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, São Tomé and Príncipe, South Africa, Swaziland, Zambia, Zimbabwe.

Zimbabwe. The latest International Monetary Forum (IMF) Regional Outlook forecasts output to expand by 5 percent in 2013 and 6 percent in 2014.

While average income has generally risen in the region and poverty has also fallen by varying degrees, the poverty headcount generally remains high. Figure 2 illustrates the different poverty reduction paths of countries in the SADC region for the years where data is available and using the 2 US \$ a day benchmark. Despite its strong GDP per capita growth, Angola’s poverty headcount declined only marginally over the period 2000 to 2009, while South Africa continues to have a poverty headcount of approximately 30 percent.

Figure 2 - Poverty headcount ratio for SADC member states 1998 to 2012



Source: authors’ calculations based on WDI data 2013.

1.2.2 Trade and regional investment performance

An underlying characteristic of economies in the region, and a potential factor that discourages investment and job creation is the cost of transporting goods between and across borders. Although faster than other regions in Africa, estimates for SADC suggest that the effective speed of road transport around the region is between 6 and 12 km per hour. This is “not much faster than a horse and buggy”, with delays costing US\$300 per day for an eight axle truck (Ranganathan and Foster, 2011). Rail transport is even worse, with some transport such as seed from Kolawesi in Northern Zambia to Durban taking up to 38 days, 29 of which are customs delays, meaning an effective speed of 4 km per hour. Illustrative data on trade constraints can also be seen in the table below providing cross-border trade figures. Even if only indicative, they highlight the scale of the problem being faced.

The combination of poor soft and hard infrastructure drive up the costs of transport in (southern) Africa, but more importantly, it also drives the prices upwards. As a WB study on transport costs and transport prices (Raballand and Teravaninthorn, 2009) has clearly demonstrated transport prices in Africa are much higher than those in other developing countries because of a host of informal payments and a less conducive regulatory environment that drive up prices. With such sectoral features, investing in new roads or in improved border crossings would probably bring down transport cost, but not automatically the price. These factors are likely to factor in observed trade flows in the region.

Table 1 - Border crossing hurdles in African Regions

Region	Documents to Export (number)	Time to export (days)	Cost to export (USD per container)	Documents to import (number)	Time to import (days)	Cost to import (USD per container)
SADC	7.3	31.2	1856.3	8.4	38	2273.3
COMESA	7.2	32.4	1915.3	8.2	38.3	2457.5
ECOWAS	7.6	27.6	1528.1	8.1	31.6	1890.9
CEMAC*	9	35.2	2808.8	10.8	44	3721.4
Middle East and North Africa	6.4	20.4	1048.9	7.5	24.2	1229.3
East Asia & Pacific	6.4	22.7	889.8	6.9	24.1	934.7
South Asia	8.5	32.3	1511.6	9	32.5	1744.5
Latin America	7.1	19	1310.6	7.5	22	1.441.1
Eastern Europe & Central Asia	6.4	26.7	1615.7	7.6	28.1	2457.5
EU	4.5	11.5	1015.3	5.3	12.1	1086.5
OECD	4.4	10.9	1058.7	4.9	11.4	1106.3

Source: AfDB Calculations based on "Doing Business Report 2011".

* The aggregated data for the CEMAC region cover all member states with the exception of Chad (i.e. Cameroon, Central Africa Republic, Congo, Equatorial Guinea, and Gabon). This is due to lack of accurate data and information for Chad.

Text Box 1: Informal payments in Southern Africa

Although the focus in interviews was not on corruption and informal payments in relation to regional integration, and while corruption is apparently lower in Southern Africa than West Africa, for example, anecdotal evidence suggests that it remains something of a problem. Part of this relates to small-scale traders who must provide informal payments in order to pass borders. Attempts have been made to overcome this barrier to small-scale trade, both through measures to form Informal Cross-Border Traders Associations that can help provide voice to those who work in this way, as well as attempts, for example by COMESA, to establish a simplified trade regime for small-scale traders.

However, these have met with only limited success, with abuse of informal traders beyond petty corruption a continuing problem that is increasingly recognised by donors and governments alike, while simplified regimes nonetheless face difficulties in being used by often illiterate traders, their limited coverage of products, the low threshold for goods traded and the lack of uniformity across different borders

At a higher level, in some of the countries where interviews were carried out, informality remains a problem, and to some this is growing, with formal, registered companies also engaging in informal practices. Part of these practices often relate to payments to customs officials to turn a blind eye to huge under-reporting of import volumes or values, thus allowing duty-free entry of goods. To cite one example, imports of white goods into Mozambique by one or two major traders are said by many to enter in this way. Although potentially only a small share of actual trade, that the practice exists also clearly affects the incentives for others to pay, undermining overall tax morale and regulatory compliance more broadly.

Despite a period of major economic recession, intra-African exports grew at 3.2 percent over the period 2007 to 2011. This compares with overall export growth of 4.8 percent for the world, 2.4 percent for developed economies and 2.9 percent for the developing Americas (UNCTAD, 2013). Despite this relatively strong growth rate of African exports, the average share of intra-African exports in total merchandise exports is low, estimated at 11 percent, compared with 50 percent in Asia, 21 percent in Latin America and the Caribbean and 70 percent in Europe (UNCTAD, 2013).

Nonetheless, these averages hide considerable variation in intra-Africa trade across RECs. Over the same period 2007 to 2011, the EAC showed the highest level of trade within Africa at 23.1 percent of its total trade, compared with 16.4 percent for SADC, and 13.3 percent for COMESA (UNCTAD, 2013). Compared with the period 1996 to 2000, this represents a substantial decline for SADC (from 34.2 percent), and more marginal declines for COMESA, and the EAC. Although a decline in the share of SADC trade with the rest of Africa may not represent an absolute decline, the implication is that regional trade is growing more slowly than trade beyond Africa for that region.

During the same period, 78.4 percent of the trade of the SADC with Africa was with other SADC member countries although heavily skewed towards South Africa. The country-level trade performance is presented in Table 2. Once again, regional averages hide considerable trade differences between countries in a region. Although data is “incomplete and not necessarily consistent with other data”, Sandrey (2013) uses data from the ITC augmented by World Trade Organisation (WTO) and Southern African Customs Union (SACU) overall trade figures “to confirm the commonly accepted position that intra-SADC trade is low (and not necessarily increasing) and that South African trade dominates both the overall SADC and intra-SADC trade.”

Table 2 - SADC trade shares

Country	ITC data % shares intra-SADC			WTO total SADC%	
	% Import	% Export	Average	Imports	Exports
Angola	3.0%	8.5%	5.8%	10.6%	31.2%
Botswana	17.9%	1.9%	9.9%	3.5%	2.8%
DRC	6.0%	5.6%	5.8%	2.7%	3.1%
Lesotho	3.8%	0.1%	1.9%	1.3%	0.5%
Madagascar	1.5%	0.2%	0.9%	1.4%	0.8%
Malawi	3.9%	0.8%	2.4%	1.2%	0.7%
Mauritius	1.9%	1.6%	1.7%	2.5%	1.3%
Mozambique	5.7%	3.7%	4.7%	3.0%	1.7%
Namibia	0.2%	0.9%	0.6%	3.1%	2.1%
Seychelles	0.4%	0.2%	0.3%	0.4%	0.2%
South Africa	14.8%	68.1%	41.5%	58.7%	46.2%
Swaziland	0.1%	0.6%	0.4%	1.0%	1.0%
Tanzania	3.8%	1.6%	2.7%	5.2%	2.4%
Zambia	14.0%	4.4%	9.2%	3.5%	4.3%
Zimbabwe	23.0%	1.7%	12.3%	2.1%	1.7%
SADC	100%	100%	100%	100%	100%

Source: ITC database, Kalenga (2013) and WTO.

Focusing on intra-regional trade, in SADC this has doubled since 2000, with a majority of the change happening after tariff phase-downs occurring as a result of the SADC trade protocol (SATH, 2012). The trade of SADC with the outside world has, however, also kept pace with those numbers. As a result, SADC intra regional trade has remained stagnant - at about 15 percent of total trade. Further, the trade remains concentrated on traditional exports: agricultural commodities, minerals, fuels and energy.

In particular, South African exports were 68.1 percent of intra-SADC exports for 2010, the base year, while imports were a significantly lower 14.8 percent of intra-SADC imports. Those countries accounting for most intra-SADC imports include Zimbabwe at 23 percent,

Botswana at 17.9 percent and Zambia at 14 percent, most probably importing for the most part from South Africa. In terms of exports within SADC, after South Africa, Angola accounts for only 8.5 percent, the DRC for 5.6 percent, Zambia for 4.4 percent and Mozambique for 3.7 percent. According to a 2010 WB study, only 2 percent of South Africa's imports came from the countries along the NSC, the Tripartite Initiative to improve infrastructures linking Durban with Dar es Salam (World Bank, 2010b).

To further illustrate, near 75 percent of Mozambique's intra-SADC exports relate to electrical energy and petroleum gases. Further, about half of Malawi's exports to SADC are concentrated in a narrow range of primary agricultural products: tea, sugar, tobacco, rubber, cotton, wood, groundnuts and oil seeds, while 40 percent Zambia's export are in ores and metals. For Zimbabwe, nickel and gold alone amount to 70 percent of Zimbabwe's exports to SADC. Strikingly, gold represents 71.1 percent of Tanzania's exports to SADC. The pattern has not changed radically from the last decade (SATH, 2012).

Southern Africa Trade Hub (SATH) (2012) also reports that SADC Member States vary greatly in terms of their reliance on the regional market as a destination for their goods. Namibia ranks the highest, with 43 percent of export destined for the region, while Madagascar only exports 3.3 percent of its good to SADC countries.

All of the above figures clearly exclude informal trade that may represent a large share of cross-border activity (for example, see Afrika and Ajumbo, 2012). Lesser and Moisé-Leeman (2009) cite estimates that in Africa as a whole, informal activity represents 43 percent of official GDP. Their case study work for Uganda in 2006 suggests that informal trade corresponds to around 86 percent of Uganda's official export flows to neighbouring countries. While not necessarily representative, this underlines the potential scale of informality in cross-border trade and therefore the importance of taking this into account not only in analysing the likely impacts on poverty of regional integration support programmes that operate through the consumption baskets and income sources of different households, discussed below, but perhaps as importantly, in examining the political economic dynamics that surround reforms to cross-border trade and the likelihood of reform success.

1.2.3 The role of investment

A key potential driver for Southern African economies in the context of regional integration is the role of FDI. The United Nations Conference on Trade and Development (UNCTAD) (2014) points to growth in FDI of only 6.8 percent in Africa in 2013, compared with 11 percent worldwide. This is largely due to investment surges in South Africa and Mozambique, underlining the role of resources in growth in the region, while all regions in Africa except from Central Africa and the EAC experienced a contraction in overall FDI after 2008 (AfDB, 2013).

While FDI plays a role in economic development regardless of its source, the importance of the South African economy in the region and the PE implications of this suggest that intra-regional FDI flows are also of interest. Intra-regional FDI has historically been very low in Africa, representing only 5 percent of cumulative projects over the period from 2003 to 2010, as illustrated in Table 3 (AfDB, 2013). In Sub-Saharan Africa the level is even lower.

Table 3 - Value & number of intra-regional FDI projects in Africa (cumulative 2003-10)

Total and intra-regional FDI	Value		Projects	
	USD billion	%	Number	%
Total FDI projects in Africa	848	100	100	4702
All intra-regional FDI projects	46	5	570	12
North Africa to North Africa	8	1	65	1
SSA to SSA	35	4	461	10
North Africa to SSA	2	0.2	43	1
SSA to North Africa	0.2	0	1	0

Source: AfDB 2013, based on UNCTAD data.

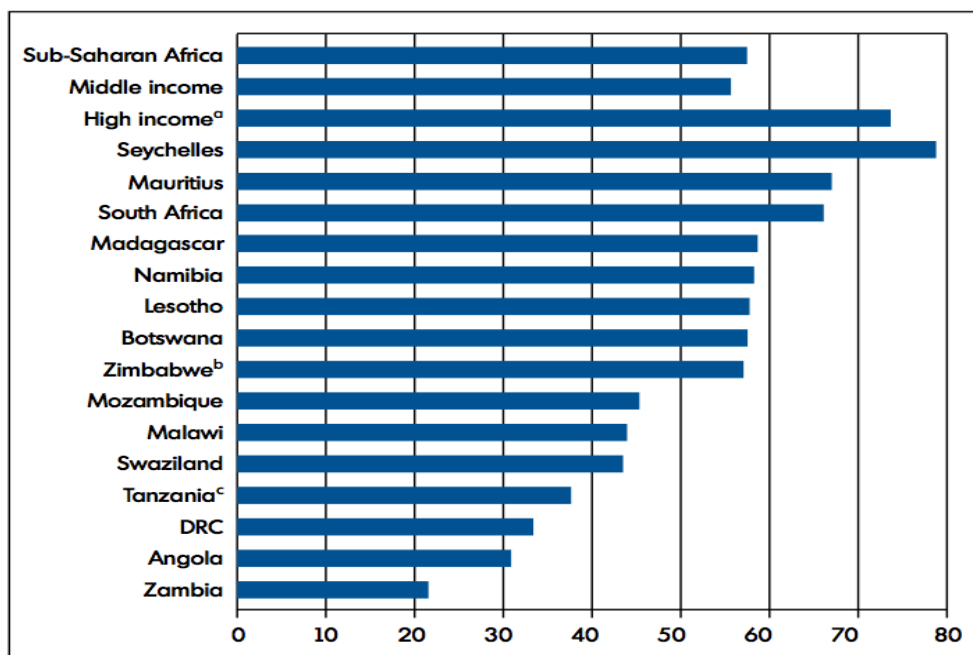
Given the above characteristics, an important background feature to regional integration in SSA is the role of South African investment across the continent. A 2012 study looks at the distribution, behaviour and perceptions about South African investments in SSA (Berkowitz, B. et al, 2012). Based on a sample of 106 South African firms using data from the Johannesburg Stock Exchange and UNCTAD, Namibia and Botswana have been key markets in which South African businesses have made inroads, as might be expected given the historical connections and SACU. Outside Southern Africa, Ghana and Nigeria have received most South African investment attention. Sectoral distribution is highest across African countries for chemicals firms, followed by tourism, construction and tourism, with the key motivation cited by firms being increased sales prospects from new markets. As the paper points out, this is in contrast to other countries' raw materials-based approaches to new markets.

This increase in South African outwards investment underlines a point that will return in the political economy analysis of the TFTA. To a certain extent, South African businesses are already investing the region and in the main growth economies, despite the current tariff and NTBs faced in doing so. While on one hand an indication that regional integration is *de facto* taking place with or without trade agreements in the wider region, this may also affect the basis on which South Africa engages in TFTA negotiations.

1.2.4 Trade in services

In addition to trade in goods, regional integration includes aspects of trade in services. Although often marginalised in discussions of trade, services represent "critical, job-creating inputs into the competitive edge of almost all other activities—think of the role that transport plays in manufacturing" (Brenton and Isik, 2012). Services currently represent an important share of GDP in the region, ranging from around 25 percent in Zambia to nearly 80 percent in the Seychelles (see figure 3, although the numbers have to be taken with caution). Services make up about half of the regional GDP, and provide the bulk of employment in many SADC countries (SADC, 2012; UNCTAD, 2009). Services trade in the region also represents a significant portion of total GDP and overall trade for countries in the region, although significant variation exists between SADC member states (see figure 4 below).

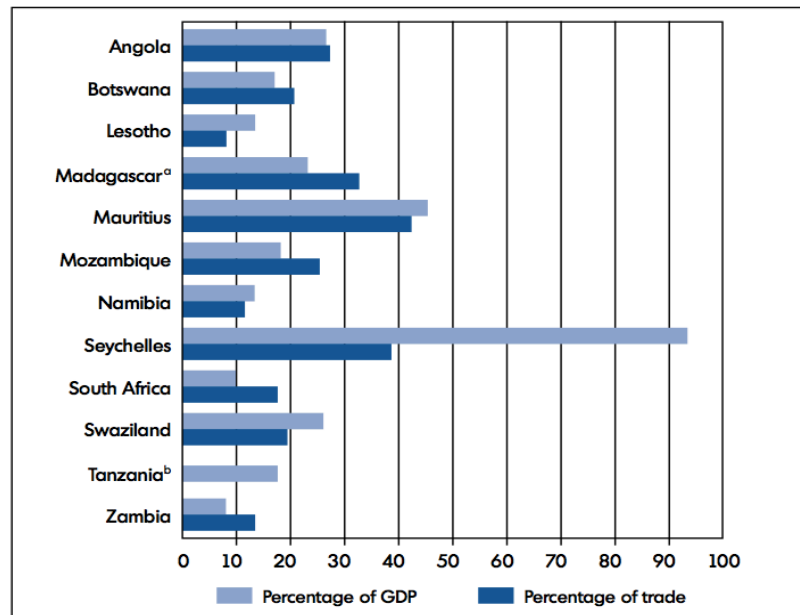
Figure 3 - Share of services sector in GDP (%), 2009



(a) Data for 2006. (b) Data for 2005. (c) Data for 2008.

Source: Stern, M. et al (2011).

Figure 4 - Trade in services (%), 2009



Source: Stern, M. et al (2011).

Service sector liberalisation can clearly play an important role in economic growth and poverty reduction, provided that liberalisation is accompanied by appropriate regulatory overhaul (note that liberalization and regulation are two different notions and can go hand in hand in the case of services). Liberalisation can result in cheaper services to consumers, producers and increased regional export opportunities. Cheaper services (financial, accounting, transport) help the competitiveness of goods products, thereby acting in synergy

with export promotion efforts and regional integration in goods. Arguments against service liberalization are similar in nature to those in goods – a wish to protect domestic suppliers in the face of foreign competition – but also of a social nature such as the wish to retain control of social services such as water provision or education.

Progress on service liberalisation in the Southern Africa region has been limited while trade in services is not being addressed in TFTA negotiations at present - service negotiations have been put on hold until the goods agenda is finalised, with the exception of Mode 4 commitments regarding the free movement of persons. The draft negotiating text on services is of relatively low ambition (Stern, 2012). In SADC, a few sectors of immediate interest and relevance to the region have been highlighted that include communication, construction, energy-related services, financial, tourism, and transport services, with negotiations currently on-going.

Service negotiations and liberalisation are of an intensely technical nature as barriers to trade lie in the national regulatory frameworks of countries concerned. Implementation therefore goes much further than a reduction of tariffs collected at the border but often requires amending national legislation (to enforce provisions but also to strengthen sectoral regulation in anticipation of accrued investment in the sector, or insure that social objectives are met). This means that line ministries and sectoral regulators have to be deeply involved in the negotiations, which presents an additional set up challenges of a technical and political nature. Generally, the appetite for service liberalisation in the region can be described as limited, although experience in East Africa where integration around professional services has been led by the private sector have met with some success, for example in striving for mutual recognition in accountancy services, this is seen as being perhaps because of being private sector led (e.g. Dihel et al., 2010). By way of another example, Uganda has become a successful exporter of education services to countries in East Africa (Brenton and isik, 2012).

1.3 Key growth drivers and future prospects for growth and poverty reduction

1.3.1 Regional industrial policy initiatives

Given the growing recognition of the need for economic transformation towards greater employment opportunities, productivity growth and higher value-addition in almost all African countries, industrial policy is increasingly regarded as a keystone to economic development and poverty reduction (see for example UNECA 2013, AfDB/OECD 2013). While consensus is growing on the need for industrial policy, the form it should take remains debatable, for example on whether or not it should conform or defy comparative advantage (Lin and Chang, 2009), and the mechanisms it entails.

In its annual report 2013, UNCTAD advocates a role for “developmental regionalism” that “encompasses cooperation in the area of trade, with an emphasis on the promotion of intraregional trade and integration into the global economy”, but also “goes beyond the domain of trade *per se* by including cooperation in other, more ambitious areas”. The emphasis is on promoting industrial restructuring and economic transformation through four related “policy tools and drivers”. These are: industrial policy, development corridors, special economic zones (SEZs) and regional value chains.

As UNCTAD notes, industrial policy is already being incorporated into regional integration initiatives in Africa through, for example, the regional industrial development policy of the EAC and the industrial development pillar of the TFTA. However, as is generally recognised in discussions, the reality of the form this might take is unclear, particularly given national imperatives for industrial transformation that tend to overshadow regional ambitions.

According to current thinking, there are three types of market failure which should be the focus of industrial policy:⁵

- **Self-discovery externalities:** For firms to experiment with what new products and activities can be carried out profitably in a specific economy involves costs which can often be high and subject to free-riding, thus reducing the incentive for firms to experiment. Government can help overcome this through the provision of pilot projects and targeted incentives in specific priority sectors.
- **Coordination failures:** Markets do not always provide all the complementary, coordinated investments that are required for certain activities to be viable. Again, government can play a role in coordinating investments which enhance the profitability of each other through provision of services such as the matching of suppliers and clients, or the provision of detailed enterprise databases to improve information flows.
- **Missing public inputs:** This is a form of coordination failure, whereby investments are seen as unattractive due to a lack of certain key public inputs such as infrastructures or a sound legal framework. Government can therefore assist the industrial sector through the provision of specific legislation, accreditation, R&D, transport etc, without which some industrial activities would not take place.

While these market failures and policies to address them are generally discussed at a national level, there is also discussion among African policymakers of the role that regionalism can play. As argued by Draper (2010) and Brenton and Isik (2012), the biggest obstacle to industrialisation in Africa is the fragmentation of the region into numerous small domestic markets which limits economies of scale, the opportunity for increased specialisation and for diversification. In principle, regional integration may therefore support the industrialisation process of African countries through the creation of larger regional markets through the promotion of a trade facilitation agenda, the provision of regional public goods and through the pooling of capacities and resources (Draper, 2010). As such, there is the theoretical potential to address the three market failures mentioned above both at the national level but also at a regional level, particularly for land-locked countries and regions where coordination of the provision of public goods, for example, may be crucial. In practice, much depends on political economy considerations, discussed below.

At present, the EAC and SADC are the most advanced in developing regional industrial policies. In 2011 the EAC adopted the 'EAC Industrialisation Policy and Strategy', while SADC adopted its 'SADC Industrial Development Policy Framework' in January 2014. COMESA, so far seems to lack a common regional policy specifically aimed at industrialisation although industrialisation is one pillar of the TFTA, alongside market integration and infrastructure development. There are also plans to build on the work done on the regional level, in particular in the EAC and SADC, to achieve a common Tripartite industrialisation policy.

Some (e.g. Woolfrey, 2012) believe that this multipronged approach to regional integration, that doesn't solely focus on removal of trade barriers, has the potential to prove more successful than past initiatives in facilitating industrial development in the region. In this reading, the promotion of industrial development can both complement and be complemented by infrastructure upgrading and the improvement in market access (through tariff liberalisation, removal of NTBs etc) intended through the TFTA. However, the industrial pillar of the TFTA is relatively underdeveloped. While it can be seen as an overarching framework signalling the agreement's focus on achieving a 'developmental' model of trade integration and hence more attractive to smaller, less developed economies, providing a

⁵ Based on Hausmann et al., (2007).

counterweight to the fears of trade and economic polarisation, its implementation is likely to remain a challenge.

As recognized in the SADC Industrial Development Policy Framework, the formulation and implementation of industrial policy is first and foremost a national prerogative while there is no 'one-size-fits-all' approach for the region's industrialisation process. With national interests always likely to override regional aspirations, this potentially limits the prospects of genuine regional industrial policy to more focused cross-border initiatives to promote corridors, growth poles and other cross-border spatial development initiatives and regional value chains, further discussed below.

The debates surrounding the exact focus of the industrialisation pillar of the TFTA seem to fall along the lines of proponents of a regional industrialisation strategy focusing on regional value chain development and others promoting a more traditional competitiveness-enhancing approach. Typically the concern expressed is that if the pillar is framed around the development of regional value chains, it could be used to influence Rules of Origin (RoOs) negotiations, something that might prove very controversial if it is done in some sectors.

1.3.2 Global and regional value chain integration

One of the ostensible objectives of regional Industrial policy is to promote regional value chains. While these form the basis of the EAC and SADC strategies, interestingly, they also feature strongly in Japan International Cooperation Agency's (JICA) support to regional integration in the SADC region (DBSA-JICA, 2013).

At a global level, production of goods and services is increasingly carried out wherever the necessary skills and materials are available at competitive cost and quality in global value chains or production networks. Global value chains therefore refer to production networks which rely increasingly on trade of intermediate products, where trade takes place according to inputs produced or tasks performed in a given country instead of trade in finished products. This emerging pattern of trade and production blurs the lines between services, goods and investment. The growing fragmentation of production across borders has important implications for trade and investment patterns and policies and potentially offers new prospects for growth, development and jobs, as recognised for example by the G20 (OECD et al., 2013) and as examples of inflows to Ethiopia garments and other sectors suggest. Regional value chains are also thought to have potential "for achievement of food security and other development goals in areas such as Africa" (OECD et al., 2013; Brenton and Isik, 2012).

UNCTAD (2013) argues that African countries should promote the development of regional value chains by investing in infrastructure and business support services as well as in broader policy areas such as education, innovation and technology. Regional value chains can then provide local firms with access to foreign markets and inputs, thereby freeing them from the constraints of small domestic markets, and providing them with opportunities to benefit from economies of scale and 'learning-by-doing'. UNCTAD (2013) also notes that the development of regional value chains in Africa should form part of "an overall strategy to improve international competitiveness and integrate the continent into the global economy", thus linking regional integration processes to integration into global markets.

However, the opportunity offered by global and regional value chains faces familiar challenges with regards production capacity, production and transport costs and a weak business environment in Africa. While there is the potential for encouraging industrialisation and promoting regional value chains through the use of restrictive RoOs in Regional Trade Agreements (RTAs), to date this has mostly been used by South African industries to the detriment of the prospects for industrialisation of neighbouring countries (see Flatters, 2011)

while broader policies to promote regional value chains through corridors or other spatial development zone approaches have yet to bear fruit, discussed below.

With respect to TFTA RoOs as a tool for regional value chains, the risk is of politically sensitive products being highlighted as potentially important for regional development on contestable economic grounds, and turn into a de facto list of products where protectionism and an inward approach are promoted on development grounds. As such, some fear that using an approach focusing on regional value chains can be used as a way of exporting the way some Member States use protection to further their industrial strategy to the region. The TFTA would then opt for a “inward” or “closed” model around some sectors, i.e. it would establish free trade between its member but would specify high local content requirements. Regardless of the economic rationale behind doing so, this might be politically agreeable to all member states in some sectors, but not in others (textiles being the obvious example where this would replicate the debates in SADC). To counter this possibility, critics suggest delinking this from market access negotiations and focusing solely on investment in productive capacities and the upgrading of certain sectors of importance for the economies of some less developed member states.

1.3.3 Development Corridors

Combining objectives for industrialisation and regional integration, development corridors have been increasingly highlighted as a key policy tool across Africa. In particular this is reflected within SADC in the 2003 SADC Regional Indicative Strategic Development Plan. More recently, at the SADC Heads of State Summit in Maputo in 2012, incoming chairman President Guebuza highlighted corridors as “*vehicles for SADC Regional Integration that need to be harnessed due to the role they play in consolidating social dimensions of development and the regional integration process*” (SADC, 2010). These are the explicit goals of the SAGCOT and the Beira Corridor in Mozambique, for example, both of which are at an early stage.⁶ The Maputo Development Corridor (MDC) linking southern Mozambique to South Africa has been operational since the mid-1990s but with a more generally developmental scope, potentially offering interesting lessons regarding the challenges faced.

Development corridors are a form of SDIs that aims to link transport corridors with local and regional investment. The corridors approach has gained increasing prominence among African policy-makers with a prominent place in New Partnership for Africa’s Development (NEPAD) and SADC as well as almost all other RECs in Africa. Analysis suggests that corridors hold a degree of potential if and when they can narrow the focus of policy-makers, capture the interest of the private sector as drivers and beneficiaries and find alignment with political incentives (see for example Byiers and Rampa, 2013). Work looking at the Maputo and NSC, as well as the SAGCOT corridor in Tanzania all suggest the potential for using corridor approaches but that ultimately they will rely on political alignment, an aspect covered below in the discussion of political economy.

The additional key policy tool of developmental regionalism highlighted by the UNCTAD Report is the establishment of SEZs that relate strongly to both industrial policy and corridors. The principle is again one of concentrating reforms and investments in a narrow area to catalyse investment. SEZs can serve both as platforms for supplying regional markets and as locations from which to source regional inputs and by UNCTAD’s account therefore offer opportunities for promoting regional value chains, an approach that is similar in some respects to the Growth Poles approach being adopted by the WB in Mozambique, for example. Given the early stage that the Growth Pole project is in, it remains hard to draw conclusions, although anecdotally, coordinated plans such as corridors, growth poles and SEZs have yet to fully reach their potential, with initial private sector support often flagging.

⁶ For a discussion on infrastructure and corridors in the region, see AfDB (2011).

Text Box 2: Southern Agricultural Growth Corridor of Tanzania (SAGCOT)

The SAGCOT aims to increase domestic and regional trade through better physical and soft infrastructures, improved markets for agricultural inputs and outputs, targeted agricultural investment opportunities, engagement with international investors, and promotion of linkages with small-scale producers into international value chains. SAGCOT, conceived by a consortium led by Yara Fertilizer Company under the Grow Africa initiative, builds on the existing Uhuru (TAZARA) transport corridor between Dar-es-Salaam in Tanzania and Zambia to focus particularly on agriculture and agri-processing.

While the SAGCOT initiative boasts an apparently comprehensive and coherent investment blueprint that targets the full range of constraints to greater regional integration and investment, work by Byiers (2012) and others suggest that while the thinking and blueprint are well thought out and apparently well-conceived, implementation is proving to be more difficult. While SAGCOT offers an attractive approach to overcome coordination problems, working with such a wide range of actors requires a great deal of coordination in practice. Encouraging investors to take a leap of faith where the wider business environment is an obstacle remains a challenge, particularly where markets for inputs and outputs are product and producer specific, raising the question of how far the coordinating role of the corridor approach can function. Cross-cutting constraints relating to land access (and land rights), taxation, and business regulations apparently remain important constraints. The challenge to help small-scale operators benefit from corridors is enormous, whether in agriculture or other sectors. In agriculture this is particularly important as only around 10 percent of smallholders can generally benefit from such approaches. The time and financial costs involved in working with smallholders and their representatives are high. For SAGCOT to achieve its development objectives, investors will have to be willing to absorb these costs in the long-run.

Further, according to interviews, local actors, both large and small, private and public, have largely remained outside the corridor processes. The driving role of high-level politicians and international companies is therefore an advantage but also a risk. Donors have largely been hesitant to join the initiative (apart from DFID, the WB and USAID) but to date it appears to represent an interesting opportunity to turn some of the rhetoric of working with the private sector for development into reality.

While corridors offer an approach to overcoming a range of investment coordination problems, institutional coordination in practice is extremely difficult. To illustrate, collaboration and coordination among the many different actors required to operate an integrated border-post is complex, as it is for integrating roads and rail connections (Byiers et al, 2014). Encouraging investors to take a leap of faith where the wider business environment remains a challenge and where markets for inputs and outputs are product and producer specific then also raises the question of how far the coordinating role of the corridor approach can take it. As a marketing vision it may serve its purpose, but as a roadmap for coordinating integrated investments it remains to be proven.

Again, this final point relates to the PE drivers and constraints to pursuing development through regional programmes. The same difficulties that face countries in implementing regional trade agreements are likely to feature here also, given the overriding dominance of the South Africa economy. Again, initiatives such as APEI can be interpreted as a response to this, and in many ways reflect precisely the objective of promoting industrialisation within a narrower group of “more similar” countries, something that is further discussed below in the discussion of political economy aspects.

Text Box 3: Accelerated Programme for Economic Integration (APEI)

APEI represents a SADC sub-group of countries who potentially have more narrowly shared economic and political interests in closer integration than the wider SADC group. The approach has still to gain much momentum and some interviewees suggested it will not last long, while others see it as an attempt to raise additional money. However, it may be more than that.

Several regional meetings have been held and a work-plan has been defined. Although considered by some to be originally of Mauritian design with a view to increasing access for their financial services and movement of professionals, there does appear to be buy-in from the other four countries who all have an interest in accelerating their integration agendas, particularly around the pillars mentioned, and in a way that potentially lessens their reliance on South Africa. Focal areas remain broad, and may need to be further narrowed down but the intention to be pragmatic is another attractive element of the approach. Further, all APEI countries are apparently interested in promoting an agenda that although not undermining SADC or South Africa, attempts to 'reorient' their development. Given this relatively small group of countries, narrower agenda, close geographical ties (of the land-locked countries in particular) and apparent political interest, this may become a stronger movement with time.

1.3.4 Extractive sector as a driver

In the midst of slow on-going progress on regional integration, economic growth in Africa has largely been underpinned by the sustained commodity boom of the last decade. Of 46 countries surveyed by United Nations Economic Commission for Africa (UNECA) (2013), the share of primary commodities exports in 34 countries was higher than 50 percent of merchandise exports and was more than 80 percent in 24 countries. Associated high growth rates recorded in recent years have provided new resources with the potential to be translated into employment creation, improved productivity and industrialisation, while governments are increasingly under pressure to deliver on concrete benefits to their populations. Further, exploiting these resources frequently requires construction and or adaptation of infrastructures with the potential to benefit regional trade.

While the extractive sector in principal may offer opportunities for development and regional integration, it is also important to highlight the specificity of the extractive sector, which has largely contributed to shape the impact and outcome of policy measures related to the sector and that may limit its role in catalysing regional economic development to date. As Bilal and Ramdoo (2014) discuss, there are two main areas that need to be taken into account in examining the potential for building regional integration dynamics on the extractive sector. These are that:

Extractive resources are location-specific and sometimes highly concentrated in a few countries, thus altering the market structure and opportunities according to different minerals. Depending on the type and strategic importance of resources at stake (for instance, South Africa is home to close to 90 percent of the world's platinum, group of metals, DRC hosts 40 percent of global supply of cobalt), resource-rich countries attract more or less geostrategic interest and offer differing opportunities for regional linkages.

The exploration and exploitation of mineral deposits are highly capital intensive, costly and time consuming. The time lag between exploration and production can be up to two decades, affecting the fiscal regime surrounding the sector and the degree to which the surrounding economy, whether within or between countries, can fit into this value chain.

Given their strategic importance, minerals are frequently subject to export restrictions in developing countries, impacting on their potential as tools for regional integration. All African countries apply some form of export control measures while out of 40 African countries, only five countries, namely Burundi, Egypt, Lesotho, Mauritius and Rwanda, currently do not apply any export taxes, although all of them apply some measures that could potentially have similar effects on exports (Bilal and Ramdoo, 2014).

If used in a strategic way, export restrictions can potentially reduce the cost of imported inputs for local production chains by discouraging companies to export their products to the advantage of local industries. They can provide a cost advantage for domestic production into foreign markets, once value is added to unprocessed goods. However, the challenges remain in the domestic economy to identify sectors that might service the existing extractive sector, either through supplies of logistics or food or other services.

Most extractive industries operating in Africa are therefore connected to global networks, as their raw materials are essential inputs to the production of goods. As such, the most effective approach to boost Africa's industries may be to explore the potential to combine industrial strengths, deepen interconnectedness and develop competitive and functioning markets, starting with the regional level and removal of export taxes and other barriers.

However, regional trade and economic policies face PE challenges to encourage investments and unlock opportunities to set up lead firms in those sectors where African countries are already established global players. Boosting intra-Africa trade, simplifying and reducing the costs of cross-border trade, improving the business environment, improving cross-border infrastructure are all vital conditions of a functional regional market for extractives as for other sectors, while the stakes are potentially higher.

Current attempts to overcome these challenges include the WB's Growth poles approach which in Mozambique, for example, seeks to find ways to link the coal mining investments in Tete province with input markets and trade with Malawi and Zambia.⁷

1.3.5 South African economic performance

Regardless of the above policy opportunities, given the importance of South Africa in the region and the likely implications of its performance for regional integration in both economic and political terms, it is worthwhile focusing further on South African economic performance and its implications for the regional integration agenda.

While South Africa is undoubtedly the economic and political powerhouse of the region, recent performance raises doubts about the future. Recent International Monetary Fund (IMF) Article IV consultations point to "impressive strides in economic development over the past two decades", but also underline that recent "lower growth has exacerbated high unemployment, inequality, and vulnerabilities." Furthermore, the outlook is for only sluggish growth. Given that South Africa is one of the most unequal countries in the world caused partly by unemployment at 25 percent (34 percent including discouraged workers) and youth unemployment at 50 percent, the IMF suggests that future sluggish growth will be insufficient to reduce current high unemployment rates, while recent strikes by those who hold union-protected jobs in mining and car manufacturing have potentially also damaged future investments and growth.

Further, "South Africa's spillover effects on the rest of SSA are deemed modest, but they are larger on its immediate neighbors" (IMF, 2013). The IMF report points out that while "Weaker growth in South Africa could lower exports from, and remittances to, neighbouring countries", "higher outward FDI as South African firms seek alternative markets and South Africa's elevated current account deficit and resulting high customs transfers should partly offset the negative impact".

As such, current and future South African political concern and attention seems likely to be focused on domestic concerns. The evidence above, combined with on-going strikes in the mining sector and the fact that South African companies are investing in the region already,

⁷ See for example World Bank, 2010, Prospects for Growth poles in Mozambique: http://www.iese.ac.mz/lib/publication/outras/cd_ppi/pastas/governacao/geral/legislativo_documentos_oficiais/FINALMozambique.pdf.

partly in response to poor domestic economic prospects, raises the question whether or not additional trade agreements such as the TFTA will alter the situation to any notable extent and the degree to which they genuinely reflect political priorities. Further, given a policy mix that is resulting in high sustained unemployment and low growth, and one that centers in part on old-fashioned “made to measure” protectionism for a select and politically connected set of industries/unions, there are clear doubts as to how the region might link to these value chains, suggesting instead the need to look for other growth poles and markets.

While there is a slowdown in China and other emerging markets, these may be countries that offer better prospects for exports, where regional integration may be a precondition to achieve this (especially for land-locked countries).

1.3.6 The role of China, India and Brazil

Part of the difficulty of promoting wider integration into global value chains relates to the increasing demand and upsurge in trade and investment in Southern Africa from emerging economies. With China generally considered the major partner and infrastructure one of the major sectors, this has led to claims that these investment indeed can prove a key factor in strengthening African regional integration. This vision foresees the advantages of improved infrastructure in terms of trade facilitation, energy supply, telecommunication, information networks, transport etc. Khadilgala (2011) suggests that China and others could form part of a ‘second generation’ of regional integration, which is endogenously driven by African institutions and disengages from the first generation of ‘exogenous’ regionalism primarily driven and informed by the EU.

Yet, this is not without its challenges. First, as most emerging economies tend to base their cooperation primarily on a bilateral level, and do not generally include a specific regional focus. Moreover, greater attention must be paid to the linkages with the broader communities and with the local private sector, so to avoid creating infrastructure and transport network running between investment areas, such as extractives sites and economic zones, directly to the ports (DBSA, 2008). Moreover, looking at trade, the importance of South Africa as a driver of regional integration in the South might be challenged by the country’s recent inclusion in the BRICS. Trade between South Africa and the other BRICS countries increased from 5 percent to 19 percent between 2003 and 2012. This could pose a risk (primarily for Southern Africa) that the heavy increase of South Africa’s intra-BRICS trade will overshadow the progress of regional trade integration.

China and India currently offer Duty Free Quota Free (DFQF) Generalised System Preferences (GSP) schemes for Least Developed Countries (LDCs), but these only offer partial coverage, which may exclude many products of interest to LDC’s relatively narrow export bases. Without closer inspection of those schemes (which would involve matching the exclusion list with export baskets of LDCs in Southern Africa, and considering RoOs for the ones included in the DFQF list), the opportunities they present are unclear. Nevertheless, supply side capacities in African countries are likely to play a role in seizing the opportunities these schemes offer. Initiatives aimed at helping African firms to tap emerging markets (e.g. Namibia or Botswana’s beef industry) could be explored.

Nevertheless, one of the key barriers to stronger regional integration dimensions is the lack of a consolidated African strategy. As single countries cannot negotiate regional integration with the emerging economies, government would have a stronger position if they acted in consortium, consulted each other on national and regional priorities and actively discouraged ‘incentive wars’ (AEO, 2013).

As one way towards this, the AfDB have suggested the creation of an African core group within the China-Africa Cooperation Forum (FOCAC) mandated to promote and strengthen regional integration objectives. The group suggested to focus on the following four issues i)

improving market access to the Chinese market; ii) advocating regional infrastructure projects; iii) coordinating debt relief, and; iv) untying of development assistance (Schiere & Rugamba).

One decisive step towards a greater focus on regional integration in the Africa- BRICS cooperation was taken at the 5th BRIC Summit in Durban 2013. Titled “BRICS and Africa: Partnership for Development, Integration and Industrialisation”, one of the main conclusions formulated in the Summit Declaration was that the BRICS leaders in their cooperation with Africa will “*Recognising the importance of regional integration for Africa’s sustainable growth, development and poverty eradication, we reaffirm our support for the Continent’s integration processes.*”⁸

1.4 Challenges and risks for inclusive growth

From the horizon scan taken above, a few observations and recommendations can be made regarding future support to regional integration in Southern Africa: Firstly, as the MTE of TMSA and the discussion above has highlighted, the relation between trade growth and poverty needs to be assessed carefully, according to country-specific contexts. Vulnerable groups can be affected by liberalisation. Generally, there are several ways of providing for measures that cushion this impact: providing for flexibility in agreements that allows for the exemption of vulnerable sectors (exclusion lists), longer time frames for liberalisation, or, alternatively (ideally in conjunctions), the provision of programmes that either help displaced workers relocate or industries shift to a different domain where they face less pressure for regional or international competitors. However, it should also be noted that part of the vulnerability of certain groups relates to South Africa’s current economic model that excludes large parts of the population from employment and limits opportunities for neighbouring economies.

In this vein, South Africa’s reticence to further liberalisation can be largely be understood as a manifestation of the fear of adjustment costs falling on “sunset” industries employing vulnerable and/or politically connected groups. The protection of these industries comes at a great cost for the general public. Continuous protection of sunset industries, while rational from a political perspective, is not a socially optimal outcome. The issue from a political economy perspective then becomes how to alter the political equilibrium leading to these outcomes.

The identification of industries that “block” deeper regional integration and offering them support for upgrading and reconversion as a *quid pro quo* for increased integration and liberalisation is a way of lessening their opposition to the regional integration agenda but again requires a deeper understanding of the political economy factors at play. This strategy might be explored as a way of shifting the alignment of domestic interests in favour or against regional integration while, at the same time, making sure that the poverty alleviation and regional integration agendas operate in synergy. Other countries such as the United States have used this strategy with considerable success.

There are clear political issues behind each of these options that determine how genuinely feasible they are, and therefore also the degree of political capital that can be spent on promoting a regional agenda that may be to the detriment of sections of South African society.

- Further, the dominance of the South African economy in the region means that it is hard to conceive that any regional agenda will progress significantly if it is not backed by Pretoria. The implications of this remain to be seen for such initiatives as the APEI

⁸ BRICS and Africa: Partnership for Development, Integration and Industrialisation, eThekweni Declaration, Fifth BRICS Summit Durban: 27 March 2013, <http://www.brics5.co.za/fifth-brics-summit-declaration-and-action-plan/>.

being formed by Mozambique, Mauritius, Malawi, Zambia and the Seychelles. Generally, it is widely held in the literature that buy-in from heavyweights in regional/international cooperation are a catalysing factor for any cooperation initiative. South Africa's domestic and political challenges are therefore also challenge for the region, and engagement with South Africa on domestic issues of concern will be key.

- The role of the BRICS and their potential impact on regional dynamics is currently unclear. Current patterns of trade and investment do not allow firm conclusions with regards to impact on regional integration. Low processing and extractive resources based trade do not provide an extra boost to intra-regional value chains. In addition, since BRICS do not (as of yet) cooperate at REC level, and since there is no African strategies to engage with them regionally, the regional dimension is limited up until now. Implications for DFID programming are relatively minor.
- China and India currently offer DFQF GSP schemes for LDCs, but these only offer partial coverage, which may exclude many products of interest to LDC's relatively narrow export bases. Without closer inspection of those schemes (which would involve matching the exclusion list with export baskets of LDCs in Southern Africa, and considering RoOs for the ones included in the DFQF list), the opportunities they present are unclear. Nevertheless, supply side capacities in African countries are likely to play a role in seizing the opportunities these schemes offer. Initiatives aimed at helping African firms to tap emerging markets (e.g. Namibia or Botswana's beef industry) could be explored.
- Extractive industries still dominate to a large extent the makeup of economic growth in the region. A regional industrialisation agenda could, perhaps, help with this trend and encourage diversification. However, this depends to a large extent on what policy tools are used to further this agenda. Encouraging local processing and value addition by the use of export taxes, tax incentives etc will probably remain national initiatives (because the policy tolls are squarely in the national realm). Encouraging industrialisation and "creating" regional value chains through the use of restrictive RoOs in regional RTAs is another option that is sometimes advocated, but it is far from consensual and the economic rationale of doing so is doubtful. Investment planning at the regional level (though, for example, SDIs) has met with limited success so far meaning that important shifts in political economic dynamics will be required if indeed governments are to use extractive resources as a basis for linking with other sectors and promoting wider economic development.
- More broadly, encouraging industrialisation and promoting regional value chains through the use of restrictive RoOs in regional RTAs is advocated by some, especially by South African industries (see Flatters, 2011). In many cases restrictive RoOs can be understood from a PE perspective as a way of favouring politically and/or socially important industries (textiles for example) but to the detriment of outsiders, as discussed. SADC is a case in point, where they have been used to accommodate a more protectionist approach to certain sectors by SACU in the SADC FTA (Ibid). This option is far from consensual and the economic rationale of doing so is doubtful. Generally restrictive RoOs will increase price paid by consumers for the products concerned. In a context where purchasing power of vulnerable groups is already low, this strategy might have significant social costs - in effect transferring resources from (poor) consumers to (influential) industries.
- Nonetheless, restrictive RoOs are part of the "loopholes" that can make or break compromise on a regional agreement and seem to be at the heart of the tripartite negotiations and whether or not countries outside SACU can genuinely benefit and

expect greater opportunities of market access for processed goods in SACU countries.

- In the case of services, progress has been slow, despite their importance for overall economic and export performance. Services are a crucial component of a competitive manufacturing and agricultural sector. Most regional frameworks in SADC have exhibited slow or limited progress on this front. The TFTA framework does not address, as of yet, service negotiations. SADC negotiations on services are of a limited scope and their outcome should reveal the traction that future TFTA negotiations on the topic can be expected to have. Support for such endeavours should be targeted at national level – as this is where the bulk of the pre-negotiations work and reforms will have to take place.
- The WTO trade facilitation agreement provides another framework through which trade facilitation related support can be provided. In terms of “pressure” to expedite trade facilitation reforms, the WTO agreement reached in Bali is limited as developing countries and LDCs retain an important leeway in deciding what part of the agreement to implement at what point in time.⁹ Yet, for those provisions that developing countries and LDCs in the region choose to implement on the condition that they have acquired “implementation capacity through the provision of assistance and support for capacity building”, DFID support can play an important role. Since developing countries are to self-designate the parts of the agreements that they are willing to implement provided that support is offered, regional coordination is largely in their hands.

Overall, and despite the welcome positive rhetoric on African growth and renaissance, and despite the positive rhetoric on commitment to regional integration, domestic political concerns are likely to dominate regional concerns for many of the countries in the region. Regional integration initiatives seem most likely to be implemented where these actively support domestic interests, whether expressed through policy strategies or the demands of political elites, and where these fit with private sector investments.

For other countries in the region, there is a rhetoric of promoting inclusive growth, but growing insecurity and unrest in Mozambique, ostensibly related to a sense of frustration that the political class will be the only section of the population to benefit from the building resource boom.

1.5 Summary & key findings

Economic growth rates have generally been high in Southern Africa and the tripartite region. But while FDI is increasing, particularly into the extractive sector, poverty remains high and levels of intra-regional trade relatively low. There is also wide variation in economic activity, trade levels, incomes and poverty within and between countries. The regional integration agenda in Southern Africa therefore exists in a context of diverse economic performance, with an economically dominant South Africa, and varying economic and political goals at a national level. All have implications for how the regional integration agenda is implemented.

Continuing economic challenges are leading most countries to focus on economic transformation, towards more and more productive jobs. Regional integration is one potential strategy for achieving this. South African investment in the region is taking place regardless

⁹ Section II paragraph 2.1 of the agreement states: “Each developing country and least developed country Member shall self-designate, on an individual basis, the provisions it is including under each of the Categories A, B and C.”

of steps to implement formal regional integration agreements. While on the one hand this is an indication that regional integration is *de facto* taking place, this also affects the basis on which South Africa engages in TFTA negotiations – in political economy terms, the South African need for the TFTA may be lower than for other countries. On the other hand neighbouring countries continue to see South African investment as a threat to their own private sectors.

While there is the potential for encouraging industrialisation and promoting regional value chains through the use of restrictive RoOs in regional RTAs, to date RoO have mostly been used by South African industries to the detriment of industrialisation prospects of neighbouring countries (see Flatters, 2011). Broader policies to promote regional value chains through development corridors or other spatial development zone approaches suggest a pragmatic, targeted and private-sector-friendly approach but most have yet to bear fruit or have to date not managed to be inclusive of poorer households and small-scale businesses.

Opportunities for increased regional integration may lie in initiatives established by “coalitions of the willing” to implement the agenda more quickly. This is emerging in the EAC region and in the form of the APEI among five (non-SACU) SADC countries. Opportunities may also arise from harnessing the extractive sector through promoting wider investment to foster both vertical and horizontal linkages to the broader economy.

But much depends on South Africa. Despite the positive rhetoric on regional integration, domestic political concerns are likely to dominate regional concerns in South Africa and for most countries in the region. Support to regional integration will therefore have most impact where this actively aligns with domestic interests.

CHAPTER 2: POLITICAL ECONOMY

2.1 Introduction

This chapter gives a brief overview of some of the main PE issues that emerge from forward-looking horizon scan on support to regional integration in Southern Africa. Although the overall purpose of the current study is to be forward-looking, the emphasis on including PE aspects in the analysis underlines the importance of an understanding of current and past processes, and how these may influence the opportunities for support to regional integration through formal and informal institutions and the actors involved. These issues must be taken into account in defining what a future programme of support to regional integration in Southern Africa might look like if this is to have success in balancing ambition with realistic outcomes.

2.2 Why Political Economy?

Some commentators describe policy debates about regional integration as “plagued by idealism about the benefits of regional organisations and more or less naïve assumptions about what they can achieve” (Söderbaum 2013, p.1). A growing body of PEA offers analytical and conceptual handles to begin to address some of these underlying assumptions, as well as questions related to why the overwhelming rhetoric support for regional integration in Southern Africa does not translate in results in the field.

Given the complexities involved in the multiple regional integration agendas and dynamics, it is not surprising that there is no overarching PE approach to assessing or analysing regional integration. Yet various diagnostics and frameworks use PE approaches to address some of the key problem areas and core drivers shaping regional integration processes. The field of PEA is rapidly expanding, with, for example, DFID and some of its partners (such as the WB) investing more effort and resources in exploring PE and governance dimensions in i) particular sectors, ii) issues and themes (the investment climate, state business relations, investments and economic transformation in Africa, rents in the extractive sector, the future of the state, etc.) or iii) particular problem and policy arenas in relation to specific functional cross-country cooperation challenges (for example trade facilitation, regulatory frameworks, etc).

Building on the growing academic and policy insights, an initially small number of development agencies recognised the importance of country level PEA, mainly for the purpose of informing country programming or strategy development, problem solving or feeding policy dialogue with partner countries. The depth and scope of donor-driven PE diagnostics has varied as the purposes for undertaking them also varied. Often the purposes are related to finding out what went wrong in particular response strategies or approaches. But PEA at country or sector levels may also help identify the margins for maneuver and the types of results that matter for transformational change. As Barma et al (2012) state, “understanding the political economy aspects of policy interventions can mean the difference between a successful intervention compatible with political incentives and *first-best* technical fix that falls flat”.

In terms of planning and designing support programmes, DFID can use PEA to inform the dialogue on the assumptions underpinning donor strategies and theories of change. In complex environments, such diagnostics can contribute to donor dialogue on the appropriate types of measures and support strategies (the volume and mix of modalities, the nature of multi-stakeholder partnerships, the scope of the reforms and accompanying measures that may have to include potential losers from envisaged reforms etc).

2.3 Literature Review

In the context of this forward-looking study on regional trade and integration in Southern Africa, this section samples PE findings from a review of the relevant literature. It deals with those political and economic actors and factors that help explain the political incentives of ruling elites, state-business relations and the governance implications of particular sector features. These diagnostics help inform where current DFID approaches may be further adapted to the institutional and political realities in the region, countries and sectors across the regional trade and integration agenda. This section presents some of the key findings from the literature review - focusing among other things on infrastructure development and more specifically on diagnostics relating to transport corridors, given the Tripartite's role in promoting the NSC. It also summarises a first set of implications for donor support programmes.

2.3.1 Key findings from the literature review

- Despite economic growth in the 1990s and the growth accelerations in the 2000s African economic transformation, including the types of measures that are associated with deepening regional economic integration, have been slow and limited. One of the oft-heard complaints regarding the multiple formal trade agreements, declarations and protocols on different dimensions of the official regional integration agenda, is the lack of implementation. Yet “implementation remains conspicuously under-appreciated, under-theorized and under-researched” (Pritchett et al 2010, p. 1). Even when implementation failures are persistent across an array of activities donors insufficiently treat these as “visible manifestations of failure in the underlying theory of change” (idem).
- “Notwithstanding the economic case for regional integration, the mobilization of political will faces considerable obstacles.” (Foster and Briceno-Garmendia 2010, p. 21) National political leaders may take policy decisions at REC level as “signals” in response to political and other incentives without the institutional arrangements (including accountability systems) in place for follow up and implementation. So one key question is when and why do political elites effectively support and implement regional policies? Söderbaum and Taylor (2008) hold a perhaps overly pessimistic view when they suggest that “instead of investing in regional projects that promote broad-based development as a regional collective good, the ruling elites will much more likely seek to control what material benefits of state sovereignty they can muster to strengthen their own political authority, as well as to benefit personally, often financially. This helps explain in part why so many regional projects fail in Africa. What remains in such circumstances are often ad hoc arrangements, invariably financed by the donor community”. Still, it is a view that points to the need to understand political processes at a national level and how these interact with regional dimensions.
- It matters to distinguish between measures that truly require joint action (regional public goods) from actions that are mostly domestic in nature but where an effective regional process can provide a mechanism to help overcome domestic political opposition assuming governments do want to pursue reforms. In many cases there may be a disconnect between what is signed off on at summits and what leaders want to do. Regional initiatives need to be properly understood in terms of the combinations of motives (mere “signalling” of support or underlying interests that are at stake) and the domestic political and institutional support they enjoy.
- It also matters to consider the magnitude and distribution of rents that are generated by the status quo, as well as the types of power plays that any

redistribution of rents may generate among different stakeholders. Those who stand to lose may by groups with a potential to act as blockers through different channels (including elections).

- DFID-sponsored and other research into political settlements in Africa, on state-business relations in neo-patrimonial polities, on roles of elites and rent-seeking behaviour have started to open the black-box of “political will” and provide answer to the questions why in certain contexts policy reforms are drafted and implemented, or why not. More systematic attention to the processes and motives of elite decision-making processes prove to be helpful for external partners in basically two ways: it helps assess margins of maneuver for particular reforms, and helps shape engagement strategies in support of reform processes for improved development outcomes.
- Donor driven attempts at PEA initially focused on the country level. Meanwhile, there is a whole range of PE diagnostics that drill down to the sector level (service delivery sectors, or sub sectors such as roads, transport corridors, ports, etc.) or that analyse particular problem areas. PE research, for example, into infrastructure development, trade facilitation and trade corridors, extractive industries, etc. help explain why certain key regional public goods are underprovided, and where some of the main obstacles or principle drivers for functional regional cooperation and integration are located.
- A *WB/Agence française de Développement (AFD)* study on Africa’s infrastructure pointed to the multitude of African executive continental bodies, RECs and sectoral technical bodies that contribute to a high degree of complexity, unclear functional responsibilities for strategy and project development, and unreliable funding strategies (Briceno-Barmenia and Foster, 2010). Such research confirms the need to distinguish between the formal, top down regional integration agendas as promoted by the multitude of regional institutions such as RECs, and the more functional, cross-border cooperation programmes and processes between two or more states.
- Secondly, it draws the attention to the fact that most of the low hanging fruit in terms of Africa’s infrastructure development has been picked: “Most African countries have undertaken preliminary institutional reforms, mainly the broader sectoral policy and legal measures, many of which can be accomplished by the stroke of a pen. What has lagged are regulatory and governance reforms; they have taken much more time to bear fruit. For instance, effective regulation requires building organisations that challenge established vested interests.” (idem, p. 105). Something similar seems to have happened at regional institutional level with the signing of agreements, treaties and accords. While many policy reforms have been agreed on within the official regional bodies through treaties, conventions and protocols, the lack of implementation measures is generally lamented.
- Lessons from the transport sector in Africa (Raballand, G and Teravaninthorn, S. 2009; Sequira, S. 2011) help highlight a few of the key implementation challenges. Obviously, the first challenge is the challenge to combine hard with soft infrastructure development. One of Africa’s most important infrastructure programmes – the NSC – is a flagship project of the Tripartite, with South Africa’s president as its patron. The PEA of trade corridors help unpack the complexities of public and private agents and stakeholders, the various interactions that affect rent-seeking behaviour, conflicting incentives, and impact on trade performance and development outcomes (Sequira, S. 2011, ECDPM 2014). The NSC is an attempt to coordinate and harmonise programmes in trade, trade facilitation, and infrastructure development through improvements to road, rail, ports, border management and regulatory frameworks.

- When comparing the Tripartite NSC with the older MDC (one of Africa's first toll-roads and private-public partnerships) some striking PE features and other implementation challenges and opportunities emerge. The relative MDC success can be associated with the alignment of national and cross-border interests at a critical juncture in time with the highest level of political buy-in combined with strong administrative support and private sector demand. The NSC is much younger and a more complex undertaking as it involves eight countries, with a higher number of stakeholders and a far broader scope. Potentially, this offers wider gains, but for the time being the NSC seems more like a collection of projects funded by different donors under different arrangements. Still, it remains important to recognise that however slow and fragmented, this NSC corridor process – as other transport corridors – provide relevant opportunities for identifying concrete or functional forms of cross-border cooperation along the same lines as suggested by Briceño-Garmandia and Foster (2010, p. 145) for regional infrastructure more generally: “Regional infrastructure is an ideal entry point for integration processes, because the costs and benefits and the rights and responsibilities can be more easily defined”.
- A PEA helps unpack the decision logics at play, as the Zambia case illustrated. Landlocked Zambia set priorities for investments (ECDPM 2014) that prioritised tarring rural roads over investing in the regional transport flagship of the TFTA, the NSC. Despite the fact that this corridor is essential for unlocking Zambian transport and reducing transport costs, President Sata's government in a pre-electoral context prioritised rural road development. Political expediency with the ruling elite created strong incentives in *electoral harvesting* time for spreading out investments rather than for prioritising longer-term returns on investments.

2.3.2 Literature review: first set of implications for future support programmes

The findings from the literature review are in line with a number of findings from the consultations carried out in that they point to the distinction that needs to be made between rhetorical support for regional reforms at the level of the mandated institutional levels (“signalling”) and the disconnect with the regional and national implementation arrangements and those state and non-state actors that have to make it happen. In a forward looking exercise, the literature review findings on regional integration and infrastructure development help reflect on a number of likely implications for future support programmes. In the absence of more comprehensive and effective regional integration reforms through the formal REC architecture one may have to envisage incremental yet meaningful steps that build trust, engage state and non-state stakeholders, develop institutions, strengthen capacities, test policies, demonstrate incremental development outcomes and create ever broader buy-in.

- **Understanding constraints and drivers of regional integration:** nation states are central in processes of regional integration – regional strategies, policies and programmes come second to domestic politics. Such regional programmes will be implemented only where they align with the national priorities of leading elites or groups weighing on policy decisions. Often, political statements on the need for greater regional integration boil down to signalling support for an ideal rather than reflecting a commitment to ensure that implementation arrangements for such policies and programmes are put in place.
- **Building a political consensus:** cross-border infrastructure development is a feasible and effective initial step to regional integration (Briceño-Garmendia and Foster, 2010, p. 154). But such efforts need to be backed by compensation arrangements. Distinctions in the nature of the infrastructure dependencies of countries involved are important to identify compensation mechanisms, the

potential for benefit sharing (as pioneered by for example international river basin treaties), etc. Key principles include a) building domestic and cross-border buy-in, b) trust building (as there will be asymmetries and differences in interest and power), c) ensuring transparency with credible information, and focusing on d) sharing benefits rather than on sharing resources.

- **Establishing effective regional institutions:** this is important for the purpose of facilitating agreements and compensation. There are multiple disconnects between regional strategic plans and national development planning, with often also a lack of realism as it is often not clear what financial and other resources are available (see also next point). The WB/AFD study on Africa's Infrastructure states that a special purpose entity such as the Tripartite Task Force has played a useful role and "successfully coordinated" efforts (idem, p. 156). Yet the principle drivers of success are domestic. Regional integration cannot be driven by RECs.
- **Use transport corridors as a conduit for cooperation on soft and hard infrastructure development:** As the examples of the MDC and the NSC illustrate, SDIs provide a useful basis for prioritisation of infrastructure investments in transport infrastructure, but also for reflection and dialogue about cross-sectoral linkages and the returns from bundling multiple infrastructure investments in a particular spatial area (see also Torero and Escobal, 2005; Briceno-Garmendia and Foster, 2010). Careful planning and adapted project facilitation/design can help rope in private financing and interest in PPPs. Powerful private sector players can provide anchor investments (as was the case with aluminium smelter MOZAL in Mozambique) that attract other sources of funding and can attract private sector interest and resources for PPPs.
- **Facilitating project preparation and cross-border finance:** Both the WB/AFD study (Briceno-Barmendia and Foster, 2010) and some of the interviewees put project preparation high on the agenda as the complex of social, economic, financial, political, technical administrative and environmental appraisal require time, skills and dedicated resources, often involving facilitation. There is quite a bit of fragmentation and confusion in this domain (ICA, 2012), often resulting in missed opportunities. A mapping analysis by the Infrastructure Consortium for Africa (ICA) (ICA, 2012 a 2012 b) found that early stages of the project cycle receive the least attention, especially where the public sector is seeking to solicit private sector interest in PPPs. But also where the private sector initiates an infrastructure project there often is lack of funding from Project Preparation Facilities (PPFs) to support government in engaging with the private sector and to engage sufficiently in the soft components of infrastructure development.

2.4 Foundational factors

Both national and regional development processes are partially shaped by a combination of structural, geographic, and economic structures that are sometimes impossible (the reality of being land-locked) or hard to transform. In looking at contemporary regional integration processes in Southern Africa and support programmes to them, it is therefore important to take some important foundational factors into account. A more elaborate analytical framework is presented in annex A, which also integrates dimensions of institutions, agency, and regional and global drivers.

2.4.1 Geography

Foundational factors clearly include geography realities. SADC is home to six land-locked countries. Although this does not necessarily translate into an inherent drive for greater regional integration in those countries, it does indicate at least a degree of reliance on land-

based regional linkages. Further, all six coastal countries also have extensive inland hinterlands, further underlining the importance of land linkages to major cities and ports. The grouping also contains 3 island states whose needs and roles in the region are clearly quite different to their continental partners.

2.4.2 Economic structures

Other more structural factors relate to the major economic endowments in different countries and the imbalances between the size of the economies, and levels of income. The historical importance of minerals, particularly in South Africa, has implications both for physical infrastructures in the past and present, and the patterns of socio-economic exploitation such as migrant labour that arose as a result and that extended in the whole sub-region.

2.4.3 South Africa's dominance in the region

South Africa clearly is the historical political-economic powerhouse, implying the paradoxical situation that for many, initiatives led by South Africa are to be treated with caution due to its ulterior motives and strength in promoting its own interests, while economic reliance in the region on South Africa and its businesses remains high and growing.

The creation of the predecessor to SADC in 1980, the Southern African Development Coordination Conference (SADCC), was a clear response to the economic, infrastructural and security vulnerabilities of South Africa's neighbours in a period of growing apartheid military and economic destabilisation and hegemony. The dramatic changes in the politics of Mozambique (peace accords and democratic elections in 1992) and South Africa (1994) need to be seen against the background of these structural and historic relations and help explain the relative success of soft and hard infrastructure development between South Africa and Mozambique along the MDC, for example.

South Africa's dominance has undergone profound political transformations, which has resulted in new forms of cooperation in areas such as peace and security, policing, cooperation among central banks and public finance management, etc. It was accompanied by the rhetoric of "promoting deeper regional integration in southern Africa that builds on regional synergies" (South Africa's National Planning Commission 2012, p. 241). But it also transpired that South Africa's interest and approaches to trade, infrastructure development, security and deepening regional integration were not always in line with the ideas and preferences of its neighbours, many of which openly complain about the hegemonic features of the New South Africa. In fact, South Africa's National Development Plan 2030 (NDP, 2012) echoes this sentiment by admitting that its neighbours see the country as a "bully".

2.4.4 From foundations to present structures

Interpreting the influence of these structural factors on today's policies is not easy. Nonetheless, the deep political transformations and the increasing but differentiated levels of integration in economic, financial and institutional globalisation processes underlie much of the uneasiness surrounding South Africa's role in the region, as well as the differing degrees of comfort with or commitment to the TFTA agenda.

One enduring aspect of the above factors is that Southern African regional integration initiatives have arguably been built to be flexible to endure in this context. They have embraced multiple objectives, including non-trade objectives, and variable geometry, allowing a high degree of flexibility in implementing trade liberalization commitments for example.

In his study of African regional trade regimes from a legalistic point of view, Gathii (2011) points out that, “treaty commitments and understandings show that African RTAs are designed as flexible regimes”:

- They are regarded as establishing flexible regimes of cooperation as opposed to containing rules requiring scrupulous and rigorous adherence.
- African RTAs incorporate as a central feature the principle of variable geometry, adopting steps for meeting timetables and other commitments.
- African RTAs adopt a broad array of social, economic, and political goals without giving salience to any set of specific objectives.
- African RTAs demonstrate a particular preference to serve as forums for the integrated development of common resources such as river basins that cut across national boundaries.
- African RTAs demonstrate a remarkable commitment – at least at the level of rhetoric and narratives – to the equitable distribution of gains from trade and a corresponding weakness in the adoption of non-discrimination trade principles and the related objectives of trade liberalization.
- African RTAs are characterized by multiple and overlapping memberships.

As such, according to Gathii (2011), regional groupings might be better seen as “forums for a variety of initiatives” and “frameworks for development cooperation” building as they do on “a preference not to build supranational bureaucracies”.

With regards to multiple memberships, Gathii (2011) argues that “there is an element of forum or regime shifting between different RTAs of which an individual country is a member that these countries regard as tactically defensible”. This kind of interpretation has important implications for how regional integration progress is perceived and therefore how support programmes are designed and their success measured. It probably also reflects the limited degree to which the various Preferential Trade Agreements (PTAs) are taken seriously or are seen to be useful and relevant in achieving national objectives.

2.5 Current processes and focus areas

2.5.1 COMESA-EAC-SADC Tripartite Free Trade Area negotiations

General

The objectives of the TFTA are well known and relate in particular to the stated ambition to have a continental FTA by 2017. It also relates to the by-now well-known problems of overlapping memberships of countries in different RTAs, which - although potentially serving different purposes for different actors within a country - also complicate efforts to facilitate intra-African trade.

Beyond the more technical issues, bringing a PE lens to the TFTA highlights the need to understand some of the TFTA ambitions as political signalling as well as part of the broader interpretation of regional regimes as “flexible, multi-objective, fora” where enforcement mechanisms are weak and therefore where implementation is likely only to take place where this satisfies a sufficiently important group of actors or sector(s) of the economy.

Satisfying domestic interests then clearly relates to the domestic PE - or the way in which political processes and economic dynamics interact with the different state and non-state actors and constituencies through policy and decision-making processes at national and

regional levels. Regional positions are then an accumulation of different political negotiations within all member countries.

TFTA Drivers and Obstacles

As with any international trade negotiation, opinions are divided on the TFTA and it is difficult to draw singular conclusions about the likely outcomes and timeframes for how and where the negotiations will end up when they are in mid-flow. The chequered history of the decade-long WTO Doha Round negotiations, followed by the successes and upswing in momentum at the recent WTO Ministerial Meeting in Bali, are a case in point.

Those involved in the TFTA negotiation process point to some progress being made. Others, such as the interviewees for the current study had questions about the main drivers of the TFTA. Progress reached was often seen as a political push to prepare positions for negotiations, giving a sense of inevitability about reaching a TFTA basis for an agreement. Still, there is a general sense that the outcome will be unsatisfactory for many, and therefore weakly implemented. While there is not a sense that the TFTA negotiations will fail, there is a feeling of going through the motions to satisfy political decisions. There is also a widely shared apprehension that unless South Africa gives some ground on issues such as rules of origin, the benefits to most countries will be limited, thus leading to partial implementation and an incomplete TFTA.

A major part of this conundrum is about the current PE challenges post-apartheid faces. Its industrial policies respond to global pressures for competitiveness in a socio-political context of high unemployment and strong expectations on the state to deliver a wide range of quality services and public goods on an equal footing. This has resulted in a strong defensive – and even protectionist – positioning by the Department of Trade and Industry in terms of South Africa's position on RoOs.

But the South African government is not a monolith. The Treasury is open to more progressive positions, and the National Planning Commission within the President's Office has launched a broad consultation on regional integration within the context of developing the *National Development Plan. Vision 2030* (National Planning Commission, 2012). This vision documents lays out the trade-offs involved in regional integration and clearly states that liberalising trade and opening South Africa's borders will come at a cost, and the country may also face "increased pressure from inward migration". The National Planning Commission did not shy away from openly addressing the domestic obstacles – such as particular trade union federations – of relaxation of the rules of origin or other regional reforms that may threaten certain vested and well nested interests.

South Africa's National Planning Commission further admits that the global pressures on the domestic PE are considerable, but that these pressures may also stimulate multi-country dialogue on functional cooperation on challenges relating to food, water and energy security in the face of climate change. The National Planning Commission, with the help of the DBSA, has undertaken efforts to engage with counterpart national planning agencies in the region to improve policy dialogue and coordination and consider how regional development planning can be improved. There is also a need, according to one of the NPC Commissioners, to debate and communicate "practical demonstrations of the benefits of greater regional integration as well as for mechanisms through which these potential benefits can be identified, elaborated and promoted." (Muller 2012, p. 28).

While the Department of Trade and Industry apparently sees South Africa as some sort of champion for regional integration, which is prepared to make some compromises in return for more enforceable trading rules, other countries see South Africa as pushing its own national interests (aggressively seeking further market access for their companies), being very protective of its domestic market (opposing any real opening of its and SACU's

domestic market to the kinds of products that the other countries want to export to South Africa – especially processed agricultural products, clothing, etc), and dressing-up their agenda as a ‘SACU position’ (this is supported publically by the other four SACU countries, but not seen as anything more than a South African position by the non-SACU countries).

As shown by recent modelling commissioned by TMSA, under some negotiations scenarios certain industries or sectors could lose out, requiring countervailing fiscal, productive and social measures. Economically “it may be necessary, for instance, to cede certain national opportunities for regional benefits on the assumption that regional growth will benefit the South African economy. However, regional growth may benefit only some sectors of the domestic economy (such as financial and professional services) to the detriment of other sectors (especially labour-intensive lower-wage sectors like mining).” (National Planning Commission, p. 245).

Other processes and pressures pointing beyond TFTA:

- It appears that East Africa (and especially Kenya) is more enthusiastic about, and more meaningfully engaged in, the TFTA negotiations than SACU, which is being very defensive and taking an uncompromising position on its agenda.
- While the other countries outside of these two blocs are interested in enhanced market entry into South Africa (both non-SACU SADC countries and non-SADC countries), they are all coming to realise that this is unlikely to happen unless South Africa (and SACU's) softens its stance in the negotiations.
- South Africa, and to some extent Egypt possibly, would like more enforceable trade remedies, yet none of the other countries are prepared to contemplate this.

As such there is a sense at the present time that the TFTA will not result in the opening up of the South African/SACU market to imports from the region due to South African protectionism. i.e. it will not solve the problems of the SADC Trade Protocol (strict product specific RoO in those areas SA wants to protect), or meet the aspirations of the non-SADC countries to enhance their market access into South Africa.

Although this then paints a rather sceptical picture of the TFTA negotiations, even outside of the market access topic, the TFTA processes can still be a driver for harmonisation of regional trading rules and removal of certain tariffs and NTBs. Moreover, the above descriptions of the built in flexibility which is argued to be an intentional characteristic of African RTAs suggest that the TFTA negotiations may nonetheless remain a useful long-term framework, representing aspirations that will allow those countries ready and willing to accelerate regional integration to do so.

On this latter point, there is an emerging consensus. Regional sub-groups are implicitly and explicitly forming where there is a willingness and interest to accelerate certain aspects of the regional agenda. Such groupings notably include the APEI countries and the EAC countries (plus prospective member candidate countries like South Sudan) that are increasingly willing to take the regional agenda further.

It remains to be seen whether these smaller groupings do indeed allow greater progress to be made on the policy areas that they have chosen to cooperate on. Further, interviewees all state that such groups do not undermine the broader regional agenda, but merely accelerate it and are open to additional countries who wish to join. This may represent a new, more pragmatic form of regionalism, which, although at first sight anathema to the TFTA, may nonetheless complement the broader, more formal top-down framework with bottom-up implementation.

It would require a political decision to support such smaller blocs and dedicated DFID efforts to help these countries leverage their regional integration efforts to integrate more with the global economy. First steps may include support to attempts at trust building, capacity development, for example through facilitating cooperation among various National Planning Agencies, etc. Such pragmatism will have to be combined with a principled stance in terms of continued support (of some sorts) to the broader institutional frameworks of the RECs and TFTA. For the time being the animosity against the creation of sub-groupings by the existing regional institutions does not seem to be such that it would whip up diplomatic incidents, especially if support to RECs and Tripartite would continue.

Still, supporting what can be perceived as breakaways may warrant dedicated efforts in terms of communication and sharing of experiences related to future support programme. SADC or other established RECs may have a sense that donors are undermining them. So this would suggest the need for those donors to communicate clearly that such support is a pragmatic response to country-owned regional processes (that are open for enlargement and explicitly aim not to undermine other processes within more established RECs).

Some South African interviewees expressed a somewhat disparaging view of APEI ("we've seen these kind of things before", "wait until the next Zambian election"). It was not perceived necessarily as a risk. So DFID support through smaller regional groupings may be assessed by South Africa with some critical eye on its potential to go against South African interests. Capacity support for regional negotiation skills and "capital" in neighbouring countries was mentioned as an example. Although APEI has yet to have this effect, the EAC officials are apparently managing to maintain the position that the trio of Kenya-Uganda-Rwanda does not undermine the EAC. Still, Tanzania has publicly shown displeasure.

Current thinking around RECs and the Tripartite may have pinned hopes too high on the central assumption that a number of key regional integration policies could be pulled together from above. Given the resistance and coordination failures – as well as a certain fatigue - this may be the appropriate time for some sort of a paradigm shift in the sense that complexity and "multi-agency" through more channels or conduits may have to be embraced rather than ignored. While there still are good reasons to continue with promoting rule-based institutional transformation through the existing Tripartite and RECs, it is appropriate to explicitly explore the potential for a dedicated second track of functional regional cooperation.

2.5.2 Trade facilitation

Trade facilitation is often depicted as an apolitical area of intervention, as the Chirundu Border Post shows. Yet politics remains important, whether looking at the high-level support to get agreement around such initiatives (which appears to have been a key factor for Chirundu at the beginning) or the low-level 'micro-politics' around vested interests and collusion amongst border agencies and fragmented inter-agency coordination between and within countries around such borders. Trade facilitation is nonetheless seen as a key area where large impacts can be felt through relatively small interventions.

Trade facilitation also relates to NTBs, on which some progress has been made in Southern Africa with support from programmes such as TMSA, and which ostensibly should continue to be supported. TMSA's web-based reporting and monitoring mechanisms for NTBs offer opportunities for data gathering on dysfunctions in public service delivery in the transport sector through client involvement. In a particular case, the Federation of East and Southern African Road Transport Associations (FESARTA) encourages its associated truckers' federations to engage in monitoring of NTBs along key road corridors, but also in using the system to exert accountability demands or pressures.

One of the lessons of PEA of corridors is the potential of the private sector in holding governments to account on NTBs, provided that some of the collective action problems

(such as freeriding) are solved. In this particular case, TMSA has played an important role in that it fills gaps in the accountability and monitoring system by identifying, involving and supporting organisations such as FESARTA. This is a unique area of work that bilaterally governments are unlikely to fund or sponsor, and RECs are equally unlikely to engage in.

The Maputo Corridor Logistics Initiative is another example of a private sector body that plays a number of roles in support of cross-border, multi-stakeholder cooperation and integration. Clearly, donor support to business associations has not always been successful, suggesting the need for further careful consideration of what form such support might take.

2.5.3 Multi-stakeholder facilitation, dialogue and technical assistance

Interviewees suggest that on selected issues/areas of involvement, TMSA has been well targeted in terms of focusing on practical bottlenecks to trade and regional integration. It is also considered to have taken a pragmatic approach that does take into account the day-to-day practicalities of getting people and agencies to talk, negotiate and agree on procedures and processes even if this does not always meet with success. It has been prepared to look into the multi-stakeholder complexities and the messiness of multiple levels of the regional and cross-border agendas. Moreover, it adapted approaches and instruments to the realities on the ground.

At the same time this preparedness by TMSA to adapt to the context in which it operates has raised some concerns about the degree to which it may support or undermine regional initiatives. In interviews mention is made of other delivery approaches such as JICA (regional coordination of country programmes, including infrastructures and industrial promotion), German Development Agency (GIZ) (primarily embedded technical assistance) and TMEA. All of these were frequently cited as successes although they are not without their detractors with some perceiving the GIZ strategy as old-fashioned technical assistance, with all the weaknesses that brings, JICA as being overly focused on its own interests with insufficient understanding of local context and practices.

This then highlights some of the challenges that are faced in designing instruments or conduits to support regional integration in a way that takes politics and ownership into account, that avoids bureaucratic processes, that feeds into local development needs (whether or not the international private sector is involved) and that finds the balance between operating autonomously and within the required political networks to ensure buy-in and effective implementation.

2.6 Implications for future approaches

Given the PE in donors and in partner countries, it is appropriate to strike a note of caution on the desired level of ambition by external actors to engage in support of effective regional integration. Regional institutional bodies and formal agendas and aspirations of regional integration may stimulate or nudge certain integration processes and may create certain incentives or pressures for reforms. But the main outstanding question remains as to how – or to what extent – formal regional structures can contribute to overcoming collective action constraints that manifest themselves through all sorts of implementation and coordination failures at member states' level.

Signaling at the level of regional institutions or expressions of support for regional integration policies surely should not be dismissed automatically as completely empty, but one certainly should assess them in the political and incentive context in which they came about. Also, one has to appreciate the fact that smaller groupings stand a better chance of aligning national and regional interests. So it merits consideration to identify areas with genuine potential for traction from the APEI type areas or subsets of larger regional projects like the

NSC (along the lines that TMSA was doing). Indeed, the benefit of APEI is that it groups a smaller number of countries with a relatively narrow and clear agenda etc.

So objectives need to be realistic and take into account i) that the TFTA may also be another case of an “aspirational framework” expected to bring flexibility etc. and therefore should not be judged as a traditional rules-based RTA, ii) in any case, the achievement of such an ideal is far beyond the control of all the donors, never mind just one, but iii) that this does not necessarily mean that support to TFTA negotiations should be ended.

Some of the implications from PE related diagnostics are summarised in the following bullets.

Generic implications for external partners

- PE diagnostics seem to further reinforce the importance of purposeful knowledge development of the context in which donors operate, as well as the call for more problem solving and experimentation, as the overarching best practice models for regional integration do not work. In the absence of such best practice model, there is good value in paying more attention to good enough processes of functional or cross-border cooperation in areas such as one-stop border posts, cross-border water management, soft and hard infrastructure investments in transport corridors, multi-stakeholder dialogue or involvement in monitoring implementation of regional agreements etc.
- Complementing strong technical analysis with a more systematic assessment of political and institutional dynamics will help donors design “incentive-compatible policies and capacity building interventions” and move away from “hectoring on normative models of technical best practice” and engaging more in finding good fit (Barma et al 2012, p. 32).
- The importance of strengthening institutions, supporting stakeholders in their resolve to overcome collective action constraints, aligning interests and creating trust seems to be understood in general terms. What merits particular attention are those concrete projects from actors with a keen interest and some capacity to engage, and to focus on rent (re) distribution through reforms and the implications for stakeholders and the need for accompanying measures for likely losers.
- As one of South Africa’s National Planning Commissioners suggests, the “successes of regional integration will depend, in part, on demonstrating to the governments and the wider publics of Southern Africa that it offers them tangible benefits” (Muller 2012, p. 28). This demands both identifying and sharing practical benefits of greater regional integration through the most effective delivery channels and stakeholder partnerships.
- South Africa’s National Planning Commission promotes one concrete avenue for cross-sectoral and cross-boundary cooperation by strengthening and linking various national development agencies or entities in the region. This may also enhance coherency between national development plans and national commitments in formal regional arrangements.
- As the case of the transport corridors (or *SDIs*) illustrate, strengthening private-public dialogue may be one of the areas where donors can contribute to incremental inclusiveness through confidence building and tangible outputs. (World Bank, 2010b) Transport corridors offer opportunities for facilitating cross-country dialogue on prioritisation of infrastructure investments, for creating cross-sectoral linkages and for bundling investment opportunities (World Bank 2010).
- Institutional adaptation and the creation of new institutions for regulatory reforms and for the effective and sustainable delivery of regional public goods are long-term

processes. In the absence of comprehensive development or institution building models, incremental and experimental approaches may be called for by DFID and other external partners, approaches that facilitate and enable learning loops for different stakeholders. This would imply refraining from overly engineering programmes so as to avoid locking in such initiatives into log-frames that predefine hard to realise high end results and pre-empt step by step learning, experimenting, as well as networking.

- Interviews and TMEA experience point to country programmes that link up with each other on anything that is APEI-related - so linking the sub-regional dimensions to cross-border and national ones. The APEI priorities are less on hardware than business facilitation, NTBs etc. so APEI support would not be a substitute for support to infrastructure.
- This approach would require a decentralised approach by DFID (see next point) – but also a dedicated effort to re-centralise the learning and to benefit from the potential to create synergies.
- Aid and development finance need to be carefully calibrated as donors can create incentives or disincentives in the provision of (regional) public goods.
- PE diagnostics may inform the process of clarifying or challenging implicit and explicit assumptions and adapting or developing a theory of change embedded in a learning process.

Text Box 4: Corruption

Effective anti-corruption strategies require a stronger focus on the key drivers of poor governance. The old school approaches to relying heavily on strengthening formal, rules-based institutions to wipe out corruption have proven impotent in the face of powerful informal rules of the game and incentives (Unsworth 2007). PEA can help identify the deeply embedded structural factors in a particular country context and how these help shape formal and informal *rules of the game*, impact on governance. In combination often with powerful external drivers, these create the incentive environments that influence political and other actors' behaviour. There is a growing insistence with some donors to improve the understanding of the incentive environment, as well as the margins within which reformers and their supporters manoeuvre.

If support strategies and donor approaches don't take into account the incentive environment, reform efforts – including those efforts improving rules based governance to reduce corruption – are unlikely to succeed. Some donors have move away from attempts to import first (world) class institutional models into environments that are ill suited for it. Some have distinguished between strategies and efforts to reduce fiduciary risks as part of concerns over the integrity of aid flows on the one hand (driven primarily by the concern of donor integrity and ensuring longer term political and citizens' buy-in in the donor country), and the long term strategies that are needed for the slow transformation of the incentive environment in which corruption can be addressed.

Some suggest altering the zero tolerance on corruption for aid and abandon the “corruption hard hurdle” (for example the World Governance Indicator for control of corruption in the case of the US Millennium Challenge Account) in favor of a country- and sector specific approach that is more amenable to policy reform. (Dunning et al 2014).

Implications for DFID in crafting a forward-looking research and dialogue agenda

- DFID has been a champion of PEA among donors. DFID has ventured into new areas of support for regional integration, also through non-traditional institutions or channels. The emerging findings from this forward looking study suggest that the regional agenda and playing field may become even more complex, as the global and regional dynamics and drivers (including emerging regional players and sources of finance) seem to fragment – rather than harmonise – the regional agendas and architecture further.

- The interviews and the cases reviewed for this study point to a) some tacit knowledge about the actors and factors shaping the regional dynamics, b) recognition that these drivers and complexities won't evaporate, and c) some openness and interest to discuss the multiplicity of integration arrangements more frankly. Moreover, it transpires from meetings with donors and development finance institutions (the WB, the AfDB, etc.) and other actors that there is some advance on and interest in PEA of cross-border processes, whether at the regional, country, sector or problem levels. Such analyses would help unravel at least part of the obstacles and drivers to functional and regional cooperation/integration.
- PE diagnostics can further strengthen the knowledge base for grounding regional and cross-border cooperation strategies, and for initiating dialogue with key partners in the RECs, TFTA, continental level and with other regional institutions and national stakeholders in Africa. The areas that seem to reflect challenges and opportunities as viewed by a number of interlocutors include:
- **Financing:** another elephant in the room (besides South Africa's dominant position in the region) relates to the numerous and relatively poorly institutionalized funding arrangements for the regional integration architecture. PEA could target the mobilisation of domestic, regional and international financing for integration purposes, as well as the limits and opportunities of donor support (and preferences) to regional integration and the types of incentives they create or perpetuate. Such analysis may respond well to one particular concern from regional and national reformers.
- **Regional institutions and bureaucracies:** the inner workings of different regional organisations and their staffing (civil servants' career paths, bureaucratic and other incentives that shape their professional behaviour and motivation) and bureaucratic arrangements remain under-researched. More in-depth study may help identify engagement strategies that are fit for purpose in strengthening institutions and the regional public service, including related bodies and entities (e.g. those created or supported by donors such as TMEA, IRCC, etc).
- **Emergent sub-regional approaches:** while regional integration is rooted in the formal regional institutions, the recent emergence of sub-regional groupings (e.g. APEI or the EAC "coalition of the willing") with apparently more narrowly aligned interests raises new questions about opportunities and challenges of variable geometry/multi-speed integration initiatives, including in terms of political dynamics and the implications for regional and supra-regional processes.
- **Linkages and pooling efforts:** various donors have undertaken PEA of forms of corridor development in Southern and West Africa, cross border cooperation on infrastructure investments, concrete steps and measures to overcome NTBs between countries and in regions, changing landscapes (often in response to regional and international drivers), the roles of particular non-state actors such as the private sector, etc. – yet the emerging lessons, experiences and findings have not been shared and discussed. More co-ordination and co-operation is warranted.

Implications for DFID and its support for TMSA and a successor programme

- PE diagnostics are not once-off outputs, but rather processes a) that involve ongoing and systematic stocktaking of existing knowledge and research, b) provide valuable inputs for multi-stakeholder dialogue about drivers and obstacles to integration, and c) inform on the feasibility of certain reforms or the appropriateness of particular support measures given multiple local, national, and regional stakeholders.

- As donors have agreed to prioritize capacity development for governance analyses and assessments through domestic academia, think tanks, etc. (DAC, 2008) this aspect of strengthening domestic capacity for policy relevant research in various aspects of regional integration, including PE dimensions, will merit particular attention.
- A key issue in terms of DFID's approach relates to UK relations with South Africa and their importance in determining how DFID might support regional integration in southern Africa in the future. The discussion above and some interviewees suggest that operating from/through South Africa the only or main way to maximise benefits to the poorest countries from regional integration may need to be questioned.
- The premise of European Centre for Development Policy Management (ECDPM)'s PE work on corridors (comparing MDC and the NSC) was that to support corridor development and regional integration, one needs to at least understand South Africa's relations and interests vis-à-vis the region - whether or not support then gets completely absorbed by South African interests (i.e. "through") is then a risk to assess and manage.
- On the other hand, from a political point of view for the UK it would seem important to operate through a regional base in South Africa, also because it provides valuable opportunities to engage with important South African state and non-state actors and initiatives that also may be supportive of functional and regional cooperation and integration. But operating from a regional base in South Africa could also potentially undermine the impact the UK can have on regional processes. So probably, to mitigate the risk of fall-outs and of disconnects with other institutional processes of regional integration, DFID would have to combine such a programme operating from South Africa with a network of programmes through other DFID offices in the region.
- Given the sensitivities about the "elephant in the room" and the "hegemon in the region" one would argue against a regional support programme that exclusively locates the centre of gravity in South Africa and acts as a conduit for all DFID regional support efforts.
- The efforts at TFTA level to assuage fears, instil trust and push some of the regional agendas (including on infrastructure development, trade facilitation and integration, etc) forward have still to bear fruit, and for the time being one has to seriously consider the centrifugal dynamics that have resulted in some smaller Southern African countries seeking to promote shared interests through new configurations such as APEI.
- In a number of functional integration domains (such as cross-border transport facilitation, joint water management, climate change etc.) development partners may want to support incremental improvements. This support programmes may best be steered from multiple "nodes" – for example different DFID offices (those that are closest to the "action") in the countries involved. This may take the form of a network of DFID country offices operating through DFID country offices but as part of a regional network programme.
- Given the complexities (including existing degrees of mistrust), the uncertainties, the inexistent best practice models, and the multiple integration dynamics in different groupings and differing levels, it seems more strategic a) not to concentrate support mechanisms for regional integration in one location, b) not to bet on a limited number of regional institutions to drive integration processes and c) to engage with or facilitate dialogue with non-state actors such as businesses or their associations (often with vital insights on the value chains as major conduits of trade), trade unions, specialised NGOs or intermediaries, etc. In order to explore

this optimally, it will be more effective to develop a number of DFID locations from which to support promising functional cross-border cooperation and regional integration processes.

- Such an approach would require a tolerance for experimentation and for a broader group of partners (including for example the APEI, the network of corridors in the region beyond the NSC, the potential network of National Planning Agencies, etc). Management systems and incentives will need to be put in place for creating learning loops and effective networking within DFID and among key partners.
- Finally, TMSA has fulfilled multiple functions contributing to experimenting, testing certain avenues (through transparency and monitoring arrangements), capacity development, technical assistance, trust building, functional cross-border cooperation, strengthening of REC institutions, and ensuring learning through knowledge sharing. Setting out future strategies will have to carefully assess what – within the given contextual constraints and drivers of regional or cross-border cooperation – has proven or is proving to be promising.

Thinking along these lines then requires relating a regional programme to on-going country programmes, some of which already have a cross-border angle e.g. the MRGP.

2.7 Summary & key findings

Regional integration in Southern and Eastern Africa does not follow the ideal type models or the formally agreed trajectories as set out by regional institutions in agreements, protocols, decrees, etc. In fact, the institutional and policy environment for regional integration is ever becoming more complex, characterised by many unfulfilled regional policy promises and the creation of new alliances, structures, mandated institutions – such as the TFTA (some sort of a supra-REC), or the sub-regional grouping of the Accelerated Programme for Economic Integration – to solve regional or cross-border challenges. The political economy approach suggested in this chapter prioritizes the combination of structural, historic, institutional and agency factors that shape the incentive environment that helps understand the political drive, administrative capabilities and motivation behind formal and functional integration processes, or the lack thereof.

The literature review of PE of regional integration in the region, the cases reviewed (spatial development initiatives, cross-border financing, etc) and some of the interviewees, point to the implications for national and regional reformers and their supporters, including DFID. In the absence of comprehensive and effective RECs or TFTA driven regional integration reforms, sufficient attention needs to go to exploring and identifying functional, cross border cooperation initiatives that help build trust, engage state and non-state actors, strengthen institutions and capabilities for cross-border cooperation and partnerships, and test policies on feasibility and scalability.

The PE approach to regional integration in the region confirms the value of working with and through TMSA in terms of the latter's potential for flexibility, appropriate tolerance for risks related to experimentation, capacity for knowledge sharing and partnership development, engagement with RECs and national state and non-state stakeholders, and its support for transparency arrangements.

Finally, this chapter suggests that DFID embraces a multi-pronged support strategy and not to locate/manage such a diversified support portfolio for regional integration and cross-border cooperation in one geographical location, but rather to operate through a network of DFID offices in the region.

CHAPTER 3: TRADE AND POVERTY

3.1 Introduction

The main channel through which trade and regional integration can impact on poverty is through economic growth. It is widely acknowledged that economic growth is key to poverty alleviation and that trade and trade reform can play an important role in fostering economic growth and contribute to poverty alleviation. However, when analysing the effect of trade on poverty on the household level, the relationship becomes much more complex and case-specific. Below, the link between trade, growth and poverty is further explained. The potential impact trade has on gender outcomes is also discussed.

There is widespread agreement among academics and policy-makers that economic growth is key to permanent poverty alleviation¹⁰. Although growth can be associated with growing inequality, the effects on poverty tend to be dominated by the positive direct effect of growth (Winters 2004). The central role that growth plays in combating poverty is also highlighted in the DFID report “Refreshing DFID’s Approach to Growth” (2012). The report underscores that “economic growth is the principal enabler of long-term poverty reduction”, and refers to the Growth Commission¹¹ who has come to the same conclusion.

Trade and trade reform, in turn, can play an important role in fostering economic growth and poverty reduction. There is a fairly widespread belief among economists that openness to trade has a positive effect on economic growth. As put forward by Overseas Development Institute (ODI) (2010), “the weight of evidence suggests that greater trade openness is an important element in explaining growth, and has been a central component of successful development. Few countries have grown over the long term without experiencing a large expansion of trade”.

The same conclusion is drawn by the DFID report mentioned above. The report says that although there are no one-size-fits-all solutions for creating sustainability growth in poor countries, integration into the world economy has historically been an important element in growth strategies that been successful.

At the same time, it is important to note that while trade reforms can help accelerate integration in the world economy and strengthen an effective growth strategy, they cannot ensure its success. Complementary policies, including sound macroeconomic management, trade-related infrastructure, and economy-wide investments in human capital and infrastructure, are also needed to make sure trade reforms bring about the expected results.

3.2 The impact of trade on poverty on the household level

On an aggregate level, openness to trade therefore has a potential positive impact on poverty alleviation through the effect it has on economic growth. However, on the household level, the relationship between trade, growth and poverty is complex and case specific. A framework developed by McCulloch et al. (2001) – illustrated in Figure 4.1 – shows how changes in trade affect poor households through the following three channels:

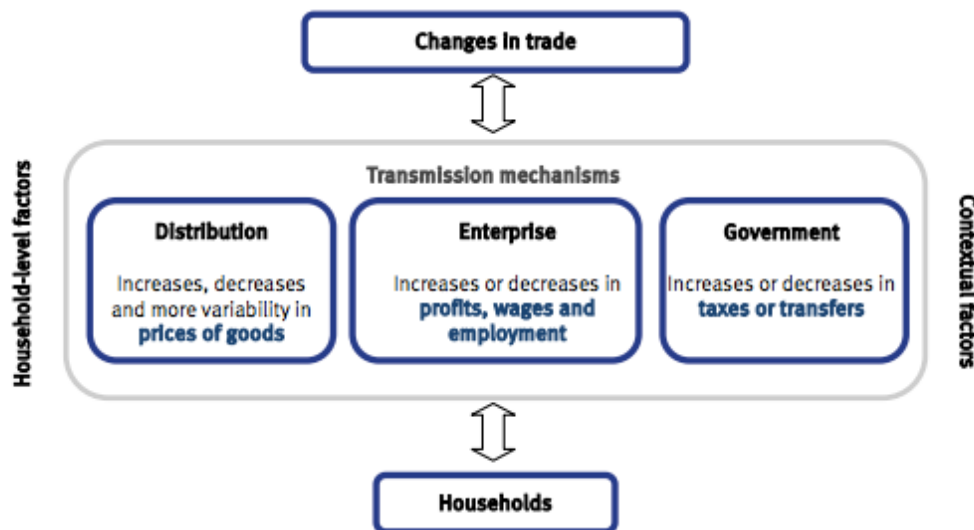
- **The distribution channel.** Changes in prices of goods and services (caused by changes in trade) affect poor households both in their role as consumers and producers. The direct impact of price change on poverty will depend on whether poor households are net consumers or net producers of the good or service.

¹⁰ See for example literature review in Winters 2004.

¹¹ Commission on Growth and Development (2008), “The Growth Report”, World Bank.

- **The enterprise channel.** Changes in profits, wages and employment caused by changes in trade, which can be both positive and negative for poor households. On the one hand, cheaper imports can reduce profits, wages and employment in domestic industries that are in direct competition with imported goods. On the other hand, domestic industries that use imported goods and services in their own production might see increased profits, wages and employment as an effect from lower cheaper imports.
- **The government channel.** Changes in trade can also affect poor household through changes in taxes and transfers. For example, the tax revenue derived from import tariffs can be negatively affected by tariff reductions, which in turn might affect the volume of government spending on economic and social investments (such as infrastructure, health and education). However, total trade volumes can also increase as an effect from reduced tariffs, thus increasing total tax revenue derived from tariffs. (McCulloch et al. 2010, cited in ODI 2010).

Figure 5 - The impact of changes in trade on poor households



Source: ODI (2010), based on McCulloch et al. (2001).

Across these channels, a range of **household-related factors** will also influence the ability of poor households to respond to opportunities that emerge as a result of changes in trade. These include the location of the household (which affects access to local, national and international markets) and assets of households (e.g. human capital, land, and financial capital) (ODI, 2010).

Lastly, a range of **contextual factors** (mainly reflecting social policy, PE and governance issues) affects the extent to which trade reforms can contribute to inclusive growth and poverty reduction. For example, the PE context at the country level will influence the extent to which poor people benefit from trade expansion. This will be guided by which priority is given to inclusive growth and poverty reduction by national and sub-national governments, as well as the nature of the state-citizen contract. For example, a growth strategy that combines both openness to trade and a strategy to ensure economic inclusion of poor trader, producers and consumers is likely to generate broader national support than a strategy that widens inequality and does not compensate the poor people that are forced to bear the adjustment cost of trade reform (ODI, 2010).

As shown above, establishing the links between trade reform and poverty is very complex and case-specific. Trade reform can impact on the poor in multiple ways, and whether the

net effect on the poor is positive or negative depends on a number of factors. As Turner (2013) puts it:

“The impact of trade reform and trade expansion on poverty and the poor are context-specific, depending on many factors including the structure of the economy – e.g. whether trade-induced growth benefits sectors where the poor live and are economically active, the labour-intensity of production, the different roles particular groups hold in those markets affected by the interventions, the extent to which growth translates into jobs, consumption patterns of the poor, etc. There are risks and opportunities for particular poor groups (and regions) as increased trade changes the profile of livelihood possibilities. () Behind the averages, trade reform may benefit some while adversely affecting others, particularly in the short to medium term. This may reduce the poverty reduction impact of trade and may further embed existing inequalities”.

Although trade liberalisation has proven to be generally positive for poverty alleviation, it must also be recognised that trade reforms always creates winner and losers. Under these circumstances, however, policy makers should seek to alleviate the hardships caused (e.g. through complementary or redistributive measures) rather than abandon trade reform altogether (Winters 2004).

3.3 Trade and gender

There are multiple channels through which trade can impact on gender outcomes. In the Winter et al framework described above, gender is a so-called household factor, which in turn influences the ability of a poor household to respond to opportunities that emerge as a result of changes in trade. For example, women are typically more vulnerable because of gender differences in the distribution of income and lack of access to productive assets such as credit and land. This, in turn, may limit the extent to which women can access trade related opportunities. For example, a comparative study of trade reforms in Tanzania, Mozambique and Jamaica found that women were highly unlikely to take advantage of new trade opportunities because of poor infrastructure, restricted access to land and credit, labour discrimination and complex power relations over the control of resources (Fontana, 2009 cited in ODI, 2010).

One channel through which trade can affect gender outcomes is changes in relative wages for skilled and unskilled workers. Since women are generally over-represented among low-skill workers, trade reforms that decrease the wage gap between skilled and unskilled workers will benefit female workers, and vice versa. In addition, trade reforms may also affect the “residual” gender wage gap (the difference in wage not explained by skill differences). For example, it has generally been argued that the expansion of manufactured exports has increased the demand for female workers relative to men in developing countries (particularly in South-East Asia). However, there may also be offsetting effects. Firstly, increases in the relative earnings and employment opportunities of women may be offset by a decline in their leisure time. Secondly, where agriculture predominates in export activity, women may not benefit directly from increased openness. This might be either because their property rights in land are limited, or because they have limited access to credit, inputs and marketing channels (Andersson, 2005).

Higgins (2012) explains the diverse effects trade liberalisation has had on the economic and social status of women. Trade liberalisation can be associated with increased business and employment opportunities for women, but it can also intensify existing gender inequalities, which in turn can reduce economic competitiveness and hinder a country’s ability to benefit from trade expansion. Therefore, gender-related constraints must be taken into account, not only to increase gender equality as an end in itself, but also to maximise the potential

positive impact of trade liberalisation on economic competitiveness and growth. Furthermore, gender inequalities are often shaped by socio-cultural norms which also intersect other ethnic and class-based inequalities. It is therefore imperative for policy makers to anticipate how trade will redistribute wealth within an economy to prevent further social polarization and exclusion (Musselli & Zarrilli, 2012).

Brenton et al, 2011 (as cited in Higgins, 2012) highlights discrimination experienced by women at border posts in the Great Lakes region of Africa such as sexual harassment, violence, bribery and the confiscation of goods. Women are therefore more likely than men to avoid formal border crossing altogether, using informal routes such as smugglers or intermediaries. This, in turn, can expose women to greater risks of coercion or imprisonment (ODI, 2010).

The link between cross-border trade and HIV is also well documented. This is due to the circulatory nature of migration in cross border trade, and the extended periods of time often spent in high transmission areas such as border towns. The majority of informal cross-border traders are women, some of whom may engage in transactional sex with those who are able to facilitate their migration process (immigration and customs officials, police and security forces). In such instances, female traders are often powerless to negotiate safe sex, and become vulnerable to contracting HIV. Hence, negative health implications are more prominent in women than men, especially at slow border crossings that lack transparency (IOM 2010 and Higgins, 2012).

There is currently an on-going WB project working to combat aforementioned problems in the Great Lakes region of Africa. The project has a number of components:

- Upgrading the physical condition the border crossing at Petite barrière in Goma by, for example, installing lighting and surveillance cameras, and posting official fee and tax information.
- “Professionalization” of officials in Goma, Bukavu and Uvira though capacity building, training, and ensuring officials wear uniform and carry identification.
- Empowering trade associations in Goma, Bukavau and Uvira through financial assistance, and training in business management and border procedures.
- Promoting policy dialogue between DRC and neighbouring countries (Higgins, 2012).

There are a variety of other measures that can be taken to reduce discrimination at border crossings such as the training of customs officials on HIV and gender issues, extending the hours of border points and streamlining border procedures to reduce the time at borders, and increasing access to safe lodging for women at border crossings (Shaw 2010). These, and other such measures, can reduce the factors which currently discourage and prevent women from participating more widely in cross border trade.

Higgins (2012) identifies a number of ways gender dimensions can be integrated into the trade facilitation and logistics projects and notes that particular attention should be given to: i) informal cross-border trading; ii) agriculture; iii) micro-enterprises; and iv) products or sectors where there is known to be a high proportion of female traders. This approach can be integrated into a wide range of trade facilitation project activities though: i) *Diagnostics* – in order to understand the gender dynamics of the economy; ii) *Stakeholder engagement* with both women and men to ensure women’s voices are represented throughout the project lifecycle; iii) Integration of gender dimensions into the *project design and implementation*; and iv) *monitoring and evaluation* of the gender-related results (intended or unintended).

To conclude, the impact of trade reform on gender inequality is mixed, depending on the type of goods that are exported and on institutions governing women's access to land and other productive assets. There are, however, a number of relatively simple considerations that can be adopted to integrate gender dimensions into trade projects which will reduce inequality, and maximise the positive impact of international trade. For a further discussion about gender, economic development and trade (please see Annex 5).

3.4 Potential impact on poverty of a future TFTA

In order to analyse what the effect a future TFTA would have on poverty, relevant household data covering consumption bundles, sources of income etc. This is, at least to the study team's knowledge, not available and an ex-ante analysis of the poverty effect of the TFTA is yet to be carried out. However, Willenbockel (2013) has carried out a general equilibrium analysis of eight potential scenarios that a TFTA process could take (described more in detail in section 4.1.6), which in turn shed some light on the likely poverty effects that an agreement would have.

Although the study estimates that tariffs reductions envisaged in the TFTA would on average bring about large welfare gains for the countries involved, it is not possible to with certainty draw any conclusions whether poor households would also share the fruits from such rises in income. However, the study also estimates the effect tariffs reductions would have on relative wages for skilled and unskilled labour, which in turn is telling about the distributional effects of the TFTA. The results show that skills premiums are expected to rise in some countries and to drop in other. More important though, the changes in *relative wages* either way are estimated to be very moderate which in turn suggest that TFTA would not lead to systematic increase in wage inequality in TFTA countries.

3.5 Summary & key findings

The TMSA MTE found that the potential impact of the TFTA on vulnerable sectors and countries in the region had not been adequately considered in programming. This chapter has attempted to provide some evidence-based guidance on the linkages between trade, growth and poverty reduction. At an aggregate level, openness to trade has a strong potential positive impact on poverty through the effect it has on economic growth. The weight of evidence from the economic literature suggests that greater trade openness is an important element in expanding growth and history shows that this has been a central component of successful development strategies.

However, it is also important to note that while trade reforms can accelerate an effective growth strategy, they cannot ensure its success. Complementary policies, including sound macroeconomic management, trade-related infrastructure and economy-wide investments in human capital and infrastructure, are also needed to make ensure that trade reforms bring about the expected results in terms of economic growth and poverty alleviation.

The potential positive impacts of the TFTA on vulnerable groups and poor households could be substantial if it resulted in significant reductions in the costs of crossing borders for small traders, many of whom are women, and if it created greater opportunities for SMEs to link to regional value chains, provide services to newly established enterprises, and so forth. The main links between regional integration and poverty are through higher household incomes associated with new employment opportunities and greater sales and through higher real incomes as prices of consumption goods decline.

Of course, trade opportunities will not benefit everyone equally, and workers in protected industries and those that currently benefit from rents created by thick borders may confront a loss in income. Much also depends on action in other policy areas – e.g., to ensure small

firms have access to credit and the institutions governing women's access to land and other productive assets. To date the regional integration processes have not had significant impacts on poorer households and small-scale businesses.

This chapter has also shown that there is a well-documented link between informal trade, poverty and gender equality. The impact of trade reform on gender inequality is mixed, depending on the type of goods that are exported and on institutions governing women's access to land and other productive assets. There are, however, a number of relatively simple considerations that can be adopted to integrate gender dimensions into trade projects that will reduce inequality, and maximise the positive impact of international trade. For DFID SA, it is worth exploring the work being undertaken by the DFID-funded ITC Women & Trade programme (see Annex 5) as there may be opportunities for enhanced collaboration specifically in Southern Africa.

Part 2: Policies & Programmes

CHAPTER 4: RECS¹²

4.1 Regional integration: state of play in Southern Africa

Since their independence, most African governments have believed that promoting regional trade and economic integration is the best way of reducing both poverty and their dependence on the export of raw materials to developed countries. This has resulted in a plethora of RTAs and regional integration initiatives throughout Africa, with many countries joining a number of these simultaneously.

Eastern and Southern Africa comprises six of the fourteen African RECs. These include COMESA EAC, SADC, SACU, the Inter-Governmental Authority on Development (IGAD) and the Indian Ocean Commission (IOC).

Some common features of the RECs in the southern African region are considered in turn below (Mbekeani, 2013).

- **Ambitious goals:** SADC and COMESA aim to establish a customs/economic union and a CM in order to maximise the benefits of regional integration. They are however also imposing on themselves a substantial demand for administrative capacity and a high degree of economic convergence. Although the push for a high degree of integration is not entirely responsible for the poor record of RTA implementation, it may have exceeded the limit of regional capacity and political will, leading to delays in implementation. Diverse national interests have led to overlapping membership and conflicting commitments, which further complicate implementation. The RTAs' goals are legitimate and reflect the region's aspirations. Nonetheless, they are long-term development objectives and can only be achieved through sustained effort at both the national and regional levels.
- **Focus on intra-regional tariff reduction:** The SADC RTA's primary focus is to gradually reduce intra-regional tariffs while preserving individual tariffs for non-member countries. However, while tariff reduction targets have been implemented to various degrees, most are behind schedule. None of the RTAs have managed to make all regional trade tariff-free. The narrow focus on intra-regional tariff reduction and failure to eliminate NTBs has limited the RTAs' economic benefits.
- **Restrictive rules of origin:** Internal trade within the RTAs is subject to RoOs. SADC RoOs are restrictive, product-specific and require detailed technical processes. RoOs can furthermore be costly to enforce because they require documents to provide origin and verification procedures at border crossings.

4.1.1 COMESA

COMESA developed out of the earlier PTA for Eastern and Southern Africa that was established in 1981. In July 1984, the members of the PTA initiated the process of moving towards an FTA, which they hoped to achieve by 1992. Just over 230 products were initially placed on a common duty-free list, and each year this list was expanded.

The original 1992 target for achieving the FTA was missed, and in 1994 the PTA was replaced with COMESA. COMESA aimed at creating the FTA by 2000 as well as a customs union (CU) by 2004. This was to be followed by a monetary union (MU) by 2025 (later brought forward to 2018), and a single currency thereafter.

In 1997, Lesotho and Mozambique withdrew from COMESA. They were followed by Tanzania in 2000 and Namibia in 2004. In 2000, nine of the nineteen COMESA member

¹² ¹² This chapter draws heavily on (Mbekeani, 2013) & (Willenbockel, 2013).

states formed an FTA with no product exclusions.¹³ They were subsequently joined by Burundi and Rwanda in 2004, and by the Comoros and Libya in 2006.

The next step has been to implement the CU, which came into effect in 2009, and this is still work in progress. COMESA has relatively liberal RoOs compared to SADC and the rules are not product-specific. The COMESA common external tariff (CET) is harmonised with the EAC CET such that member states are able to belong to both CUs. COMESA and EAC have as such effectively moved closer to becoming a single CU and several other trade instruments are also coordinated (e.g. RoOs are similar) (Ibid).

COMESA is now intending to harmonise monetary, financial and fiscal policies by 2014, have a MU by 2018, and achieve a single trade and investment space in which tariffs, NTBs and other impediments to the movement of goods, services, capital and people are removed by 2025 (UNECA, 2012).

Working towards these goals and to strengthen financial and monetary cooperation, COMESA has established a regional payment system to facilitate intraregional trade using local currencies: a Multilateral Fiscal Surveillance Framework, a Financial System Development and Stability Plan as well as an Assessment Framework for Financial System Stability (Ibid).

4.1.2 EAC

In 1996, Kenya, Tanzania and Uganda began the process of reviving the earlier EAC that had been established in 1967 and lasted for just over ten years. After extensive negotiations, the EAC was re-established in 2000. In 2001, the Development Strategy for the EAC, the East African Legislative Assembly and the East African Court of Justice were launched.

The arrangements for the implementation of the EAC CU were negotiated in 2003 and it was agreed that countries would differentiate between the treatments of goods such that Tanzanian and Ugandan products would enjoy immediate duty free treatment throughout the EAC upon implementation of the CU in 2005. While most Kenyan goods would gain immediate duty free status as well, a narrow range of its goods would be progressively granted duty free entry by Tanzania and Uganda over a five-year phase-in period.

When Burundi and Rwanda joined the EAC in 2007, they were required to implement the CET with immediate effect.

The EAC Common Market Protocol was launched in 2010, entailing the free movement of capital, labour, goods and services across the region. The EAC has also agreed to the creation of a single currency as well as a commitment to achieving a political federation by 2015.

The EAC Monetary Union Protocol was signed in November 2013. This brings the third pillar of the EAC into existence with the other two being the CU and the CM. This regional integration process is impressive in terms of speed and scope but all three pillars require further work.

Four of the five EAC members are also members of COMESA, and this has necessitated close correlation between the implementation of the two RECs' integration programmes, in particularly pertaining to their CETs. Both CETs have three bands of duty (0 percent, 10 percent and 25 percent), and in 2006 the EAC members agreed not to impose their CET on COMESA or SADC members.

¹³ This was Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia & Zimbabwe

4.1.3 SADC

SADC grew out of the earlier SADCC, established in 1980. The launch of SADCC occurred at the same time as the independence of Zimbabwe, and its mandate was originally to assist its members to develop their economies and make them less dependent on South Africa. The independence of Namibia in 1990, and the ending of apartheid in South Africa, meant that there was a need to fundamentally rethink the role of SADCC. In 1992 SADCC was transformed into SADC and South Africa became a member in 1994. Mauritius joined SADC in 1995, followed by the DRC and Seychelles¹⁴ in 1997. Madagascar joined SADC in August 2005.¹⁵

Negotiations on the SADC Protocol on Trade began in 1998, and were concluded in 2000. Under this Protocol, the eleven participating Member States made phase-down offers to each other, which would ensure that by 2008 at least 85 percent of their tariff lines were at zero duty for qualifying products originating in these participating countries. The remaining tariff lines (covering “sensitive” products) were to be brought to zero duty by 2012. Zimbabwe and Malawi have both obtained dispensations from meeting these requirements. The DRC, Angola and the Seychelles still do not participate in the FTA.

In 2003, SADC members approved the Regional Indicative Strategic Development Plan (RISDP), SADC’s integration agenda. This agenda included the launch of an FTA by 2008 (took place in 2010), the creation of a CU by 2010 (currently officially postponed), as well as the launch of a CM by 2015 and a single currency by 2016.

Angola has indicated that it is preparing to participate in the FTA and its participation is seen as key to the success of SADC’s integration agenda due to its large size and booming economy. The strong drivers of regional integration in SADC at present include Malawi whereas indications from Pretoria show that South Africa may focus less on a CU in SADC, preferring to explore the opportunities that the TFTA may offer.

While SADC’s trade liberalisation appears slow, the community has been successful in addressing supply side constraints through sectoral cooperation (e.g. harmonising the regulatory environment for telecommunications, energy and transport). Implementation has nonetheless been hampered by a number of obstacles (Mbekeani, 2013):

- Stringent RoOs have prevented low-income countries from benefiting from the FTA.¹⁶
- Countries still impose many NTBs, thus frustrating intra-regional trade.¹⁷

¹⁴ The Seychelles left SADC in mid-2004 and re-joined in 2008.

¹⁵ Madagascar has been suspended from SADC since March 2009.

¹⁶ Onerous local content requirements in RoOs reduce the incentive to trade regionally. For products where RoOs have been contentious (e.g. wheat flour) or simply not agreed upon, preferential trade within the southern African region has been effectively prohibited. Further costs arise from the administrative requirements for certificates of origin, which can account for nearly half the value of the duty preference. Woolworths does not use SADC preferences at all in sending regionally produced consignments of food and clothing to its franchise stores in SADC markets. Instead it simply pays full tariffs because the process of administering RoO documentation is too costly (Brenton, P. & and Isik, G., 2012).

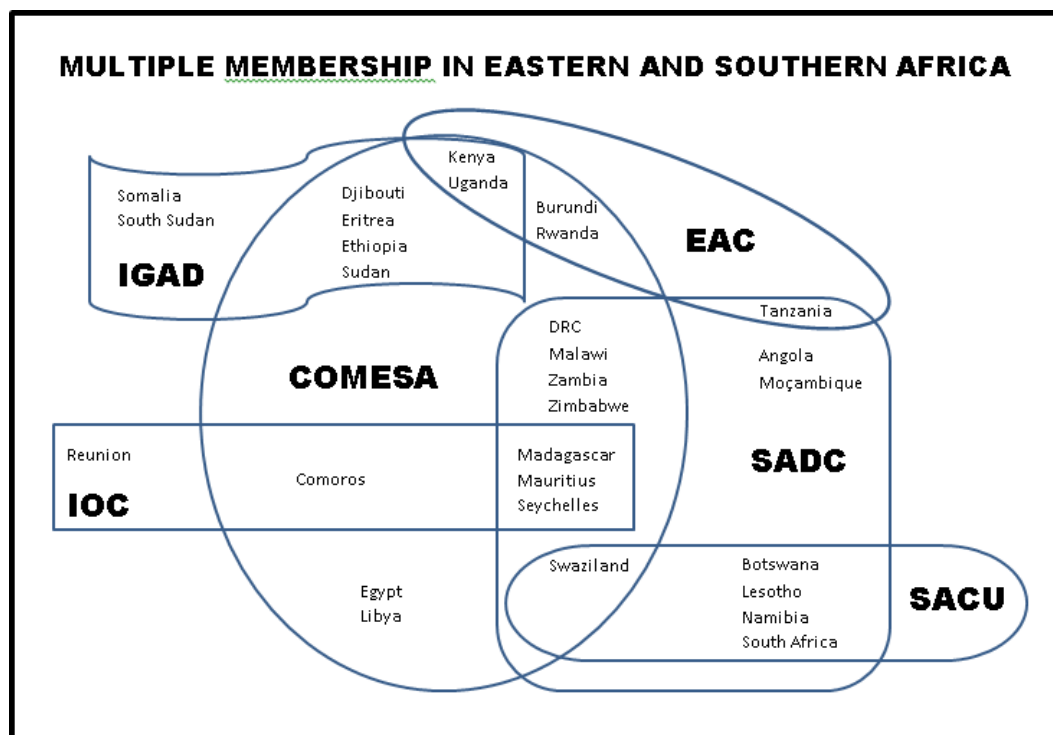
¹⁷ Barriers such as trade permits, export taxes, import licenses, and bans also persist. Shoprite, for example, spends US\$20,000 per week on securing import permits to distribute meat, milk, and plant-based goods to its stores in Zambia alone. For all countries it operates in, approximately 100 (single entry) import permits are applied for every week; this can rise up to 300 per week in peak periods. As a result of these and other documentary requirements (e.g. RoOs) there can be up to 1,600 documents accompanying each truck Shoprite sends with a load that crosses a SADC border (Brenton, P. & and Isik, G., 2012).

- Countries with weak productive capacities are unable to take full advantage of the FTA.
- A lack of progress in liberalising trade in services.

4.1.4 Overlapping membership

In East and Southern Africa, there is significant overlap in the membership and this can be illustrated by the figure below.

Figure 6 - Multiple memberships in Eastern and Southern Africa



This figure shows that four of the five EAC countries are also members of COMESA, while the fifth member (Tanzania) is a member of SADC. The problems that this will create once the EAC common customs territory is implemented under the EAC CU is that (i) the four non-SADC EAC states will have to grant duty free access to their markets to all products produced in SADC countries that first enter Tanzania duty free under the SADC FTA; while (ii) Tanzania will have to grant duty free entry into their market to COMESA products that have first entered any of the four COMESA members of the EAC. Similar observations can be made about the SADC and COMESA membership where the potential for two different external tariffs for all products that did not originate in COMESA or SADC could also have been an issue.

Swaziland is a member of SACU which, as a fully functioning CU, has a CET. In terms of SACU rules Swaziland is not allowed to grant duty free access to any non-SACU country without the agreement of the other SACU MS. Therefore, Swaziland as a member of the COMESA CU has had to get special dispensation from the other members of the COMESA CU not to grant them reciprocity for Swaziland’s duty free access to their markets. Prior to 2010 this dispensation had to be granted annually, but from 2010 this dispensation is granted until the conclusion of the TFTA negotiations, after which it will no longer be required.

Gains can be derived from being in more than one trading arrangement. The best example is the access to the COMESA market, which has less stringent RoOs, for exports from Malawi, Swaziland and Zambia (Ibid). Overlapping membership however also come with costs such as administering often complex ROOs (Ibid). As seen above, they may also create contradictory obligations, and this potential complexity can hinder private sector decision-making (Ibid).

4.1.5 The Continental Free Trade Area & TFTA

In order to rationalise situation of overlapping membership of the RECs explored in the previous section, the African Union (AU) has tried to institute continent-wide trade and integration programmes. The first of these was the 1980 Lagos Plan of Action, a blueprint for the establishment of an integrated Africa-wide market by 2000. This was succeeded by the 1994 Abuja Treaty, which was intended to lead to the establishment of the African Economic Community (AEC) by 2028. It was envisaged that the AEC would be based on some of the existing RECs whilst the formation of new regional integration initiatives would be discouraged. At its 18th Summit in 2012, the AU reaffirmed its commitment to the 'acceleration and deepening of Africa's market integration'. They furthermore agreed to an indicative operationalisation date of 2017 for the African Continental Free Trade Area (CFTA).

In the 2012 Action Plan for Boosting Intra-African Trade & Framework for the Fast-tracking of a CFTA, the following developments are envisioned to deliver the CFTA.

- **COMESA-EAC-SADC Tripartite FTA:** the RECs are encouraged to complete the FTA by 2014;
- **The four other AU-recognised RECs (ECOWAS, CEN-SAD, ECCAS and UMA):** the RECs are encouraged to expedite the completion of their FTAs by 2014. These RECs may come together to form an arrangement similar to the EAC-COMESA-SADC Tripartite or join the Tripartite process;
- **Any other individual AU Member States:** these are encouraged to join CFTA process by 2015.

The vision is that the above developments will lead to the establishment of a CFTA by 2017, with negotiations facilitated by the AUC with the support of the RECs, taking place between 2015 and 2016.

The members of COMESA, EAC and SADC have as such agreed to negotiate a Tripartite FTA with the aim of overcoming issues existing at the level of inter-regional trade for the countries of Eastern and Southern Africa.

The Tripartite's ambition of only achieving an FTA is an implicit rejection of the EU integration model that all of the Eastern and Southern African RECs have used as the basis for their own integration programmes. In the case of the TFTA, the approach of seeing integration as a linear process is rejected in favour of a three pillar approach of which the FTA is one, alongside infrastructure development and regional industrialisation. The consensus is that the EU approach will fail without adequate infrastructure development and industrialisation as well as recognition that within the African political agenda, ceding sovereignty to regional authorities remains undesirable and problematic.

The first COMESA-EAC-SADC Tripartite summit in Kampala in October 2008 was followed by the launch of the negotiations in June 2011 by the three organisations' Heads of State and Government. These negotiations were originally expected to take until 2015 to complete, although at their latest summit the Tripartite Ministers of Trade called on their officials to complete the FTA negotiations by mid-2014. The negotiations are composed of two phases:

- **Phase I:** includes negotiations on priority and critical areas for the FTA (tariff liberalisation, RoO, dispute resolution, customs procedures and simplification of customs documentation, transit procedures, non-tariff barriers, trade remedies and technical standards and sanitary and phyto-sanitary measures).
- **Phase II:** will cover trade in services, intellectual property rights, competition policy, and trade development and competitiveness. This will start once the first is completed.

The coming months will be critical in terms of RoO harmonisation across the three RECs as well as the harmonisation of trade facilitation mechanisms alongside the use of ICT for regional integration and trade.

It appears that in the TFTA negotiations, SACU is insisting that Tripartite countries already in an existing FTA will continue to enjoy their existing market access and utilise the ROOs already agreed as part of this FTA. Tariff phase-down and RoOs negotiated under the Tripartite will only be used for trade between those countries that currently do not have FTA arrangements with each other.¹⁸

As a result of this, many analysts approach the TFTA with cautious optimism, fearful that the Tripartite could create more overlap rather than overcoming issues of overlapping membership. The Negotiating Principles released in January 2013, which state that negotiations can be undertaken by single member states or by RECs, allow for variable geometry and special treatment. These provisions could result in additional and different offers being made between individual states rather than the originally foreseen REC-based agreement.

4.1.6 Potential outcomes of the Tripartite negotiations

The TFTA negotiations are still in their infancy and remain within a certain honeymoon period where political will and summits drive the process. Technical experts are only just getting seriously involved now so it is difficult to project the potential outcomes and benefits of an agreement at this stage. It is anticipated that much of the regional infrastructure development (pillar two) will require continued support from donors. Thus, the “main traditional donors and International Finance Institutions (IFC’s) that have supported infrastructure projects in the Tripartite region (including the WB, the AfDB, the European Commission (EC) and various European and Asian bilateral donors) will be targeted to continue to support the region’s infrastructure rehabilitation and development. New and emerging donor countries will also be approached.”¹⁹ Discussions on achieving the ambitions of the Tripartite’s industrialisation pillar have yet to begin in any meaningful and sustained way.

A recent ex ante impact analysis (Willenbockel, 2013) has undertaken a general equilibrium analysis of eight potential scenarios that a TFTA process could take in order review the likely costs and benefits of each.

¹⁸ E.g. Non-SADC members of the EAC will use the Tripartite RoO and make tariff phase-down offers to SADC countries apart from Tanzania and similarly non-SADC COMESA Members will use the Tripartite RoO and make tariff phase-down offers to the non-COMESA SADC countries.

¹⁹ www.comesa-eac-sadc-tripartite.org “Resource mobilisation”.

Table 4 - Aggregated changes in relative welfare

Country	S1	S2	S3	S4	S5	S6	S7	S8
Ethiopia	0.15	0.11	-0.01	0.13	-0.01	0.06	0.05	0.33
Kenya	0.11	0.06	0.03	0.05	0.02	0.08	0.09	0.5
Madagascar	0.01	0.01	0.01	0.01	0.01	0.0	0.0	0.18
Malawi	-0.12	-0.2	-0.18	-0.15	-0.13	-0.18	-0.21	1.16
Mauritius	0.09	0.08	0.08	0.08	0.08	0.04	0.02	0.47
Mozambique	0.06	0.21	0.2	0.04	0.03	0.06	0.03	2.19
Rwanda	-0.07	-0.11	-0.9	-0.13	-0.11	-0.07	-0.06	0.29
Tanzania	0.02	0.08	0.06	0.09	0.07	0.04	0.04	0.47
Uganda	0.05	0.2	0.14	0.1	0.04	0.12	0.15	0.63
Zambia	-0.13	-0.16	-0.14	-0.15	-0.14	-0.13	-0.14	0.9
Zimbabwe	-0.46	-0.56	-0.6	-0.4	-0.45	-0.38	-0.46	2.64
OEast Africa	0.01	-0.01	-0.03	-0.04	-0.03	0.01	0.02	0.14
SCAfrica	-0.07	-0.08	-0.01	-0.06	-0.01	-0.04	-0.03	0.13
Botswana	0.01	-0.04	0	-0.02	0.01	-0.03	-0.02	1.79
Namibia	0.43	0.38	-0.5	0.4	0.04	0.24	0.22	2.35
South Africa	0.08	0.15	0.9	0.11	0.08	0.11	0.09	0.34
OSACU	0.0	0.76	0.71	0.59	0.54	0.51	0.52	1.52
Egypt	0.0	0.01	0.0	0.01	0.01	0.01	0.01	0.05
ONAfrica	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.01
OSSA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.01
EU27	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RoW	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total World	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total TFTA	0.04	0.07	0.04	0.05	0.03	0.05	0.04	0.38

Source: Willenbockel (2013).

The establishment of a free trade area with full elimination of all tariffs on trade among all partners (Scenario 2) is projected to generate an annual welfare gain of US\$ 587 million or roughly 0.1 percent of the total TFTA area 2014 baseline absorption.

In absolute terms, South Africa enjoys the largest real income gain under this scenario whereas the largest gains relative to baseline absorption are projected for Swaziland, Lesotho and Namibia. Zimbabwe and to a lesser extent Malawi, Zambia, Rwanda, Angola, DRC, Botswana and 'Other East Africa' however suffer moderate welfare losses as a result of a terms-of-trade deterioration that dominates the gains from lower consumer prices for TFTA imports. Out of the DFID priority countries, Malawi and Zambia are projected to experience small aggregate net welfare losses under Scenario 2. Mozambique is however projected to enjoy a moderate aggregate net welfare gain (+0.21 percent).

The strongest message from this analysis emerges from the most ambitious TFTA agreement (Scenario 8), combining complete tariff liberalisation for intra-TFTA trade with a reduction in reduction in transport & transaction cost on intra-TFTA flows (intended to capture the potential impacts of reduction of NTBs and trade facilitation measures envisaged in the TFTA). The projected aggregate net benefit for the TFTA group here amounts to over US\$3.3 billion per annum and this is nearly 0.4 percent of aggregate baseline absorption and more than five times the gains resulting from full intra-TFTA tariff liberalisation alone.

In contrast to Scenario 2, all TFTA countries enjoy positive aggregate welfare gains in this case. The countries with the largest projected percentage increases in real absorption are however Zimbabwe, Namibia, Mozambique, Botswana and 'Other SACU'. In this most ambitious scenario, the total volume of intra-TFTA trade is boosted by US\$7.7 billion, an increase of nearly 20 percent relative to the 2014 baseline volume. Out of the DFID priority countries, Malawi and Zambia experience strong welfare gains under this scenario (+1.16 percent and +0.90 percent respectively). Mozambique will experience a particularly strong gain (+2.19 percent) under Scenario 8.

The impact on wages for skilled and unskilled labour is also estimated under Scenario 2 and 8. In the model, changes in wages for these two categories depends on the factor intensities (of skilled and unskilled labour respectively) of the sectors that experience an output expansion due to higher export demand and the sectors that contract due to higher import competition. The results show that skills premiums are expected to rise in some countries and to drop in other. However, the changes in relative wages either way are very moderate which in turn suggest that TFTA would not lead to systematic increase in wage inequality in TFTA countries.

The results from Scenario 2 and 8 reported above should however be interpreted with caution as they are best-case scenarios and not necessarily realistic when comparing with the actual level of ambition the TFTA negotiations (as far as these are known). The latest reported intent of the TFTA negotiations is that 60 percent of all tariff lines will be duty free on entry into force, with a further 25 percent of lines subject to negotiations and implementation over a 6 to 8 year period. Moreover, it appears safe to assume that the TFTA will not now result in a combined FTA between 26 member countries, but instead seek to preserve the existing trading arrangements within the three RECs, and add to this a set of new tariff schedules between countries and customs unions that are not in a common REC (WYG 2013). A more realistic tariff liberalisation scenario in the ex-ante impact analysis would therefore be Scenario 6 (full liberalisation of capitals good only, 80 percent tariff cuts on intermediate goods and 50 per cent tariff cut on consumption goods). Under this scenario, the net welfare gains fall to US\$ 100m per year (compared to US\$ 578m and US\$ 3.3 billion under Scenario 2 and 8 respectively) and the average increase in total exports for all countries is a meagre 0.03 percent. Total intra-regional trade is forecast to increase by just US\$ 250m (representing 0.6 percent of existing intra-regional trade).

The economic gains for African countries from undertaking **trade facilitation and infrastructure improvements** have further been estimated in a study by ITC (2012). The study considers first a scenario under which an ambitious programme to improve transport infrastructure in Africa is undertaken. The study defines transport costs to include domestic transportation, from production to port and from port to final destination, and in international transportation from port to port. It is assumed that the domestic transport time is halved in five years and that the cost of international transport between any two SSA countries is reduced by half during the same time period.²⁰ It is further assumed that the costs of this programme are entirely born by external partners.

The results show that the assumed reduction in transportation time and cost would bring significant benefits to all African regions. In 2025, GDP in SSA is estimated to be 0.8 percent above its level in the baseline for the same year, corresponding to a gain of above US\$ 20 billion. Terms of trade would also improve substantially as imported goods become cheaper, which in turn increases the purchasing power of people in the countries considered. As reported in Table 4.2, the simulations show that intraregional trade in Africa would increase significantly as a result of reduced transport time and cost. For some regions, the increase in exports to another African region amounts to over almost 40 percent and even above. On a

²⁰ The reason for this assumption is that data is only available for the *cost* of international transport, while for domestic transportation only data for the *cost associated with time of transporting* is available.

sectoral level, the simulation shows that trade in transformed products benefits more under this scenario compared to primary products. In percentage terms, exports of textiles, wearing apparel and other manufactured products benefit the most. This is because such products benefit twice – both on the sourcing side because of better access to inputs, and on the supply side because of better access to markets.

The overall conclusion drawn from these simulations is that programmes to improve infrastructure will be highly beneficial to African countries and will in particular boost intra-regional trade. The simulation results show that Western Africa would benefit the most under such a scenario, while Eastern Africa, where custom procedures are already the least intrusive, would benefit the least. The GDP gain from this change in 2025 would be US\$ 15 billion, as compared to the baseline scenario. If accounting for purchasing power effects, the benefits would be even greater due to the improvements in terms of trade.

Table 5 - Impact of the policy change I scenario (transport) on trade value as compared to the baseline in 2025 (in %, excl. oil)

Importers/Exporters	Central Africa	Eastern Africa	Western Africa	SACU
Central Africa	17	50.6	10.3	25.9
Eastern Africa	39.9	38.7	10	37.4
Western Africa	17.7	11.7	30.2	18.9
SACU	37.9	24.6	-0.1	28
EU and EFTA	4.4	1.9	2.1	1.2
South Asia and EAP	1.4	4	2.1	0.8
Rest of OECD	6.1	5.2	2.1	1.1
LAC	5.1	0.8	2.4	3.3
Rest of the World	1.8	1.5	4.8	0.9

Source: ITC (2012) calculations based on the MIRAGE model.

Table 6 - Impact of the policy change II scenario (trade facilitation) on trade values as compared to the baseline in 2025 (in %, excl. oil)

Importers/Exporters	Central Africa	Eastern Africa	Western Africa	SACU
Central Africa	-0.8	5.5	-1.4	14.1
Eastern Africa	1.4	3.2	4	7.1
Western Africa	0.9	3.3	-0.9	12.8
SACU	10.6	5.3	3	4.4
EU and EFTA	3.1	2.3	3	3
South Asia and EAP	1.2	2.4	2.7	2.6
Rest of OECD	4.3	2.9	3.1	3.5
LAC	3.5	1.9	3.3	5.1
Rest of the World	1.5	1.8	3.7	1.5

Source: ITC (2012) calculations based on the MIRAGE model.

As a second scenario, the study assumes that SSA facilitates trade by accelerating custom procedures (i.e trade facilitation) at the port. The study uses data from the WB's "Doing Business" surveys on the number of days needed to comply with customs processes when exporting/importing a standardized cargo of goods by sea transport. For landlocked

countries, data for customs procedures at inland border posts are used.²¹ The study assumes that time needed to comply with custom procedures will be halved within two years.

In terms of trade flows, SACU's exports of other manufactured products to other African regions, and in particular Central and Western Africa, would increase the most. Even though intraregional trade within SSA would increase globally, some small declines are also expected between Central and Western African countries.

The conclusion is therefore that the facilitation of customs procedures will produce trade and welfare gains that will be somewhat lower than those achieved through infrastructure improvements (Scenario 1). However, given the much lower costs of implementing this policy, it would still be desirable to pursue such a programme of reforms and investments. Trade gains under this scenario will not favour intraregional trade as strongly as under the previous scenario, but will be more evenly distributed among trading partners.

It is important to note that the results from the ITC study are only indicative and should be treated with caution. Nonetheless, the results are still telling about the potential gains for African economies from improving infrastructure and facilitating custom procedures and how these gains would be spread across different regions. The findings also point to the need of complementing trade liberalisation with a broader programme of infrastructure development and trade facilitation in order to advance deeper regional integration in Africa.

4.2 The implementation challenge in Southern Africa

A challenge in Southern Africa is that there is a significant disconnect between the commitments that various members of the different RECs make at regional meetings, and even sign up to in various treaties and protocols, and the implementation of these commitments. This disconnect was highlighted for example at a workshop on regional integration in February 2011²² at which the participants identified various challenges that they saw to regional integration including:

- Lack of consensus amongst members of RECs on whether regional integration should be steered by supranational institutions (secretariats) or intergovernmental mechanisms – regional integration seems to crumble when sovereignty is threatened.
- The principle of variable geometry, which, albeit gives state flexibility, undoes some of the progressive aspects of integration.
- The proliferation of non-tariff barriers was viewed as a real threat to integration.
- Lack of capacity in the secretariats.
- Lack of political will by some member states, for example through poorly or not implementing regional commitments and not making their financial contribution to the REC.
- The fact that there isn't a unified agenda on regional integration also creates challenges for partners that wish to engage with African countries (e.g. Europe and

²¹ The WB "Doing Business" survey measures the time associated with exporting and importing a standardized cargo of goods by sea transport. The time and cost necessary to complete every official procedure for exporting and importing the goods are recorded; however, the time and cost for sea transport are not included. All documents needed by the trader to export or import the goods across the border are also recorded. For exporting goods, procedures range from packing the goods into the container at the warehouse to their departure from the port of exit. For importing goods, procedures range from the vessel's arrival at the port of entry to the cargo's delivery at the warehouse.

²² "The Political Economy Of Regional Integration In Southern Africa: What Role For The EU And Other Partners?" ECDPM and SAIIA Workshop Report February 2011 Page 3.

other partners that support SADC).

The mainstreaming of regional integration into national strategic plans and policies is a two-step process, the first of which entails the ratification of signed agreements by parliaments and legislative bodies. The second step involves incorporating the agreements and their policy implementation into the day-to-day operation of affected ministries, often unrelated to the ministries of trade or foreign affairs that tend to be the ones most directly involved in negotiating these regional integration agreements.

Regional integration initiatives do require a large degree of public management and implementation at the national level. Without an absolute commitment to implementation at the national level, there can be little progress at the sub-regional level. Doing nothing or too little to implement agreed programmes at the national level can severely hamper the integration agenda. One of the main challenges undermining the acceleration of Africa's continental integration is the limited or lack of progress in mainstreaming regional integration agreements and the several decisions adopted at both continental and regional levels into national development plans and strategies.

A survey done in more than 30 SSA states by UNECA in 2012 shows that there are 'a number of underlying factors attributed to limited domestication of decisions. These include the following: lack of resources; shortage of manpower capacity to cope with and implement the diverse range of regional integration activities and programmes; poor coordination of programmes at national level; and limited consultations among stakeholders on a number of agreed decisions and protocols relating to regional integration (UNECA 2012). Overlapping membership has also put a strain on member States' resources and ability to implement multiple and competing programmes.

- **COMESA:** In July 2013 COMESA Secretary General Ngwenya addressed a meeting of Permanent Secretaries and senior officials from Ministries of Trade and Industry in the region on various developments regarding trade and the implementation of the COMESA Customs Union (CU). In this address he said *"As you all very well know, the COMESA CU was launched in June 2009 with a three-year transition period during which Member States were supposed to implement key instruments. The implementation scoreboard that was considered by the Ministerial Task Force earlier this year was not at all encouraging as it indicates little or no implementation of those key instruments. We now need to find a formula of how to realise the CU or alternatively how to proceed with our regional integration."*
- **EAC:** The EAC has the most ambitious programme of regional integration of all the three RECs, which will culminate in a political federation by 2015. However, despite their ambitions, implementation has been more difficult than anticipated. The 2010 deadline for the establishment of the common EAC customs territory was missed due to Burundi and Tanzania's failure to agree on its operational provisions. Kenya, Rwanda and Uganda decided to proceed with this ambition, and so continued to hold discussions on its implementation.
- **SADC:** Despite the SADC member states' commitment to its ambitious RISDP regional integration programme (which envisaged a FTA by 2008 [only launched in 2010], a customs union by 2010, a common market by 2015, and a single currency by 2016) it is still struggling to implement the first stage – its FTA. The launch of the FTA was the final stage of the SADC Protocol on Trade which was implemented by 11 countries in 2000 and envisaged an 8 year phase-down of duties on 80 percent of trade, with the duties on the final 20 percent to be phased-out by 2010.

The implementation challenges that the various RECs face in the implementation of their various regional integration programmes by their respective Member States are broadly

similar. This was confirmed in the survey of 30 SSA states undertaken by UNECA in 2012 which provided a ranking of the implementation challenges faced by these countries (without relating these to the programmes of specific RECs):

“Rating from high to very high, more than 58 per cent of respondents reported that financial resources and lack of skilled personnel remain the top two challenges affecting the implementation of regional integration activities and programmes. About 52 percent indicated that the impact of multiple memberships, lack of leadership and lack of political commitment on regional integration process is high. This supports the current initiatives and commitments by the Heads of State and Governments, including the AU Decision at the Summit in Banjul, to put a moratorium on the recognition of new RECs and but to recognize the 8 RECs and on-going initiatives on the COMESA-EAC-SADC Tripartite arrangements” (UNECA, 2012).

Many of the SSA trade agreements have stumbled at the implementation phase and it is very likely that the TFTA will face similar problems, especially considering the high number of countries that need to have agreement ratified through their parliaments and then transposed into the national law.

4.3 Summary & key findings

The regional integration programmes of most RECs in Eastern and Southern Africa have largely followed the EU model of moving from a FTA to a customs union to a common market with a common currency, and in the case of EAC and SACU a common currency. This has been compounded by multiple memberships of different RECs by many of the countries in the region. While there has been commitment to these often conflicting (in terms of time-frame and coverage) regional integration programmes at the political level, this has often not been matched by actual implementation of many of the commitments signed up to by many of the Member States of the different RECs. As a result, many of the rather ambitious deadlines of the different regional integration programmes have been missed or postponed.

The Tripartite’s ambition of only achieving an FTA is an implicit rejection of the EU integration model that all of the Eastern and Southern African RECs have used as the basis for their own integration programmes. In the case of the TFTA, the approach of seeing integration as a linear process is rejected in favour of a three-pillar approach of which the FTA is one, alongside infrastructure development and regional industrialisation.

The political leaders of the Tripartite negotiations have set an ambitious goal of signing the TFTA agreement by June 2014. However, the technical experts charged with concluding the negotiations on the various aspects of the agreement have only made significant progress in some areas, with a lack of agreement in some major key areas. Therefore, there is a high risk that initial agreement will not be concluded by June 2014.

Moreover, the ambition of the initial agreement has been substantially watered down (partly for the reason to meet its time schedule). The latest reported intent of the TFTA negotiations is that 60 percent of all tariff lines will be duty free on entry into force, with a further 25 percent of lines subject to negotiations and implementation over a 6 to 8 year period. Moreover, it is likely to assume that the TFTA will not result in a combined FTA between 26 member countries, but instead seek to preserve the existing trading arrangement within the three RECs, and add to this a set of new tariff schedules between countries and customs unions that are not in a common REC.

Against this background, it is difficult to project accurately both when the agreement will be concluded and the outcomes and benefits it will bring.

CHAPTER 5: REGIONAL INDUSTRIAL POLICY INITIATIVES

5.1 Introduction

Industrialisation strategies, aimed at transforming the economy away from primary agriculture towards manufacturing and higher value added production, have formed a central pillar of economic policy in SSA for much of the last fifty years. Following independence in the 1950s and 60s, most SSA governments adopted state-led development strategies that many times were underpinned by import substitution policies. During the 1980s and 1990s however, industrial policies became strongly influenced by Structural Adjustment Programmes (SAPs) promoted by the IMF and the WB. In recent years, the idea of industrial development policies has re-emerged in SSA. Governments have tried to learn from past failures with both import substitution and structural adjustment programmes, and are seeking to adopt new policies that are better suited to current need and realities (Woolfrey 2012).

There is a growing consensus among many African policymakers that regionalism can play an important role in the promotion of industrialisation. As argued by Draper (2010), the biggest obstacle to industrialisation in Africa is the fragmentation of the region into numerous small domestic markets which limits economies of scale, and expanded division of labour and increased specialisation and diversification. Regional integration can therefore support the industrialisation process of African countries through the creation of large regional markets; the promotion of a trade facilitation agenda; and the provision of regional public goods through the pooling of capacities and resources (ibid).

When it comes to initiatives on the regional level, the EAC and SADC seem to be the most advanced in developing regional industrial policies. EAC in 2011 adopted the 'EAC Industrialisation Policy and Strategy', and SADC in January 2014 adopted the 'SADC Industrial Development Policy Framework'. COMESA, however, so far seems to lack a common regional policy specifically aimed at industrialisation. Industrialisation also forms part of the TFTA and is one of its main three pillars, alongside market integration and infrastructure development. There are also plans build on the work done on the regional level, in particular in the EAC and SADC, to achieve a common Tripartite industrialisation policy.

5.2 The Tripartite

The COMESA-EAC-SADC Tripartite initiative has industrialisation as one of its three pillars (alongside market integration through an FTA and infrastructure development). Woolfrey (2012) thinks that this multipronged approach to regional integration, that does not solely focus on removal of trade barriers, has the potential to prove more successful than past initiatives in facilitating industrial development in the region. These have part proved insufficient because they have focused solely on creating a larger internal market according to Woolfrey. The TFTA, on the other hand, has synergies that can be exploited. For example, the promotion of industrial development can both complement and be complemented by infrastructure upgrading and the improvement in market access (through tariff liberalisation, removal of NTBs etc).

According to ECDPM (2012), the industrial pillar of the TFTA is relatively underdeveloped, and can be seen as an overarching framework signalling the agreement's focus on achieving a 'developmental' model of trade integration. Hence, it can serve as a way to make the TFTA process more attractive to smaller, less developed economies, and provide a counterweight to the fears of trade and economic polarisation.

The debates surrounding the exact focus of this pillar seem to fall along the lines of proponents of a regional industrialisation strategy focusing on regional value chain development and others promoting a more traditional competitiveness enhancing approach. Typically the concern expressed is that if the pillar is framed around the development of regional value chains, it could be used to influence RoO negotiations, something that might prove very controversial if it is done in some sectors. This scenario would see politically sensitive products highlighted as potentially important for regional development on contestable economic grounds, and turn into a de facto list of products where protectionism and an inward approach are promoted on development grounds (ECDPM, 2012).

Essentially, some fear that using an approach focusing on regional value chains can be used as a way of exporting the way some Member States use protection to further their industrial strategy to the region. The TFTA would then opt for an “inward” or “closed” model around some sectors, i.e. it would establish free trade between its members but would specify high local content requirements. Regardless of the economic rationale behind doing so, this might be politically agreeable to all member states in some sectors, be not in other (textiles being the obvious example where this would replicate the debates in SADC). To counter this possibility, these critics suggest delinking this from market access negotiations and focus solely on investment in productive capacities and the upgrading of certain sectors of importance for the economies of some less developed member states (ECDPM 2012).

There are also plans to build upon the work already made on regional industrial policy among the three RECs, and use this in a future TFTA. The Tripartite Heads of State and Government have urged that the three RECs should speed up the development of joint programmes in industrial policies for this reason. The Tripartite will reportedly carry out a study to ascertain whether there is an opportunity to build upon the work done by the three RECs, in particular in the EAC and SADC, in order to achieve a common Tripartite industrialisation policy.

5.3 EAC Industrialisation Policy and Strategy (2012-2032)

The EAC Industrialisation Policy and Strategy (2012-2032)²³ was approved by EAC Member States in November 2011. The overall objective of the is *“to enhance industrial production and productivity and to accelerate the structural transformation of economies of the EAC region in order to enable sustainable wealth creation, improved incomes, and a higher standard of living for the Community”*.

The Policy sets out specific targets, such as diversifying the manufacturing base and raising local value added content of manufactured exports to at least 40 percent by 2032 (from the currently estimated value of 8.62 percent); increasing share of manufactured exports to the region relative to imports from the current 5 percent to about 25 percent; and growing the share of manufactured exports relative to total merchandise export to 60 percent from an average of 20 percent.

In order to fulfill its objective, the Policy outlines the following **14 broad policy measures** to be undertaken:

- Promoting the development of strategic regional industries/value chains and enhancing value addition.
- Strengthening national and regional institutional capabilities for industrial policy design and management.
- Strengthening the capacity of industry support institutions (ISIs) to develop and sustain a competitive regional industrial sector.

²³ SADC (2012a) and SADC (2012b)

- Strengthening the business and regulatory environment.
- Enhancing access to financial and technical resources for industrialisation.
- Facilitating the development of and access to appropriate industrial skills and know-how.
- Facilitating the development of micro, small and medium enterprises (MISMEs).
- Strengthening Industrial Information management and dissemination systems.
- Promoting equitable industrial development in the EAC region.
- Developing supporting infrastructure for industrialisation along selected economic corridors.
- Promoting regional collaboration and development of capability in industrial R&D, technology and innovation.
- Promoting sustainable industrialisation and environment management.
- Expansion of trade and market access for manufactured products.
- Promoting gender in industrial development.

5.3.1 Prioritised sectors

In line with policy measure 1 above, the Strategy identifies six strategic industries and value chains, for which strategic interventions should be considered:

- Iron-ore and other mineral processing.
- Fertilisers and agrochemicals.
- Pharmaceuticals.
- Petro-chemicals and gas processing.
- Agro-processing.
- Energy and bio-fuels.

Special investment scheme are to be considered for these priority sectors. If investments made into any of these sectors meets EAC's assessment criteria²⁴ they will be accorded status of "strategic regional industry". Such industries will in turn be promoted through collaborative efforts among the Partner States and the private sector.

5.3.2 Other proposed interventions and programmes

The Strategy puts forward a number of potential regional programmes and projects aimed at enhancing regional industrial development. Below, a selection of some of the proposed programmes and projects are presented.

Development Corridors and Spatial Development Projects

Development Corridors are transport (or trade) corridors with under-utilised economic potential in their environs, the development of which would be explored through SDIs. In East Africa, the Northern Corridor anchored by the port of Mombasa in Kenya, and the

²⁴ The assessment criteria include, inter-alia, development integration; strengthening investment environment for value addition; balanced and equitable development; sustainable and conducive business environment and gender equality.

Central Corridor, anchored by the port of Dar es Salaam in Tanzania, are principal and crucial transport routes for national, regional and international trade of the five EAC Partner States.

Two potential pilot projects that can be set up along the corridors are further proposed:

- **Developing an Industrial Park along the Corridors.** The Industrial Park can be physically set up as a pilot along any of the two corridors. The physical zone or park can be created close to dry or seaports on a PPP basis. The occupants of this facility can pay an administrative fee to a newly created Industrial Promotion Centre (IPC) - an institution specifically created at regional level to champion implementation of the parks and zones. This will allow the licensed industries to take advantage of all the benefits deriving from the EAC Common Market Protocol. Existing businesses outside the Regional Industrial Parks but with regional ambitions can pay a slightly higher administration fee (as the cost of administering entities outside Industrial Park will be higher) to IPC.
- **Load balancing and intermodal transport for reducing trade costs along the Corridors.** A load balancing PPP project that combines railways, barge transport over the lake, and trucking needs to be conceptualised as the greatest weakness in EAC is its logistics costs. At present, there is little balance between the head haul and backhaul traffic in the EAC region. Conceptually the transport assets can be better managed if each destination has enough products to fill up the trucks or railway wagons in both directions. That is the only way the costs will come down. One way to expand the market for rail and lake barge borne freight (which is cheaper) is to resort to containerisation which brings together the best aspects of the rail and truck modes of transport, dovetailing their respective strengths to reduce total transportation costs. This also results in many more shippers using the rail and barge mode as containers are brought to their doorstep by road from a rail and barge fed container facility.

Sector Clustering and Agglomeration

The EAC needs to periodically profile the region's economic sectors with special focus on key growth sectors and sectors that hold the greatest potential to grow the regional economy. Among other considerations, the industrialisation strategy should be partly predicated on sector cluster strategies. Promoting sector clusters would result in improved productivity through better access to specialised suppliers, skills, information and other variables.⁷

Enhancing industry value chains, targeting sectors that hold the greatest growth potential, should also constitute a core dimension of the EAC industrialisation strategy. For instance, defining and implementing a competitiveness framework that strengthens agro industry value chains is likely to significantly enhance the EAC's growth and employment potential given the significance of this sector to the regional economy. Specifically, this intervention would focus on such areas that hold the greatest potential for growth through value addition including: food processing, textiles and clothing, and leather and leather products, among others.

5.4 SADC Industrial Development Policy Framework²⁵

In January 2014, SADC Member States adopted the 'SADC Industrial Development Policy Framework'. The framework builds on the SADC Industrial Upgrading and Modernisation Programme (IUMP) which was adopted by the SADC Committee of Ministers of Trade in June 2009.

²⁵ SADC (2014).

The Framework recognizes that the formulation and implementation of industrial policy is first and foremost a national prerogative and that there is no 'one-size-fits-all' approach for the region's industrialisation process. The framework at the same time stresses the importance of an integrated regional market in generating economies of scale necessary to unlock the regions industrial potential. Regional integration is further seen as a tool to promote value chains and production network linkages across borders, which in turn will have the potential to stimulate efficiency gains (SADC, 2014, p. 5).

The objective of the Policy Framework is "to promote the development of an integrated industrial base within SADC through the exploitation of regional synergies in value-added production and enhancement of export competitiveness" (*ibid*, p.12).

The following **nine key intervention areas** for implementation are put forward in the Framework.

- Developing sector-specific strategies.
- Promoting industrial upgrading through innovation, technology transfer and R&D.
- Improving standards, technical regulation and quality infrastructure.
- Developing and upgrading skills for industrialization.
- Developing a mechanism for financing.
- Improving provisions of infrastructure for industrial development.
- Enhancing support to SMEs.
- Promoting local and foreign direct investment and exports.
- Developing regional strategies to exploit opportunities in cooperation with other regions in the world (*ibid*, p.14-20).

5.4.1 Priority sectors

For the purpose of key intervention area 1 above ("developing sector-specific strategies"), nine priority sectors have been identified. The selection of priority sectors have been based on their "comparative and competitive advantage in promoting the development of regional and their linkages with global supply chains" (*ibid*, p.14). The priority sectors are:

- Agro-food processing.
- Fisheries.
- Forestry (wood and wood products).
- Textiles and garments.
- Leather and leather products.
- Processing of mineral products (beneficiation).
- Pharmaceuticals and chemicals.
- Machinery and equipment.
- Services.

The SADC Committee of Minister of Trade decided in 2011 that a pilot programme focusing on agro-food processing, mineral beneficiation and pharmaceutical sector to be developed and implemented. The planned actions under this intervention include:

- Profiling the selected priority sectors to identify regional development potential as

well as bottlenecks and constraints to development of regional value chain development.

- Identifying key interventions to promote development of specific regional value chains.
- Identifying strategic instruments which can be used by member states to promote mineral beneficiation and pharmaceutical sector development in selected value chains.
- Assessing the potential for regional in-sourcing through the development of a regional public procurement framework.
- Advocating for regional sourcing of goods and services by international donor agencies particularly food aid (ibid, p.14).

5.5 Summary & key findings

Regionalism can play an important role in promoting industrialisation in SSA through the creation of larger regional markets, the promotion of a trade facilitation agenda, and the provision of regional public goods through the pooling of capacities and resources. For these reasons, the TFTA has industrialisation as one of its three main pillars (alongside market integration through an FTA and infrastructure development). This multipronged approach to regional integration, that doesn't solely focus on removal of trade barriers, at least has the potential to facilitate industrial development. The industrial pillar of the TFTA is however relatively underdeveloped at this stage.

The TFTA plans to build upon regional industrial policies that have been identified by EAC and SADC. The EAC's Industrialisation Policy and Strategy, adopted in November 2011, targets six industries and value-chains as well as a number of potential regional pilot projects, including an Industrial Park along the Northern and Central Corridors. SADC's Industrial Development Policy Framework, adopted in January 2014, focuses on exploiting regional synergies in value-added. No information is available on the progress made to implement these regional industrialisation programmes.

Prospects for greater manufacturing activity and agro-industrial processing are a function of many factors that relate to the investment climate more generally. They also depend importantly on progress under the two other pillars of the TFTA. Even if tariffs are removed, they will continue to impede cross-border movement of goods as a result of the need to comply with often restrictive rules of origin and associated documentation requirements and verification procedures. While restrictive rules of origin can encourage regional sourcing of inputs and industrial expansion within a region, to date the prevailing rules benefit South African industries to the detriment of industrialisation prospects for neighbouring countries. Efforts to promote regional value chains through regional infrastructure, development corridors or other spatial development zone approaches have yet to bear fruit.

CHAPTER 6: INFRASTRUCTURE

6.1 The infrastructure challenge

According to the DBSA, making the right infrastructure investment choices and ensuring effective delivery distinguishes high-growth economies from low-growth ones. Yet the data shows that Southern Africa lags behind the rest of Africa and the world in infrastructure²⁶.

And forecasts show a significant increase in Africa-wide infrastructure demand across sectors (World Economic Forum, 2013b):

- **Energy consumption** will increase from 590 terawatt-hours (TWh) in 2010 to more than 3,100 TWh in 2040, a compound annual growth rate of 6 percent.
- **Overall transport volume** is expected to increase up to eightfold. Port throughput, for example, is expected to rise from 265 million tons in 2009 to more than 2 billion tons in 2040.
- **ICT demand** is projected to increase by a factor of 20 by 2018. To keep pace, the 2009 bandwidth of 300 gigabits per second will need to grow to about 6,000 gigabits per second.
- **Water demand** will surge as Africa's population grows. The amount of water withdrawn from African water systems is expected to rise from 265 cubic kilometres (km³) in 2005 to between 400 and 550 km³ in 2040.

Expanding investment in infrastructure will be required to meet current demand, let alone start to meet future demand. The economic geography of Southern Africa is however challenging, reinforcing the importance of adopting a regional approach to infrastructure development (Ranganathan, R. & Foster, V., 2011). Of the fifteen SADC member countries, six are landlocked, six have populations below 10 million people, ten have economies smaller than \$10 billion per annum, and several rely on transnational river basins for their water. South Africa is the economic anchor of the region, but half a dozen of the SADC member states are large or potentially large economies. Knitting these emerging economies more closely together and linking them to markets in South Africa would help to create a larger market and greater economic opportunities in the region (Ibid).

However, empirical evidence suggests that creating such economic opportunities will require stronger and better-connected cross-border infrastructure that can help unlock economies of scale, sharpen competitiveness in the region, and facilitate more intra-regional trade and exports (Mbekeani, 2013). Large infrastructure-projects are intrinsically costly for individual countries to undertake so regional pooling of resources is often the only solution.

Thus, it is increasingly recognised in the literature and during the interviews conducted by the project team that narrowing Africa's infrastructure deficit will necessarily involve major investment in regional infrastructure (DFID, 2011a). Regional infrastructure is defined as cross-border or national components of regional, multi-country infrastructure networks, e.g., regional transport networks and power pools). In many cases, regional infrastructure offers a cost-effective solution. For example, without regional power pools to export hydropower, more electricity demand would have to be met by thermal generation capacity at higher cost (Ibid).

Regional infrastructure typically requires:

- Careful sequencing of individual interdependent investments, e.g., power generation and cross-border interconnectors, ports and road and rail corridors,

²⁶ See Annex 13 for an overview of the current state of infrastructure in Southern Africa.

whether publicly or privately owned or funded.

- National level action by at least two countries, e.g., legal, regulatory, and institutional reform and harmonisation even if investment expenditure is only in one country, e.g., a port.
- Multiple public and private financiers, because of the high investment costs (Ibid).

There is general agreement among the interviewees for this study that the corridor approach is still valid. However, they also stressed the limitations of a pure transport infrastructure corridor approach. In order to promote trade and growth and to alleviate poverty, a preferred approach would focus on the creation of “development corridors” designed to promote growth along the corridor. Desirable features would include:

- Links to ports and airports.
- Harmonised trade and investment policies established before the opening of the corridor.
- Growth points (Export Processing Zones or SDIs Zones) along the corridor endowed with adequate infrastructure to support processing industries for an interim period until national infrastructure networks could be considered reliable.
- OSBP operating under harmonised computerised customs systems and common security and tariff regimes.²⁷

However, during the study team’s consultations, a number of caveats were raised:

- It seems unreasonable for one country to finance, build and maintain infrastructure within its borders to service industry in a neighbouring and probably competing country. For a port or railway, the investment might be recouped through tariffs, but for roads this is highly unlikely. Therefore, a way has to be found to allow the interior countries to raise funding to contribute to investments in the coastal country—and to persuade the governments and the electorates that this is in their interest. At the moment, there is no accepted way of doing this.
- One interviewee noted that extractive industries may often provide a backbone for corridor development as mining companies are often willing to develop their own infrastructure on an enclave basis. If they could be persuaded to dis-enclave their corridors, agriculture and industry would be able to piggyback on the infrastructure in places where it might not be economical to develop it in the absence of the mining traffic.
- Another interviewee pointed out that there can be severe economic discrepancies between corridor and non-corridor areas in specific countries. Focussing on the corridor may be economically justified, but it raises equity and distributional issues that may need political resolution.
- Finally, the issue was raised during the study team’s consultations that, while corridors are a good approach, the longer-term element is too often overlooked or neglected so that countries and donors are playing catch-up on current infrastructure needs and failing to plan for the transformative infrastructure that will be able to take African economies to the next level. For example, perhaps the focus on OSBP focus should be revisited, since they will be redundant once common customs procedures at external FTA borders become commonplace and when only 10-15 percent of time lost in corridors is at border posts, while much more is lost at ports, which have received proportionately less attention. Integrating

²⁷ One interviewee especially highlighted danger of overlapping REC configurations developing internally harmonised customs regimes that would be incompatible with regimes outside the REC borders, leading to facilitated internal trade and obstacles to external trade.

the spatial element will mean a leap forward in considering sources of production and their markets, opportunities for adding value at different stages of the transportation chain, the role of agriculture and its own value-added chain, the role that airports can play in exporting and the financial and implementation opportunities associated with the extractives industries.

6.2 Infrastructure investments, growth and poverty reduction

Making sound regional infrastructure investment choices and ensuring timely delivery of necessary upgrades to major regional infrastructure assets (such as power plants, primary road and rail transport corridors and key ports) distinguishes high-growth economies from low-growth ones. When adequately aligned with a country's or region's long-term priorities, public infrastructure development drives economic growth and it is generally assumed that for every dollar spent on public infrastructure development, the gross domestic product of a country will rise approximately US\$ 0.05 to US\$ 0.25 (World Economic Forum, 2013b). The WB estimates that Africa's infrastructure deficit holds back its economic growth by 2 percent each year.

In Southern Africa, infrastructure development is a critical determinant of growth (Ranganathan, R. & Foster, V., 2011). Over the period 1995-2005, infrastructure improvements have boosted growth in the region by 1.2 percent per capita per year (Ibid). Of this, 1 percent was due to the growth of mobile telephony whereas improvements in road infrastructure added 0.2 percent, more than in other regions. The lack of adequate power infrastructure eroded growth by 0.2 percent, more in southern Africa than in other regions (Ibid). Again, this confirms the need for a greater focus on sectors that are not being adequately served in order to create a balanced infrastructure platform. Different infrastructure sectors serve different factor of production purposes, but if one is missing, the effectiveness of the others will be reduced, as will the impact on growth. If Southern Africa's infrastructure could be improved to the level of the strongest-performing country in Africa (Mauritius), regional per capita growth performance would be boosted by around 3 percent (Ibid).

Numerous studies have examined the role of infrastructure in promoting economic growth, finding that infrastructure has a significant and positive impact on growth and a significant and negative impact on inequality (ADB, 2012). It has been found that a 1 percent increase in the ratio of trade over gross domestic product is associated with a short-run increase in growth of approximately 0.5 percent per year and the long-run effect is larger, reaching about 0.8 percent after ten years (Bruckner, M., & Lederman, D., 2012).

In a recent simulation exercise, ITC (2012) found that improving transport infrastructure within Africa and thereby reducing the cost and time required to export goods by half, would boost SSA's GDP by more than US\$ 20 billion annually in 2025 and increase SSA's trade by up to 51 percent beyond the forecast natural growth. This would mostly benefit intraregional trade, where the relative cost and time lost because of Africa's poor transport network is the highest. A trade-facilitation programme that would cut the time needed to comply with customs procedures at ports by 50 percent could generate an extra US\$ 15 billion annually in GDP for SSA (see Chapter 4.1.6 of this report for more detailed information about these findings).

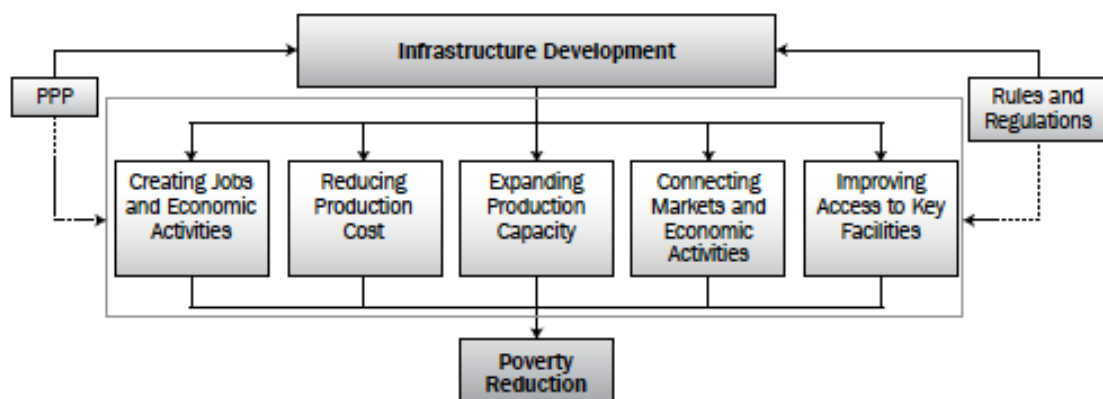
One interviewee questioned the focus on intraregional trade. While agriculture and food security could provide opportunities for intra-REC trade growth, intra-REC trade is unlikely to serve as a stepping-stone to global trade, since global trade would use a "well-trodden path" (even if it is inefficient) and intra-REC trade would require different transport links. It might be better to concentrate directly on the huge global markets rather than on small regional markets.

Another interviewee noted that food security could be a good trigger for intra-regional trade, since global food prices have been going up, while local production has been going down. Therefore, intra-regional trade can be a way of stimulating local production and lowering prices. Sudan could easily produce enough to supply food to the Horn of Africa and, while Kenya sells to supermarkets in the UK and elsewhere, it sells little to its neighbours, largely due to non-trade barriers—for example, Tanzania is reported to insist on having all imported foodstuffs tested for atomic contamination. Also, Ethiopia reportedly has blocked seed and machinery imports by Kenyan entrepreneurs who wish to invest in the Ethiopian agriculture sector. For light manufacturing, there is strong global demand and strong competition, but much lower barriers to trade. The conclusion is that export drives should be carefully tailored to the markets that are available and open and that this should be taken into account in developing corridor projects.

There is further clear evidence to suggest that infrastructure can help generate the inclusive kind of growth that can lead to significant, sustainable poverty reduction (ADB, 2012). Investment in energy and transport services expand access to and benefits from education, thus building capacity among the poor, while investments in sectors such as energy, sanitation, transport, and water positively affect health outcomes (Ibid).

The figure below illustrates the links between infrastructure development and poverty reduction: through increasing inclusiveness, infrastructure will reduce poverty directly and/or indirectly.

Figure 7 - Framework to analyse infrastructure for inclusive growth and poverty reduction



Source: ADB (2012).

It is harder to argue that income poverty might be significantly affected by infrastructure in the absence of growth. Empirically, it seems that growth is a prerequisite for infrastructure-led poverty reduction and this may be seen as corollary to the more general observation that growth *per se* may not reduce poverty in all circumstances (Ibid).

Interviews with the AfDB by the study team explored the evidence base for links between regional integration, infrastructure, trade and growth. We were referred to the 2012 report: *Fostering Regional Integration: An Evaluation of the Bank's Multinational Operations, 2000-2010*, which did not provide any evidence on the impact that the multinational projects had had on regional integration, although interviewees noted the weak data base, the lack of a results framework for the AfDB Regional Integration Strategy and the lack of a mechanism for systematic feedback and learning as reasons. Similarly, the *2013 Africa Competitiveness Report* provided no evidence that regional integration had had a demonstrable impact on trade or growth. Until strategies and projects have better results frameworks and better

monitoring and evaluation systems, it is likely that no evidence will be available for some time to come.

These conclusions were echoed in interviews with the WB and TMEA. On a more positive note, one interviewee further noted that international co-operation on shared waters—e.g., the Nile, Niger, and Zambezi—has meant that dealing with shared waters has been more a source of cooperation than conflict, even if progress has not been as great as planned or hoped for. The situation would almost always have been worse without co-operation. Another noted that partial evidence is available: 85 percent of traders in the Great Lakes region are women, who have been historically subject to abuse and exploitation by customs officers. Common border posts are reducing these practices, with a concomitant impact on the traders' household incomes. Nonetheless, the evidence claiming to show a positive impact is at best partial or anecdotal.

Several interviewees lamented the paucity of data and knowledge in some areas and suggested that DFID could undertake a programme to sponsor efforts to fill these and other gaps. Specific recommendations on what role DFID can play to fill this knowledge gap are presented in section 6.7 below.

6.3 The investment response

The Programme for Infrastructure Development in Africa (PIDA) emphasises the need for regional projects and private sector participation and the AfDB's 2013 paper for the World Economic Forum (WEF) "*Strategic Infrastructure in Africa: A business approach to project acceleration*" stresses the need to prioritise among the PIDA projects endorsed by the African Heads of State and Government. But, according to ICA data, in 2008 regional projects only accounted for US\$1.9b out of a total of US\$13.7b of total bilateral and multilateral funding for infrastructure in Africa. Total bilateral and multilateral infrastructure funding rose to \$20.0b in 2009 and \$29.1b in 2010, but fell back to \$11.9b in 2011. In 2011, funding from China had risen to \$14.9b and other funders (largely the Arab funds and regional African Banks) contributed \$3.2b.

The private sector did not step up to fill the gap. According to PPIAF's *PPI data update note 79 September 2012*, private activity in infrastructure in SSA fell to 6-year low in 2011. There were 18 infrastructure projects—9 in energy, 6 in telecoms and 3 in transport²⁸--that reached financial or contractual closure in 12 low and middle income countries in sub-Saharan Africa: Botswana (1), Kenya (2), Malawi (1), Nigeria (1), Rwanda (1), Sierra Leone (1), South Africa and Zimbabwe (1) South Sudan (5), Tanzania (3), Togo (1), Zambia (1). This number is in line with the last three years, but much lower than the number of projects closed during the peak year of 2005, when 42 projects closed.

Total investment commitments in all infrastructure projects in the Africa region reached US\$ 11.4 billion. This was a 13 percent decrease in real terms (2011 US dollars) compared to the investments attracted the previous year, and 20 percent lower than the peak in 2008. Only about US\$ 2 billion was invested in the 18 new projects; the remaining US\$ 9.4 billion came from new investments in existing projects (projects that had already reached financial or contractual closure before 2011).

In addition, investments were highly imbalanced in sectoral terms. About 80 percent of all private investment (US\$ 9 billion) in infrastructure projects in Africa went to the telecom sector. The energy sector attracted about 12 percent (US\$ 1.4 billion) in investment, while the transport sector attracted about 7.5 percent (US\$ 850 million). This does not constitute a balanced response to the region's infrastructure problems and highlights the need not only

²⁸ PPIAF reports no investment in water and sanitation since 2008.

to increase overall infrastructure investment, but also to redouble efforts to find ways to channel private investment to transport and energy.

In addition, Africa has been doing less well than other regions—accounting for only 4.3 percent of infrastructure PPIs worldwide. This seems low even accounting for the fact that the private sector is likely to have a higher risk perception as regards Africa.

Table 7 - Number of infrastructure projects by region, 2011

East Asia and Pacific	Europe and Central Asia	Latin America and the Caribbean	Middle East and North Africa	South Asia	Sub-Saharan Africa	Su-Saharan Africa %	Total
112	65	95	3	123	18	4.3%	415

Source: WB and PPFIAF, PPI Project Database.

Even in South Africa, the DBSA document on the *State of South Africa's Economic Infrastructure: Opportunities and Challenges, 2012* reveals that South Africa's infrastructure sector only achieved 61 percent of its targeted PPPs (Source: *National Treasury Budget Review (2012:102)*).

For those regional and private sector projects that do go ahead, the stakeholders to whom we have spoken highlighted as problems the time it takes to put projects together and the fact that most projects do run into obstacles. This is confirmed by DFID-sponsored evaluations of the ICA and the NEPAD Project Preparation Facility.

6.4 Challenges to improvements in hard infrastructure

6.4.1 Financing

Spending on infrastructure usually requires public intervention: directly by public sector provision, by government borrowing or grants and by governments creating a regulatory environment to stimulate private participation in the construction or operation of infrastructure, or both (DFID, 2011a).

Regional infrastructure financial requirements across all infrastructure sectors in southern Africa represent 1 percent of regional GDP, but for small countries this burden may be insurmountable (Ranganathan, R. & Foster, V., 2011). In absolute terms, the largest burden would fall on the DRC, which would need to spend \$ 961 million a year over the next decade to deliver the infrastructure assets (mainly power) needed for the region (see figures 7.2 and 7.3 below). At \$265 million a year, Mozambique's needs are the second highest. The DRC's regional spending requirement translates to almost 14 percent of GDP, manifestly beyond what the national economy could plausibly deliver without external assistance (Ibid).

In terms of current infrastructure spending, the DRC would need to spend over 190 percent of this on regional infrastructure. (National detailed diagnostics for Malawi, Zambia and Mozambique can be found in Annexes 1). This is clearly beyond the means of most southern Africa countries.

Figure 8 – Spending needs for regional infrastructure as a percentage of national infrastructure spending

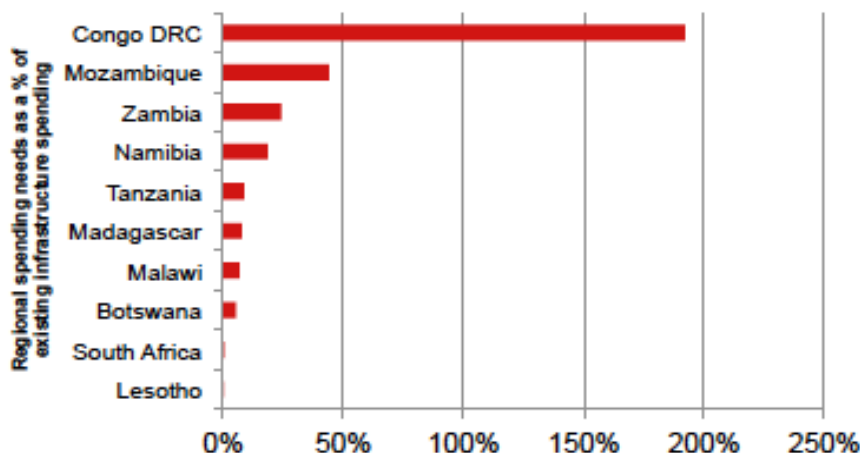
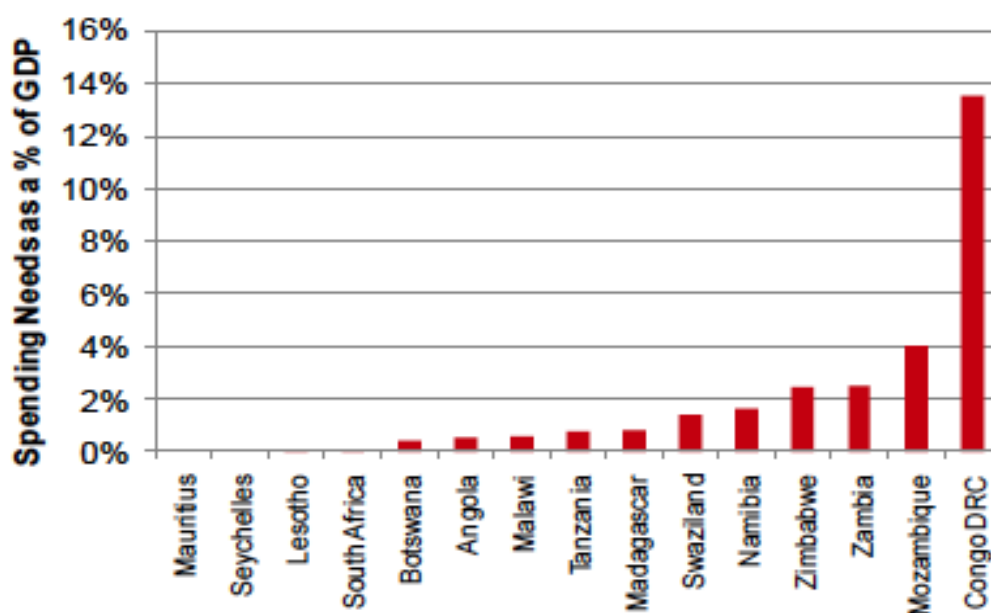


Figure 9 – Spending needs for regional infrastructure as a share of GDP



Bilateral and multilateral development partners have demonstrated a strong willingness to provide financing, but our interview results indicate that they are not always good at seeking out their comparative advantages. For example, bilateral donors could focus on soft infrastructure and capacity building, while the multilateral institutions could focus on lending to governments for infrastructure. Other suggestions as to how both bilateral agencies and multilateral institutions could blend financing with each other and with the private sector are set out below.

Given the shortage of private financing cited in Section 6.3, there must be scope to attract more private participation in infrastructure (PPI) in Africa, for instance, from private investors, sovereign wealth funds, pension funds and financial markets. Leveraging more private infrastructure finance should be a high-priority objective for development partners in Southern Africa moving forward. It is, therefore, important to explore the challenges faced by the private sector in this area.

6.4.2 Distribution of costs and benefits between public and private partners

In a multi-country project with private sector involvement, each stakeholder involved, public and private, will want to be assured that the benefits they receive will be commensurate with the costs they incur. It can, therefore, be concluded that regional 'hard' infrastructure projects suffer from a dearth of funding largely because these projects are complicated by the vast array of cross-country public and private stakeholders with different interests in the projects and with the associated risk of some stakeholders not living up to their commitments (Dube, 2013).

Moreover, the costs and benefits of regional infrastructure are always not symmetrically shared between countries or stakeholders, which can be an obstacle to agreeing on a way forward (DFID, 2011a). Each stakeholder may have a different cost-benefit calculus. The landlocked country may perceive things differently from the coastal country; the private sector operator may look at things differently from the public official; the local entrepreneur may have a different perspective from the international entrepreneur. In such a situation, some stakeholders may suspect that other stakeholders are getting a greater share of benefits than is merited by the contribution that they are making to project costs.

Perhaps a clue to resolving these issues lies precisely in their very complexity. Classical cost-benefit analysis was designed to evaluate the benefits of a project to a given society in comparison with the costs of the project to that society. Questions regarding the distribution of benefits and the allocation of costs did not need to be dealt with, since both benefits and costs accrued to the same society. However, in the case of multi-country projects involving the private sector, the distribution of benefits and the allocation of costs are at the very heart of the project. In a traditional project, society wanted to know if the benefits that it would receive from a project were commensurate with the costs that it would incur. In a multi-country project with private sector involvement, each stakeholder wants to be assured that the benefits they receive will be commensurate with the costs they incur. In essence, the large regional project is actually an amalgamation of mini-projects each of which has to pass the cost-benefit test for the stakeholder(s) involved.

If such issues around the distribution of benefits and the allocation of costs from regional projects are not resolved very early in project preparation, the project will suffer from low levels of political and commercial buy-in and is unlikely to progress. Therefore, it is critical that these issues be explored, discussed and resolved as early as possible in project preparation.

6.4.3 Project preparation costs, institutions and "bankability"

The Organisation for Economic Co-operation and Development (OECD) estimates that infrastructure project preparation costs in Africa average between 5 percent and 10 percent of total project costs and that planning has not been sufficient, especially for larger construction projects (DFID, 2011a). For regional hydropower projects, the costs are likely to be around 7-10 percent of project costs. Physical implementation of regional projects also tends to be slower than national projects, so that it typically takes 6-10 years to move from project identification to commissioning of new infrastructure—if they reach that stage (Ibid).

For regional projects, including the private sector, the large number of stakeholders with interests to be accommodated, translates into still higher project preparation costs—and also brings significant risks that project implementation may be delayed or blocked, as well as reducing incentives for individual countries to devote resources to project preparation (Ibid). High risks, especially in early stage project preparations, will make an investment financially unattractive, such that resources absorbed in project preparation may be wasted (Ibid).

Traditionally infrastructure development in Southern Africa has been aid based, creating aid dependency in infrastructure development (Dube, 2013). This failure to take into account the objectives of private partners has left a legacy of project proposals that have no commercial underpinning and are thus unattractive to private investors (Ibid). This is also owing to insufficient resources being available for project preparation that explores the relevant issues. The problem is, thus, not a lack of projects, but rather a lack of ‘bankable’ projects (Ibid). Some of the projects for which funding is sought are not ‘bankable’ because of poor commercial rationale, very high-risk profiles and with imprecise outputs for outcomes, which makes them both unattractive and increases the cost of credit (Ibid). There is an urgent need for donors to focus on early project preparation and factor this into total investment costs; otherwise it will remain difficult for the region to attract private investors (Ibid).

Progress has been made on the establishment of project preparation facilities (PPFs), which are aimed at increasing the number of bankable projects and assisting with the creation of an enabling environment to ensure their uptake. However, while a number of project preparation facilities exist, they are fragmented and are difficult to combine into co-ordinated support for specific regional infrastructure programmes, which may include a variety of components, some of which may be suitable for private financing and some of which may not. Most PPFs are not able to provide funds on the scale required, and even the WB’s PPF is limited to \$3 million per project (DFID, 2011a).

The 2012 ICA *Review of Project Preparation Facilities* recommended:

- **Informational change:** Improving information on different PPFs and flows of project preparation funding will allow better-informed resource allocation, help PPFs to co-ordinate better and enable greater transparency of cost and other information, allowing better- informed performance benchmarking.
- **Changing behaviours:** greater syndication of PPF funds, opening up execution to third parties and partially recovering mid- to late-stage costs.
- **Structural change:** addressing the gaps in the PPF landscape, initially by working through the existing institutions, rather than introducing new institutions immediately. Recommendations are consolidating and/or focussing smaller “general” PPFs and restructuring support for mega/regional projects.
- In addition, it was recommended that the NEPAD IPPF should focus on **early stage project preparation**, where the risks of a project not turning out to be viable are greater and where mistakes can be made that can compromise the development of even good projects.

None of the interviewees in this study objected to these recommendations, although more than one interviewee expressed the view that the NEPAD IPPF would need substantial strengthening of staff, processes and procedures if it were to attempt to respond to the fourth of the ICA review’s recommendation above.

Another expressed the opinion that regional PPFs may need to improve their skills in cost-benefit analysis and regional planning for corridor or infrastructure projects and that such regional institutions should act regionally, but should not be owned and controlled by RECs, since this compromises their capacity for making independent recommendations that go against the political tide. Another noted that, as the largest contributor to the ADF, DFID has an interest in ensuring that the projects financed are of high quality. This could justify DFID’s continuing and/or expanding its efforts to increase project quality, particularly through improved project preparation and promoting and/or testing innovations in project design and financing.

While regional PPFs may bring to bear enhanced local knowledge, it has to be said that the proclivity for creating regional PPFs does raise a number of concerns:

- The skills needs to properly staff a PPF are very scarce in Africa. That is why governments have accepted regional PPFs. However, even regional PPFs may not represent an efficient use of this scarce resource and there are grounds for arguing for a pan-African PPF with regional branches.
- This would eliminate the problem that regional PPFs may adopt different evaluation methodologies, e.g., different rate of return criteria, which could easily lead to an inefficient allocation of resources in a programme like PIDA.
- Having regional PPFs that are closer to the countries in which the projects they are evaluating are located, especially if they have close links to or are “owned” by RECs, exposes the staff and management to a greater degree of political interference than is already found in African PPFs.

6.4.4 Lessons learned from TMSA support for project preparation

TMSA was successful in its coordination role in southern Africa, however its role in terms of its coordination in project preparation cannot be considered as strong. It is known that regional or cross-border project preparation is demanding and time consuming and perhaps particularly difficult to coordinate, especially in the region. In terms of TMSA’s efforts along the NSC, external factors might have had an impact on TMSA’s ability to play a more effective role in terms of project preparation. ECDPM (2014) suggests that, the NSC has a broad scope and number of stakeholders, potentially offering wide gains, but also broadening the range and number of actors and interests involved. Arguably the NSC resembles a collection of projects funded by different donors under different arrangements. Each project nonetheless stops short of being a full, coherent package with clearly identifiable benefits (ECDPM, 2014). Moreover, the development success of a transport corridor also depends on its socio-economic impact. The NSC does not currently include forward-looking investment planning and promotion to broaden the development impact to less connected rural or informal producers (Ibid).

Furthermore, the relationship between the NSC and the RECs is not straightforward. The NSC is undertaken under the banner of the Tripartite Free Trade Agreement, a configuration involving COMESA, the EAC and SADC with its own set of procedures and decision-making processes. This setup has been driven by the aspiration to address regional concerns going beyond the geographical reach of a single REC. Most NSC projects are at the same time funded through national arrangements between national governments and donors. Regional funding mechanisms have been developed but “need to be championed politically”. TFTA countries have not yet managed to agree on the governance aspects, including agreeing on priorities of fundable projects, corridor-monitoring systems etc. (TMSA, 2012). Identification of priority projects, for example, is done at the regional level, and the NSC disposes of a trust fund, held at the DBSA. DFID is the only donor to fund the “Tripartite Trust Account”. Difficulties with managing regional funds include member states’ governments trying to get the most “mileage” out of regional funds for their own roads (Ibid).

Finally, there seems to be a shared sense among donors that there is a rich regional institutional architecture in Africa, but at the same time serious constraints “limiting capacity of the regional institutions to drive the development of regional infrastructure” (PIDA: p 53). There are more than 30 executive continental bodies, RECs, and different national planning agencies, some of which have been created to resolve the capacity constraints experienced by the existing regional bodies without resolving the underlying issues. The resulting complexities, lack of clarity about functional responsibilities, and uncertain financing strategies have “slowed progress on coherent regional strategies, realistic programmes for

integration priorities (such as regional infrastructure and trade integration), and technical plans for specific projects”. The PIDA study points to the “lack of a clear mandate and the capacity to coordinate and promote the implementation of investments in support of regional integration”. Not surprisingly, some donors have developed a reticence to channel funding through regional institutions.

Regional funds delivered through RECs have faced a number of challenges such as slow disbursement rates, lack of technical and project preparation capacity, and perhaps more fundamentally a “mismatch” between the norms governing aid delivery and the political realities of regional integration. Indeed, principles of good donorship such as country ownership and donor alignment behind country strategies are inherently problematic when dealing with regional organisations whose governance is by definition multi-layered. For example, “ownership” of a given project by a REC might be problematic since in fact ultimate buy-in for the project rests with national governments. Similarly, alignment between donor projects and REC plans presupposes that these REC plans are already aligned to the ambitions or priorities of the member states (Ibid).

6.4.5 Framework conditions and political risk

One of the biggest issues facing the private sector in terms of engaging in regional infrastructure projects is that some countries do not have the right framework conditions for private investment. This includes macroeconomic instability, poor governance, political instability, weak public administration, corruption and weak legal frameworks.

Specifically, some of these challenges include (Ibid):

- Lack of clarity about the legal and regulatory framework for PPI.
- Limited availability of effective risk mitigation instruments, e.g., loan guarantees.
- Weak links between the arrangements for building the ‘hard’ infrastructure and the regulatory and institutional reforms (‘soft’ infrastructure) which are needed to provide reliable and efficient infrastructure services after construction is completed.
- Uncertainty about the infrastructure roles of different African regional organisations, e.g., overlapping mandates, and concerns about weaknesses in their capacity to manage the complexities of regional infrastructure.
- Slow progress on harmonising legal/regulatory frameworks between countries, including for PPI.
- Weak links between pan-African regional infrastructure initiatives and donors’ regional or sub-regional programmes.

6.4.6 PPPs

It is clear that there remains a funding gap that will require a concerted approach from national and regional public agencies and the DFIs, as well as the measured involvement of the private sector. There are numerous examples of non-performing or failed PPPs in all of the infrastructure subsectors that should act as cautionary tales, e.g., toll road projects in South Africa (Wentworth, 2013).

There are also (at least elements of) PPPs that are held up as good practice examples where collaboration between government agencies and the private operator has been supported by expertise from the international development community, as well as real consultation with communities (Ibid).

The private sector may have different roles to play in each PPP, ranging from investor, financier, concessionaire, infrastructure operator, factory owner, transporter, work force and

more—and the package may involve different private sector actors for different roles. Identifying the private sector actor to play each of these roles is not an easy task. It is however important to identify the roles to be played by the local, regional and international private sector as early as possible in project preparation.

Governments are usually hesitant to fully embrace private-sector participation in the infrastructure sector, especially as stakeholders with special interests might be unwilling to have the infrastructure sector in private hands owing to the probable increase of service delivery costs after privatisation, decrease in access to services for the poor, and the perception that the private sector profits disproportionately from their investments (Dube, 2013). Tanzania and Zambia, for example, have seen the repossession of some service utilities after privatisation and this sends a negative message to private investors (Ibid). Indigenisation and nationalisation is becoming quite common in the SADC region, as are economic empowerment policies. When not properly formulated and implemented, such policies make investors wary (Ibid).

6.4.7 Donor coordination

Our interviews during the study revealed some interesting observations from donors on donor coordination and regional integration that it may be useful for DFID to bear in mind as it develops its future programmes:

- Cooperation usually follows a pattern of data sharing, analysis, planning, common master plans, implementation and it gets harder as the cycle progresses.
- Upstream cooperation is often quite good, but the same donors can be squeamish about the negative publicity that is often associated with large infrastructure projects, especially in the water sector.
- Some donors focus on planning and institutions; others prefer to invest in hard infrastructure projects. This can make it hard to connect soft institutional issues with hard infrastructure implementation.
- Multi-donor trust funds are useful for combining money for soft institutional work, but are less useful when it comes to co-financing the implementation of hard infrastructure investments; a common dialogue is facilitated by joint planning and it helps lower transaction costs when it comes to joint reviews and pooled or explicitly parallel financing when it comes to disbursements. However, donors, countries and regional agencies alike can find fragmented financing more convenient and easier to handle.
- Multi-donor financing mechanisms tend to fall apart when it comes to investments, where fragmented financing is more the norm.
- Donors often pass on/impose complicated coordination responsibilities to countries that are ill-equipped to handle them.

6.5 There has to be a better way to do business

Since development partners and governments manage to find ways to design, finance and implement infrastructure projects within individual countries and without private sector involvement, the problem cannot lie within the intrinsic nature of the projects themselves. Perhaps the root of the problem lies in the complexity that is inherent in multi-country PPPs.

The stakeholders that we interviewed have provided some clues as to where the difficulties may lie. First, they stressed the need for a development corridor or growth pole approach to regional infrastructure projects. This, of course, extends the number of stakeholders involved beyond those typically involved in the provision of hard infrastructure. Second, they

articulated the difficulties of building infrastructure in one country to benefit the citizens of another.

The lesson has already been learnt that soft infrastructural elements – such as systems, policies, harmonisation, etc — have to be designed into national projects. Multi-country projects are exponentially more complex. A corridor may need port, road and rail infrastructure to be provided in an integrated and coherent fashion, with different professional associations working in harmony. Development or growth poles will need expertise in establishing specific zones for industry, with a concomitant requirement to provide energy and telecommunications infrastructure and to harmonise investment, labour and tax policies. And each country may have different objectives and requirements depending on their production, comparative advantages and inward and outward supply chains.

In addition, stakeholders may not have the same objectives: a landlocked country may want a development corridor to obtain cheaper imports and to facilitate exports, while the coastal country may not welcome competition from its interior neighbours and may seek to maximise its own trading advantages at the expense of its neighbours. Even if there is no direct competition, the coastal country may have a hard time explaining to its electorate why it is spending scarce resources to create benefits for its landlocked neighbour. The private sector has a profit motive which may be difficult for government officials to accept, especially as perceived risks may push the desired financial return to what appear to be excessive levels. Indeed, government and private sector interlocutors may well view each other with mutual suspicion.

If the infrastructure is a port or airport, there is every likelihood that the costs can be recouped through user charges. The same is true of an industrial or export-processing zone, which can charge industrialists rent for premises. This is not likely to be so easy for a dam; while electricity generated can be charged for, water used for irrigation — especially in a neighbouring country — may prove more difficult to charge for. In the case of a road, it is unlikely that tolls would provide any reasonable level of cost recovery and the host government may be stuck with the costs, while the beneficiary country may get a free ride. With a multiplicity of stakeholders each seeking to maximise the benefits that they can extract from their contribution to a given project, is it any wonder that squabbles arise and projects disintegrate?

The ICA *Review of PPFs* concluded that more effort was required on early stage project preparation and that is where the key to solving this conundrum lies. If issues around the distribution of benefits and the allocation of costs are not resolved very early in project preparation, the project is unlikely to be brought to a satisfactory conclusion. Some stakeholders will suspect that other stakeholders are getting a greater share of benefits than is merited by the contribution that they are making to project costs. Some investors will feel that they are paying too great a share of project cost in relation to the benefits that they are receiving. Suspicions lead to ill-feelings, a point of no return is soon reached and the project is doomed to flounder along with little or no chance of ever coming to fruition — or to collapse completely, often leaving the governments and the multilaterals to revert to their traditional *modus operandi* to the detriment of the project and its beneficiaries.

6.6 What is the alternative?

The alternative is, once a project has received the appropriate REC or PIDA approval, to carry out a preliminary, rapid assessment of the regional impacts of the project and of the potential involvement of the private sector. The key difference from current practice would be to decompose the project into its component parts so that the stakeholders who would benefit and the stakeholders who would bear the costs can be clearly identified for each

component. In this way, stakeholders can objectively assess who will benefit from the project in what way relative to the costs that they will bear. At the same time, financing solutions could be developed for the individual components rather than seeking an overall financing solution for the whole corridor project.

This would reduce the risk that projects falter because stakeholders do not understand what they are being asked to contribute and how they will benefit within the context of, for example a complex multi-country development corridor project. In addition, it would permit public and private financing options to be tailored to each component in such a way as to maximise private funding, limit the costs borne by the government and ensure an equitable allocation of costs to beneficiaries.

The challenge is to ensure that all the stakeholders, public and private, as well as their external partners, have sufficient information to allow them to understand the benefits, costs and risk that will accrue to each partner. Only with a clear understanding of these factors will the partners be able to create a mutually acceptable basis for cooperation. The first step towards this is to set out clearly the regional environment within which the projects will be undertaken and to ensure that the project partners understand all the implications of entering into such regional partnerships.

6.6.1 Assessing the costs and benefits of regional infrastructure projects

A new, and more useful approach to the assessment of regional infrastructure projects would focus on, *inter alia*:

- The share of project benefits that will accrue to each of the regional and external partners in the project.
- The division of the benefits between public and private partners.
- The sharing of the costs of the projects between the different public and private regional partners.
- A determination of any policy changes that might be required at the national level and the extent to which they will need to be harmonised and coordinated at the regional level.
- The extent to which new regional structures and institutions may be required.
- The impacts of the project on national and regional markets.
- The likely impact of competition from other neighbouring regions.

A simple matrix could be used to structure the analysis in order to make explicit the benefits received and the costs incurred by each stakeholder. The matrix could then be used in a facilitated discussion setting to ensure that all stakeholders understand the overall distribution of costs and benefits—and can be reassured that the distribution is fair.

Table 8 - Analytical matrix for assessing costs and benefits of regional infrastructure projects

	Public Sector	Private Sector
Coastal Country	Benefits	Benefits
	Costs	Costs
	Risks	Risks
Intermediate Country	Benefits	Benefits
	Costs	Costs
	Risks	Risks

Landlocked Country	Benefits	Benefits
	Costs	Costs
	Risks	Risks
External	Benefits	Benefits
	Costs	Costs
	Risks	Risks
Total	Benefits	Benefits
	Costs	Costs
	Risks	Risks

6.6.2 Assessing the potential for private sector involvement

After analysing the costs and benefits, and their distribution, it would also be central to the new approach to invest some early-stage resources into assessing the potential for involving the private sector in the project. This kind of exercise should comprise a detailed, thorough, and realistic assessment of:

- The intrinsic interest of the project and its component parts, as expressed in terms of its technical, financial and operational characteristics.
- The form(s) of private sector participation that could be envisaged in the project, or its individual components.
- The risk profile of the project in terms of perceived project risk and the country risk related to the macroeconomic, institutional and regulatory environment in which the project will be carried out.
- The appetite of the specific and credible private sector partners for the project.
- The extent to which returnable capital and or concessionary private financing instruments operated by one or more development agencies are available and suitable for the project, and their readiness to participate (early stage match-making).

Clearly, the assessments of costs-benefits and the potential for private sector involvement are inter-related. For example, the form of participation may be dependent on the rate of return. A private partner who finds the rate of return too low to justify investing in the project may still be willing to consider a less risky form of participation, such as a management contract. It is important, therefore, to consider the interactions between the above factors in order to recommend a mechanism for private sector participation that will be mutually acceptable to the private and public partners.

The key challenge is to create the basis for a forum at which the private partners will be able to have all their questions answered in order to ensure that both the public and private sectors have a clear understanding of each other's potential, expectations and constraints.

These questions will concern, *inter alia*:

- The details of the projects themselves.
- The viability of the projects.
- Do they offer a rate of return that meets the expectations of the potential private investors?
- The degree of commitment of the authorities to the projects.

- The business environment in which they will have to operate.
- The likelihood that other donors and financiers may be willing to participate in the projects, and the specific details of what kinds of support they can provide.

6.7 How do other partners believe DFID's can best contribute to regional infrastructure development in Southern Africa?

During the project team's consultations with international partners in Southern Africa, many recommendations were put forward on how DFID best can contribute to regional infrastructure development in the region. These recommendations are summarised below.

All interviewees reported DFID to be a valued partner and an important contributor both financially and intellectually. There is an appetite for DFID to "keep pushing the envelope financially and technically". TMEA's work and business model is also highly appreciated.²⁹ However, there is a view that DFID's grants should not be used for "hard" infrastructure investment, as they are hard to source and need to be used effectively and sparingly in the "soft" aspects of regional infrastructure development.

Some further caveats were expressed in the AfDB interviews:

- The AU gives political direction, the RECs coordinate, the countries implement and the NEPAD Agency provides technical assistance. It is important that donors are aligned with priorities established by this system, but donor harmonisation is not strong at the regional level.
- The aid landscape is changing: countries have more of their own resources; China, India, Brazil and Russia are becoming more important players; equity funds are beginning to emerge and the private sector may yet fulfil its promise as a funding source. Thus, the proportion of funding from traditional donors is diminishing. Donor money will need to be used differently. It will need to focus more on "soft" aspects and be more coordinated.
- DFID (and other donors) should learn that agencies set up in contiguous regions (e.g., TMEA and TMSA) need to have a certain degree of common objectives; otherwise, results achieved within RECs will fall apart when the issues between RECs are looked at. Approaches, criteria, decision-making have to have a minimum internal coherence across Africa in a common results framework.
- When donors take on responsibilities, such as serving as a champion for a project, there should be a clearer up-front understanding of what they will do and what resources they will devote to the effort.
- The agenda is shifting to emphasis on the actors rather than the donors; this could be reinforced.
- Grandiose REC plans are too hard to deal with; better to focus on projects.
- Sometimes, hard infrastructure is dealt with by the countries and "soft" accompanying measures by the RECs; this is not a good division of labour but thinking has to be joined up so that both receive the same level of attention.

In another interview, the view was expressed that, while a large donor such as the WB may sometimes get bogged down by the demands of its shareholders, a more nimble donor like DFID could gamble on game-changing opportunities. But results may not be quick or easy to demonstrate. Opportunities may arise in allocating benefits and costs between the public and private sectors and between countries or developing innovative methodologies to deal with the intangible project benefits. If cooperation on

²⁹ No comment is offered on TMSA since it has recently had a NACA evaluation.

transformational regional infrastructure projects is a jigsaw puzzle, there will always be missing pieces. DFID could use its convening power and proclivity for innovation to identify the missing pieces and undertake the research and donor cooperation to create solutions.

Another interviewee noted that regional integration is a field that is wide open for innovation across the board—in analytical work, policy dialogue, project development and structuring, financial arrangements and implementation support—not to mention rethinking what a “corridor” should be or investigating the potential for retrofitting existing public projects into PPPs as the projects and sectors mature. The interviewee believes that, since DFID is well-known for its innovation and is the strongest bilateral in this area, DFID is well-placed to take a lead role in transforming African and donor approaches to regional integration. We were told that the World Bank would welcome a partnership along these lines.

As described in Section 6.2 above, several interviewees lamented the paucity of data and knowledge in relation to regional infrastructure in Southern Africa and suggested that DFID could undertake a programme to sponsor efforts to fill these and other gaps. The following specific recommendations on what DFID could play to fill this knowledge gap were put forward by interviewees:

- Various—uncoordinated—efforts have been made to collect statistics on transport and trade in corridors, but not in a systematic manner. DFID could undertake a data collection effort on major corridors to collect and publish data on the times and costs associated with these corridors.
- Little also seems to be known about the structure of the trucking industry in major corridors and the anecdotal evidence is contradictory. Since, for investments in corridors to be successful, cost savings need to be passed on by truckers to consumers and not absorbed by truckers as monopoly profits, DFID could sponsor a study of regional trucking industries in order to ascertain what changes in industry structure might be necessary to complement investments to maximise the benefits to consumers.
- Although regional energy planning studies for power pools have estimated that energy would be produced by the lower/lowest cost producers, there seems to have been no concerted effort to collect data on what actually happened. DFID could sponsor a data collection effort to establish what has happened to consumer energy prices in power pool countries since the introduction of energy trade to determine whether or not political or other impediments hampered the realisation of lower energy prices.
- DFID has been the lead ICA donor on the NSC. Perhaps this role could be enhanced to be more pro-active in providing donor coordination in a more systematic, ongoing manner.
- Liability gap financing is being looked at, although road projects in Southern Africa tend to suffer from problems with low volumes. However, no-one seems to have thought of replacing subsidies with capital contributions (as this study suggests in Section 6.5). The Africa Infrastructure Country Diagnostic concluded that less than 50 percent of corridors could be financed with tolls, but DFID could finance an extension to see what percentage might be susceptible to having part of the cost recuperated through tolls, opening the way for blending private capital with public capital raised from the AfDB or WB.
- The question has been raised as to the impact of concessioning on transport costs and whether or not there is a risk of introducing policies that actually increase transport costs or regressive policies that impact on the poor. There is evidence that concessioning can have a negative impact on the poor through increased bus fares.

However, there seems to be no systematic evidence on this topic and DFID may wish to finance a study on the topic.

- Donors do not have a coherent approach to unsolicited bids for infrastructure projects. A way should be found to develop an independent ratings agency (ies) to analyse unsolicited bids and rate them in the same way as countries and bonds are rated. This would give the people making unsolicited bids confidence that their bids would receive due confidential consideration and countries assurance that they were not being taken for a ride. It would also reduce the development mindset that all unsolicited bids are a confidence trick and need to be replaced with traditional development bank procurement methods. It would also help if development banks and bilateral financial institutions would revisit their procurement procedures to see how unsolicited bids might be incorporated.

6.8 Summary & key findings

It has long been recognised that growth requires trade and trade requires infrastructure. In Southern Africa, with disparities in populations and economies, often landlocked, dependent on neighbours for materials and factors of production, well-connected regional infrastructure is essential to unlock economies of scale, connect markets, boost competitiveness and facilitate intra-regional trade and exports.

However, the investment response has not been forthcoming. Poor commercial rationales, high risk profiles and imprecise outcomes also contribute to projects not being “bankable”, leading to a need for better project preparation. In addition, countries often lack the regulatory framework conditions for private investment, demonstrating macroeconomic instability, poor governance, political instability, weak public administration, corruption, weak legal frameworks and a lack of policy harmonisation across countries. Resolving these issues is hampered by a lack of comparative data, such as costs and delays in corridors, the impact of power pools on energy prices and the effects of truckers’ cartels on transport costs.

Regional infrastructure projects suffer from the inherent complexity of multi-country, public-private partnerships: the regional development corridor/growth pole approach requires port, road, rail and industrial infrastructure to be provided in an integrated and coherent fashion for and by public and private stakeholders in different countries among whom benefits and costs are not shared symmetrically.

The alternative is to carry out an early-stage, rapid assessment of the regional impacts of the project, of the potential for private sector involvement, and of the availability and appetite on concessional lending from different development agency financiers. The difference from current practice would be to decompose the project into its component parts, identifying who would benefit and who would bear the costs for each component, allowing stakeholders to assess who benefits from the component relative to the costs that they bear.

Regional integration, therefore, is a field that is wide open for innovation—in analytical work, policy dialogue, data collection, project development and structuring, financial arrangements and implementation support—not to mention rethinking what a “corridor” should be.

As an important contributor to regional integration—both financially and intellectually, DFID is well-placed to take a lead role in transforming African and donor approaches to regional integration. DFID could use its convening power and proclivity for innovation to identify the missing pieces, undertake the research and promote donor cooperation to create solutions.

ADDENDUM TO CHAPTER 6

An illustrative worked-example: development corridor from Mombasa to Rwanda

This section illustrates what the alternative approach on how to design and finance regional infrastructure projects set out above could look like in practice. This is done by presenting an illustrative worked-example of a development corridor from Mombasa to Rwanda. This serves to show the types of benefits and costs that might accrue to different beneficiaries, and explores innovative ways of blending government, development partner and private sector financing. It also notes a number of caveats that need to be taken into account.

Component parts of a development corridor from Mombasa to Rwanda might include:

Port improvements at Mombasa

- These could be paid for by the port authority, which could involve:
- A private sector operator/financial consortium to finance, implement and operate the facilities, which could recoup its costs through user charges.
- A Kenyan Government contribution if it considered that the component would have benefits to Kenya over and above those reflected in the user charges. Since most private investors are uncertain about the security of government contribution to be paid in instalments, it would be important that any such contribution be in the form of an up-front capital contribution that the government could fund from its own investment budget, from regional financial sources or from multilateral financing agencies.
- Direct beneficiaries would be exporters and importers from Kenya, Uganda and Rwanda; indirect beneficiaries would be the national economies of the three countries as increased trade would stimulate agricultural and industrial activity and, hence, growth.

An Export Processing Zone/Telecommunications Hub at the port

- It should be possible to find a private sector operator to finance, build, own and operate such a facility, with costs being recouped from rents charged to the manufacturers and service providers that would locate in the zone.
- Local and regional private capital should also be forthcoming from the manufacturers and service providers who would invest their own and borrowed capital in their facilities
- Beneficiaries would be the zone investor, the companies that are installed in the zone, the employees taking up the jobs created and the national economies that would benefit from the multiplier effects of the expenditures.
- Similar analysis would apply to numerous other development zones that could be developed along the corridor.
- Good locations would be in areas with agricultural, productive and/or extractive potential, where industrial facilities could contribute added value production close to the source of the materials.

An improved road from Mombasa to Rwanda with investments required in Kenya, Uganda and Rwanda

- Typically, each country would be expected to finance and implement the road sections within its national territory, but this would impose a burden on Kenya (and to a lesser degree, Uganda), as they would be financing road sections that would create benefits in neighbouring countries outside their national territories. This implies that Uganda and Rwanda could reasonably be expected to contribute to the costs of the road improvements in the country (ies) nearer to the coast.
- If the cost sharing formula could be worked out, it should be possible for all three countries to obtain soft financing from the AfDB and/or the WB to cover both the costs of their own road improvements and, for the interior countries, their contributions to the road improvements in the countries nearer the coast.
- Private sector operators will only contribute capital costs to the extent that they can be recouped by some kind of user charge, e.g., tolls, but the prospect of introducing a toll road all the way from Mombasa to Rwanda seems some way off.
- However, it might be possible to introduce tolls³⁰ on the more heavily travelled sections of road, say from Mombasa to Nairobi and possibly to Kampala. But even if tolls did not cover the whole capital cost of the section, private sector operators typically have agreed with governments that the government would annually make up the difference between the tolls collected and the tolls that would be needed to cover the capital costs (liability gap financing) — arrangements that have not always been honoured, leading most private investors to be uncertain about the security of government contributions to be paid in instalments. It would, therefore, be important that any such contribution be in the form of an up-front capital contribution that the government could fund from its own investment budget, from regional financial sources or from the AfDB or the WB.
- The result would be (a) the introduction of the private sector on a sustainable basis and (b) a reduction of the costs that would have to be borne by the government, thus freeing up a part of its AfDB or WB funding allocation to be spent on other priority activities.
- It should also be possible to include a road maintenance provision in such a contractual agreement to relieve the government of having to find annual budgetary allocations and ensuring the maintenance of the road so as to continue to yield economic benefits.

Beneficiaries of the road improvements would include:

- Citizens of all three countries who would benefit from cheaper imports and cheaper local transport for goods and passengers.
- Transporters, who would benefit from reduced vehicle operating costs and who, in the absence of impediments to competition in the transport industry, would be able to offer lower prices to their clients.
- Producers of agricultural and manufactured products and services who would face lower transport costs for imported inputs and final exports.
- The three national economies that would benefit from increased employment and growth.

Caveats would include:

³⁰ The costs of toll-booths could be included in the road improvements financing on either the public or private side.

- While decomposing the analysis of benefits and cost into sub-components should make it easier to get countries to agree on who benefits and who should bear what costs, it would not remove the problem of competition between countries. A financing arrangement such as the one suggested above might resolve the issue of having investments on Kenyan territory that would benefit Uganda and Rwanda. However, Kenya may still be nervous about facilitating the development of industrial and service provision in Uganda and Rwanda that would compete with similar activities in Kenya. This may still have to be treated as an intangible in the analysis. At least, making it transparent should facilitate negotiations on the subject.
- Although the example given here concerns a corridor from Kenya to Rwanda, an alternative that could be considered within the RECs could be a corridor from Dar es Salaam to Rwanda, which could create competition between Kenya and Tanzania. The kind of analysis suggested here will not in and of itself provide an answer to the question of which corridor should be chosen³¹. That will be essentially a political decision. However, carrying out this kind of analysis for each corridor would make it clearer what the advantages and disadvantages of each corridor would be to the countries concerned and might help to inform the political decision.
- In addition, selecting corridors will involve selecting ports. However, there is a global trend to super-ports; it will be important to ensure that REC plans are coherent with the strategies of the major shipping companies.
- It would be essential that steps were taken to ensure that monopolies or cartels did not exploit their market power to capture the vehicle operating and customs delays cost savings for themselves rather than passing them on to consumers. One interviewee was of the opinion that the trucking industry in East Africa—with lots of small operators—is more competitive than elsewhere and does not create barriers to translating trucking cost savings into lower prices. Another interviewee thought that this needed to be verified.
- Another interviewer gave a concrete example of this issue from East Asia, of a road from Bangkok to Vietnam that crossed Laos, where an export processing zone was built, has resulted in benefits to Thailand, but very little benefit to Laos — and probably a net cost. Transit traffic does not always translate into value added: the Laos export processing zone saw very little take-up and Laos has had to absorb the high road maintenance costs due to wear and tear by Thai lorries.

One-Stop Border Posts³²

- It would be counterproductive to reduce vehicle operating costs and delays on the road if substantial delays were to persist at border posts. Therefore, it would be imperative to introduce OSBP at the borders. This would include physical facilities to bring the two border services closer together, along with the soft infrastructure—policies, customs systems, computer and communications equipment and trained

³¹ Selecting corridors will also involve selecting ports, which is part of a global trend to super-ports; it will not be easy to persuade politicians to invest in ports on a regional basis.

³² Although there was a strong view across the board that OSBP were an essential component of regional integration and needed to be planned and implemented at the same time as the hard infrastructure, some interviewees also noted, however, that getting the countries involved to harmonise systems, policies, procedures and training could be exceedingly difficult and that government buy in and actions should be obtained as early in the process as possible. It is undesirable to leave these decisions to be taken during the infrastructure construction phase as this creates a real risk that they will never be implemented, thus compromising the effectiveness of the infrastructure.

staff — to make the posts operate effectively and efficiently.

- It would not seem practical to involve the private sector in such activities, since they fall almost exclusively in the purview of government, although the services could be contracted out.
- It would, however, make sense to include the infrastructure and equipment provision in road projects with borrowing from the AfDB or WB for the infrastructure and grant financing from bilaterals for policy reform, system development and training — with the governments picking up the staff and operating costs.

Beneficiaries would include:

- The governments, who would receive contributions to the costs of operating the border posts.
- Importers and exporters who would benefit from reduced border delays and, hence, reduced transport costs.
- Transporters, whose operations would become more efficient and lower cost.
- National economies which would benefit from increased growth.
- Once the individual decomposed components have been analysed, it will be necessary to put them all together to calculate the overall benefits and costs to the public and private sectors in each country and externally.
- It will be important that all elements of hard and soft infrastructure have been included, analysed and financed to ensure that nothing critical has been omitted and that the financial package is optimised.
- Following that, the countries, the private sector partners and the bilateral and multilateral financiers can sit down together to finalise the project components and their financing.
- However, one interviewee cautioned that there will be no quick fix, noting that the Nile Basin Initiative spent ten years and lots of money before being recognised as a powerful force for change.

CHAPTER 7: LIMITED PRIVATE SECTOR ENGAGEMENT

7.1 Private sector behaviour in Southern Africa

Evidence shows that FDI investments in Sub Saharan Africa have been rapidly increasing. A group of economies from the region including Tanzania, Mozambique, Mauritius and South Africa have been among the growth leaders in terms of attracting FDI projects over the period from 2003-2012 (Ernst & Young, 2013).

Investors also increasingly perceive African countries as the most promising among frontier markets.³³ In fact, consultations with the private sector during this study have shown that companies such as Diageo and Unilever are seeking to expand their activities in Africa, especially in the SADC region. Yara International has also acknowledged the company's interest in the region, stressing its commitments with resources and time to improve the business environment.

Despite this positive scenario, the private sector still face many constrains in the Southern Africa. GIZ and the South African Institute of International Affairs (SAIIA) (Bertelsmann-Scott, Grant & Graf, 2012) carried out a project to identify commonalities and cluster the main business constrains in the region based on enterprise surveys and other studies including the WB Regional Investment Climate Assessment for SADC, the WEF Global Competitiveness Index, The WB Ease of Doing Business Survey, Ernst & Young Africa Attractiveness Survey, the WB Enterprise Surveys and the Business Climate Assessment done by the Southern Africa Regional Poverty Network (SARPN), ASSCI and Afrika-Verein of the German Business (see table 9). The general conclusion from the various surveys is rather strait forward: it is often difficult to conduct business in the majority of SADC member states for a variety of reasons which contribute to a regional economic climate that is not conducive to investment or to development in general. Business competitiveness surveys over the past number of years identify the lack of stability and predictability of macroeconomic policy, and the unfavourable investment climate as the primary obstacles behind sustaining and attracting new business investment (Ibid).

In addition to the surveys, the GIZ-SAIIA team has also conducted several case studies with firms operating in the region to determine what the current biggest stumbling blocks are to doing business in the region, how firms cope with the constraints and whether there are any good suggestions for how SADC could address some of these constraints (see Annex 11). The table below shows the number of firms that raised a particular barrier as a priority challenge to their operations in the region (Ibid).

Consultations during this study with private sector representatives operating in agribusiness have also pointed out that the lack of strategic infrastructure development remains a crucial issue, the backbone being railways and ports – both in critical state (ibid). It was stressed that post-harvest losses remain a striking issue for the region and it is related to poor infrastructure provision. The interviewees also asserted that soft infrastructure challenges also need to be addressed, and although Southern African countries have established effective policies in some areas, there is no enforcement, and lack of transparency in procedures and decision-making.

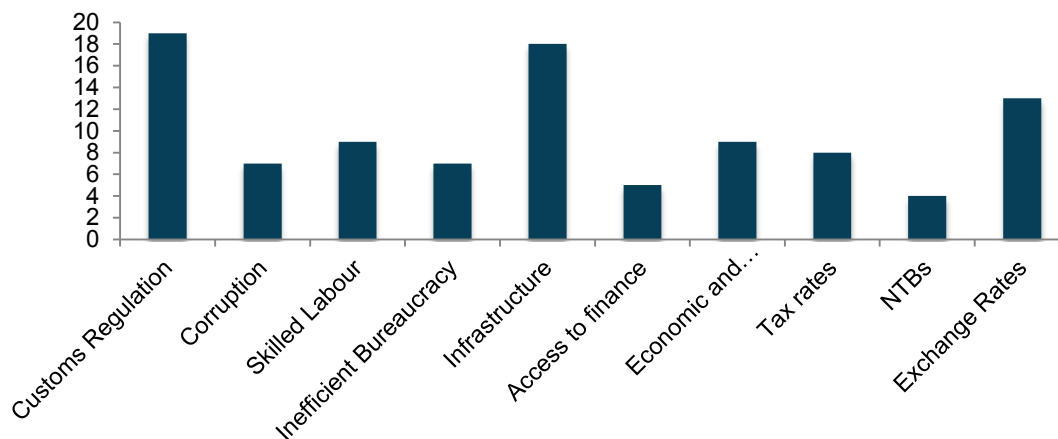
³³ Asia (e.g. Mongolia), Latin America (e.g. Colombia), Middle East (E.g. Oman).

Table 9 - The most significant obstacles to doing business in SADC

Business Climate Studies	WEF Competitiveness Report	World Bank Investment Climate Surveys	World Bank Enterprise Survey
Fluctuations of the exchange rates	Inadequately educated workforce	Crime	Electricity
Crime and theft	Foreign currency regulations	Electricity	Access to finance
Lack of market information	Poor work ethic in national labour force	Corruption	Crime, theft, disorder
Customs regulations, procedures and bureaucracy	Access to financing	Access to finance	Practices of competitors in the informal sector
Economic and regulatory policy uncertainty	Policy Instability	Anti-competitiveness	Corruption
Affordable and reliable transportation	Tax rates	Shortages of skilled workers	Tax rates
Trade tariffs & customs charges	Inefficient government bureaucracy	Access to land	Inadequately educated workforce
Lack of transparency of rules and regulations	Inadequate supply of infrastructure	Labour regulations	Access to land
Access to cost of finance for foreign investors	Corruption	Macroeconomic instability	Labour regulations
Business licensing and operating permits for foreign investors	Restrictive labour regulations	Tax rate	Business licensing and permits

Source: *Top 10 Business Constrains in SADC, An Analysis of Business and Investment Climate Surveys* (Makokera C.G., Chapman G. and Wentworth L., 2012).

Figure 10 – Number of firms that raised a particular barrier as a priority challenge to their operations in Southern Africa



Source: Bertelsmann-Scott, Grant & Graf, 2012

Furthermore, it has been stressed that efforts directed to greater regional integration have been strongly focused on border crossings, but little has been done to cut the red tape in agriculture and creating an enabling environment for SMEs. Among the main obstacles are bureaucracy, tax burden, weak service delivery and a very complex regulatory environment - companies have no incentive to grow because they will be targeted for rent-seeking by public officials. Consultations during this study have also found that there is a lack of firms in Southern Africa that have enough production to export and to integrate regional value chains. More needs to be done to support early stage development of small agri-businesses and other SMEs during their growth stage, through a combination of affordable, long-term finance (i.e. patient capital) and technical support for their management teams to secure long-term, viable purchasing and supply contracts.

7.2 Private sector organisations in regional integration processes

7.2.1 Regional business membership organisations

A key challenge for regional integration in Southern Africa and the Tripartite region is the relatively low level of engagement by business associations and their members in regional economic integration processes (see Annexes 10 and 11).

Although research has shown that there appears to be an increasing awareness amongst organised BMOs in SADC region of the importance of engaging with governments and with SADC (ITC, 2012), consultations have shown that BMO's actions may be limited by the diversity of interests among their members. Interests in greater regional integration appear to be divided between groups, part of their membership is trying to push the regional integration agenda forward, since they will benefit from gaining access to new markets. Others are taking a more defensive position since opening up could result in more competition. As expected, it is particularly concerns about competition from South Africa (SADC and Tripartite), and to a much lesser extent from Kenya (COMESA and EAC), that dominate. This scenario applies to both integration at SADC and COMESA levels, as well as at the Tripartite level.

The EAC is however a notable exception, and the latest EAC Development Strategy 2011-2015 recognizes that a key driver to the regional integration agenda is increased involvement with the private sector. It calls for the expansion of the relationship with the main regional private sector organizations such as the East Africa Business Council (EABC) (EAC, 2011). The EAC attracts attention particularly in terms of formal dialogue between the Secretariat and regional BMOs. These organisations may be granted with 'observer status' which allows them to participate in official meetings such as the Council of Ministers or the Summit of the Head of States (GIZ, 2011). During the meetings, BMOs can make statements. Moreover, besides the provision for granting BMOs "observer status" at the EAC, in 2012, the Council of Ministers adopted the Consultative Dialogue Framework for the Private Sector, Civil Society and Other Interests Groups in the EAC Integration Process (EAC, 2012). The Framework prescribes that dialogue should take place both at the national and regional levels and it also prescribes the annual realization of the Secretary's General's Forum³⁴. The latter offers the opportunity for the EAC to have structured dialogue with CSOs, PSOs and other interest groups (EAC, 2012).

The most powerful private sector player in the region³⁵ is the East African Business Council (EABC)³⁶ that apart from participating in high level meetings and promoting joint workshops

³⁴ The EAC Secretary General's Forum has already had two sessions, supported by financial and technical assistance from TMEA. The latest took place in 2013 in Nairobi, under the theme "The EAC we want".

³⁵ Although the EABC is the most capable and engaged private sector association on the regional trade and integration agenda, the EAC Secretariat also engages with sectoral business associations. For example, in 2009

with the Secretariat, also holds meetings on a bi-monthly basis with the management of the Secretariat as well as the Secretary General (Ibid). The EABC also has a full-time Secretariat with at least 15 staff, including policy advisor and a trade economist which enable the organisation to play a stronger role to advocate at regional level.

As emphasised by a study conducted by GIZ (Ibid), It seems that one of the reasons that the EAC stands out in terms of formal dialogue with the private sector is that the EABC plays the role of a focal point for the private sector due to its 'observer status' at the Secretariat. This fact also enables the Secretariat to have a formal partner for dialogue. The EABC is also very active in terms of information sharing and awareness rising towards its members (Ibid). Consultations during this study stressed that another factor that strengthens EABC's capacity is that it is financially and institutionally independent from the EAC Secretariat. Moreover, the EABC has members from all East Africa countries and a large enough membership to provide enough resources to cover its operational costs (although development partners provide external funding for studies and other project-based initiatives).³⁷ Finally, most East African countries have strong apex BMOs that have a regular and effective dialogue with their national governments, which facilitates the work of the EABC in organisational terms.

In SADC on the other hand, interviews and evidence reviewed by the study team found that there are issues both in terms of the ability of SADC to facilitate this regional dialogue and the ability of national BMOs in the region to support their members' interests at regional level (Ibid, 2011). The SADC Secretariat has had a private sector desk responsible for informing the Secretariat about the private sector agenda and organizing private sectors views into the RISDP, but this desk was only active from 2003-2005 (Ibid, 2011). Consultations with ZACCI have further validated this finding; the representative has claimed that the ability to influence at SADC level is less effective in comparison to their relationship with COMESA.

Moreover, unlike the EAC that provides an 'observer status' to BMOs, there are no formal guidelines for how the private sector engages in decision-making (Ibid, 2011) in SADC. The SADC National Committees, although created to promote participatory policy making, also are not able to perform their role. Evidence shows that in most countries (apart from Mozambique) the committees are not functional due to the lack of leadership and resources from governments (Ibid). Moreover, it has been noted that the staff lacks technical capacity. Most of the SADC Member State governments are do not routinely include private sector representatives in their national teams participating in negotiations on issues relating to regional integration.

The inability of the SADC Secretariat to provide a strong platform for public-private dialogue has consequences for the way that the private sector organizes itself in the region. Unlike the EAC that has the EABC as a focal point for both the private and public sector, it has been noted³⁸ that the proliferation of sectorial bodies and competition between BMOs is hindering the ability of the private sector to engage effectively in southern Africa (ITC, 2012). Although efforts have been made in the past to coordinate the private sector with the creation of the SADC Business Forum, the initiative was not successful (Ibid).

the Eastern Africa Farmers Federation (EAFF) was also granted "observer status" at the EAC, like the EABC. This relationship was formalised after the signature of a MoU between the parties (EAFF, 2012).

³⁶ The EACB is funded was supported by GIZ from 2003-2010. It is also funded by other donors such as DFID through TMEA.

³⁷ Although EABC has enough resources for their operational costs, they still rely on donor support to carry out their programmes. They have been supported by TMEA, ACBF and SIDA.

³⁸ Business Association Profiles Southern Africa Region: Advocacy for Trade Policy. The research aimed at understanding the private sector organizations themselves as well as their abilities to contribute to business advocacy and effectively influence in the formulation of policies. For that reason they conducted interviews and surveys with business organizations in the region.

An assessment of the main BMOs in the region has found that the only organization that has strong capacity to represent member's interests in the region is the SADC Banking Association (Ibid). Along with the Southern African Confederation of Agricultural Union (SACAU), they are the only ones that have a full-time secretariat and staff dedicated to advocacy (Ibid). Others such as the FESARTA³⁹ and the SACAU have an average capacity, the SADC Private Sector Forum have been also been evaluated as having a weak capacity (Ibid).

The Association of SADC Chambers of Commerce and Industry (ASCCI), a key apex BMO in the SADC region at least on paper, follows the same pattern as it has very limited capacity to represent member's interests in the region. It was created in 1992 with the goal of enabling business environment in the SADC region representing the business community on major socio-economic issues at national and regional policy decision-making levels. To achieve this goal ASCCI has signed a MoU with the SADC Secretariat that sees it commonly recognised as the focal point for engagement with the private sector in the region on issues of mutual interest. Notwithstanding this, ASCCI has been effectively dormant since the Secretariat shut down in 2010; this was based in South Africa which also limited the engagement with the SADC secretariat in Gaborone.

The ASCCI's Secretariat is currently under the Zimbabwe National Chamber of Commerce (ZNCC), and, unlike the EABC that has several full-time staff including a CEO, ASCCI had no full-time staff (Ibid). Although the study team has tried intensively to establish contact with ASCCI, no interviews were able to be held during our consultations. However, we understand that efforts to strengthen the dialogue with the private sector at SADC level are underway. It seems that ASCCI will be forming a Regional Business Council under the SADC Secretariat, however there is no information of how advanced the dialogue for its establishment is.

Regional BMOs' inability to represent member's interests in SADC is further supported by a compilation of 19 case studies (The Tradebeat, 2014) conducted with businesses with regional reach. The studies show that among the contacted companies, only one engages with the SADC Banking Association⁴⁰, another one claims to participate in workshops promoted by SADC⁴¹ and a third⁴² stated that they tend to engage with SADC only regarding the Communications and Transport Protocol (Ibid). No other company interviewed by the study engages directly with the SADC Secretariat or with regional associations, however most of them have claimed to get involved in public-private dialogue at the national levels, directly with the government or through national BMOs (Ibid).

In terms of BMOs' engagement at COMESA level, our consultations have shown that national BMOs do engage with the COMESA Business Council (CBC). And it also seems like COMESA is seeking to strengthen its dialogue with the private sector. Amid growing demand for a body to coordinate regional private sector activities, the 27th COMESA Council of Ministers decided in December 2009 to reinforce CBC's role as the regional apex body. This involved upgrading the Council as an institution by forming an independent, fully functional secretariat with support capacities for business advocacy and, more broadly, for private sector development (ITC, 2013).

Moreover, CBC has been receiving technical assistance and resources from ICT's PACT II

³⁹ FESARTA has been supported by TMSA. In 2012 and 2013 TMSA provide support to the Trucker's Forum which gathers regional and national players to negotiate issues related to freight forwarding, road transport and logistics industries along corridors in Eastern and Southern Africa (TMSA, 2013).

⁴⁰ Capricorn Investment Holding.

⁴¹ Lobatse Clay Works.

⁴² Vodacom South Africa.

programme to underpin it as the principal body for regional public-private dialogue. Since the start of PACT II, the CBC added 19 private sector bodies to its membership and a new Board of Directors comprising seven COMESA Member States – Burundi, Egypt, Mauritius, Uganda, Zambia and Zimbabwe with Malawi as chair – as well as a General Assembly were elected to serve as an executive committee which represents the CBC within the region and as a governance body that oversees its performance (Ibid). Under PACT II, the CBC has also evolved into a fully integrated secretariat responsible for carrying out effective trade promotion and business development. The Council's portfolio of services was modified to serve the needs of the private sector in areas such as business advocacy, market analysis and business generation (Ibid).

According to the ITC, CBC competence in promoting regional trade integration in Africa has become progressively more visible. Within the COMESA-EAC-SADC Tripartite process, the CBC spearheaded the formation of a Private Sector Working Group and held the first Tripartite Business Forum. The Council has become the regionally recognised voice of the private sector in the COMESA area (Ibid). According to our consultations, CBC's ability to represent member's interest could however be limited by the fact that the organisation is not independent from the COMESA's secretariat.

In terms of advocacy, the CBC has prepared and campaigned for position papers on RoOs and Movement of Business Persons and Elimination of Visa Requirements in the region. This has triggered a dialogue within the private sector and among trade policy experts through the sharing of experiences and lessons learnt on critical issues for developing business and exports (Ibid). Moreover, once a year CBC organises the COMESA Business Forum, which targets the private sector and fosters public-private dialogue, thus enhancing COMESA's visibility in Member Countries and the business community (Ibid).

7.2.2 National BMOs

At the national level, there have been various attempts over the years in a number of the countries to establish formal trade negotiations forums with representation from both the public and private sectors.

One of the oldest in the region is in **Malawi** where a national trade negotiations committee was established in the late 1990s, initially to enhance consultation with the private sector with respect to the SADC Protocol on Trade, but later this committee's mandate was expanded to cover all of Malawi's trade negotiations. In **Zambia**, a number of trade agreement specific consultation committees were set up, but these were all consolidated into a single private sector chaired National Working Group on Trade in 2004 (based on the Malawi 'model'). However, by 2010 this had effectively stopped functioning, and consultation reverted back to the earlier ad hoc meetings on specific negotiations or issues – such as the national committee discussing Zambia's strategy with respect to the current Tripartite negotiations.

In **Botswana** the National Committee On Trade Policy And Negotiations was established about 10 years ago, but the private sector organisations represented on it reportedly lack the capacity to coherently represent their members' interests. In **South Africa**, the various representative bodies of the different branches of the private sector are relatively well resourced. It is a legal requirement that the government formally consults the private sector and the trade union movement on issues and policies relating to South Africa's international trade (as well as more general economic and development policies) through the National Economic Development and Labour Council (NEDLAC) which has a professional secretariat of 22 people. This is a unique situation in Eastern and Southern Africa.

The table below attempts to summarise the situation of the BMOs in selected regional countries.

Table 10 - BMOs in Southern African countries

Organisation	Country	Regional advocacy	Capacity to articulate members' regional interests	Comments
Botswana Confederation of Commerce, Industry and Manpower (BOCCIM)	Botswana	Not in any sustained way	Low	Does not have the resources to undertake sustained analysis of regional integration issues and advocacy
Malawi Confederation of Chambers of Commerce and Industry (MCCI)	Malawi	Sporadic	Very Limited	Mainly protectionist of the domestic market
Agricultural Trade Forum/ (NCCI/NTF)	Namibia	Mainly NTF	Medium	The ATF is a very strong advocate of the agricultural sector with reasonable resources, NCCI has weak capacity in regional integration issues, Namibia Trade Forum is very active in regional integration issues with a clear agenda to promote national private sector exports.
Various umbrella and sectorial organisations (South Africa)	South Africa	Yes mainly negative	Good	Consensus in the SA private sector is on promoting SA exports and investment in Africa. However, when it comes to regional imports the SA private sector is split between companies with regional interests (poorly organised to consistently promote further regional integration) and companies bent on protecting their SA market from regional imports (well organised through the Manufacturing Circle).
Federation of Swaziland Employers and Chamber of Commerce (FSE&CC)	Swaziland	Yes mainly SACU	Limited	Very well resourced and focused sugar organisation (Swaziland Sugar Association) which articulates its regional interests strongly within FSE&CC. Private sector very focused on defending its SACU market access against non-SACU regional countries.
Zambia Chamber of Commerce and Industry (Zambia)	Zambia	Sporadic	Very Limited	Very poorly resourced

7.2.3 Private sector in South Africa

Despite the problems outlined above, over the past two decades the most successful investors in the various countries in Southern and Eastern Africa have been various South African service providers in sectors such as retail and supermarkets, hotels and restaurants, banking and other financial services, telecoms, brewing, transport and logistics, power generation, etc. As pointed out by one interviewee, it is these groups with significant business interests in the region that are the major constituency within the South African private sector for regional integration. However they are not organised in a coherent way, and within South Africa they are primarily concerned with resolving their domestic issues with increased regulation and labour problems. It is also clearly the case that they can

pursue a successful regional business agenda on their own and don't need the help of the SA government to do this. SAIIA's experience with these companies has been that they are not pro-active with respect to regional integration, but also not reticent when it comes to ideas on what can be done to improve trade facilitation and doing business in the region.

In fact, the South African private sector is very clearly split over the issue of regional integration. Companies with important regional interests are not very coherent or organised in lobbying with the SA government to promote further regional integration, while those that oppose further integration and opening up to the SA market to regional products are increasingly well organised. One interviewee noted that "there is a new grouping within big business in SA which is called the Manufacturing Circle and is made up of various big companies that are opposed to further opening of the South African economy to international and regional competition in their domestic/SACU market. This group is very influential within the SA government (especially DTI) and on this issue has the support of Congress of South Africa Trade Unions (COSATU) the ANC's major partner".

According to the interviewee, it is representatives of this group and their other private sector allies that are the most active in National Economic Development and Labour Council (NEDLAC) in opposing any further 'concessions' to region imports and further regional integration. In this they are actively supported by the representatives of the trade unions within NEDLAC.

7.2.4 Multinational companies & BMOs representing international multinationals

There are a number of platforms and organisations representing multinational companies and promoting their engagement in African trade and economic development. Some of the more well-established ones are profiled below.

- **Grow Africa**, established as a partnership platform to accelerate investments for sustainable and inclusive growth in African agriculture with the goal of generating positive income and nutrition impacts for smallholder farmers, the rural poor, and women. It aims to connect governments, businesses, investors, smallholders and development partners to advance ambitious "win-win" agricultural partnership initiatives.
- **Capturing the Gains** explores the role of private sector, civil society, national governments and international organisations in securing real gains for poorer workers and producers in the Southern Hemisphere. In general, it aims to promote policies and interventions for fairer trade, to benefit poorer producers and workers, and promote more sustainable development. It is based on research and publications into the further integration and development of economics in developing regions.
- **BAA** is "a network of businesses and development partners working together for Africa's future." It advocates for the policies needed to drive growth and wealth creation in Africa, and to facilitate business engagement in tackling development issues. Since its launch in 2005, BAA has emerged as an innovative international platform for harnessing the collective energy of business in support of Africa's development. BAA is supported by the UK DFID Business Leader's Forum. It is not-for-profit organisations and managed by Inspiris. BAA has recently published a manifesto expressing interest in collaborating with RECs and the AU towards greater regional integration in Africa. Consultations during this study with BAA and its members have confirmed the private sector's growing interest in supporting regional integration initiatives. For example, a number of BAA members are engaged in the Grow Africa initiative, whilst Unilever is already working with local apex businesses associations in Southern Africa as a way of pushing the regional

integration advocacy agenda forward.

- **PIA** is a business coalition that brings together ethically like-minded companies with the objective of tapping into their business experience in Africa to tangibly contribute to the continent's future. They do so via internal information sharing, external dialogue with international institutions, and networking opportunities at external forums. The group leverages what businesses are already doing across Africa to greater effect. Also, it works on furthering institutional understanding of the challenges the private sector faces operating in Africa. Currently, PIA does not have any active regional integration initiatives in place in Southern Africa, and consultations during this study have shown that the organisation is not actively seeking to strengthen its engagement in the region on this agenda, which is disappointing.

Similar to the issue brought up by regional BMOs, our consultations with BMOs that represent the interests of multinationals operating in Africa⁴³, have shown that due to the diversity of interest of the members companies it is challenging to incorporate regional integration issues to the organisation's agenda. However, it has been noted that there is demand from a few companies to strengthen the engagement in regional issues. In fact, in June 2013, during the G8 Summit, BAA published a paper addressed to the G8, AU, and RECs to manifest the private sector commitment to work with the G8 and African institutions to realize intra-Africa trade and integration goals (Business Action for Africa, 2013). The paper acknowledges that fragmented regional markets, low levels of economic integration and underdeveloped infrastructure add to the cost and complexity of doing business, contribute to a huge missed opportunity in lost trade for the region each year and remain fundamental barriers to accelerating investment, growth and poverty reduction (Ibid).

In addition to this high level communication from BAA, our consultations have also shown that there are a few companies that are already engaging with regional issues, however their work is embedded in local activities, with local companies and associations, rather than working with RECs. Companies are sceptical about engaging in political dialogues with RECs as these may only lead to positive changes in the long-term and companies are seeking immediate results. It has been also mentioned that when BAA started to engage with TMEA, companies complained that this would only add an additional layer to an already complicated dialogue. However, one topic that would make companies more willing to engage in a more open dialogue with RECs is related to free movement of persons.

One interviewee representing the private sector expressed support for BAA's argument that companies are seeking to enhance their participation in regional integration efforts. However, this support is not being directed through advocacy through BMOs or direct lobbying with governments. Instead the company has been supporting corridor approach initiatives such as SAGOT and have invested in infrastructure in countries such as Tanzania and Mozambique, operating in several levels of value chains. The company's actions are more aligned with initiatives such as Comprehensive Africa Agriculture Development Programme (CAADP), NEPAD and Grow Africa Partnership.

According to our consultations, the private sector is also interested in engaging in regional issues through innovative partnerships, including working closely with Development Assistance Committee (DAC) donors such as DFID. The representative that was interviewed stressed the importance of more cluster-oriented thinking for private sector development, enhanced dialogue between stakeholders, and scaling up initiatives such as AgDevCo which should substitute bureaucracy as these would collectively have a great multiplier-potential, a value added that is brought by the private sector

⁴³ BAA currently has 200 members, a majority of which is made up by producers of consumption goods such as Unilever, Coca-cola, Pfizer, Diageo, British American Tobacco, and Standard Chartered Bank.

7.3 Summary & key findings

Evidence from previous research and our own consultations have confirmed an increasing interest of the private sector in investing in SSA, especially in Southern Africa. Nevertheless, limited progress with regional integration is among the major constraints hindering further investment flows in region.

Moreover, it is often difficult to conduct business in the majority in SADC member states for a variety of reasons which contribute to a regional economic climate that is not conducive to investment and private sector development in general. Primarily, a lack of stability and predictability of macroeconomic policy, and unfavorable investment climate are the main obstacles behind sustaining and attracting new business investment. Consultations have also stressed that efforts to promote a better enabling environment, especially for trade, has been focused on border crossing, but little has been done to support SMEs to increase production and integrate regional value chains through affordable long-term finance and technical support.

A key challenge for regional integration in Southern Africa and the Tripartite region is the relatively low level of private sector engagement in regional integration processes. While the EAC and COMESA have stronger involvement with the private sector through their private sector focal points in the region, the EABC and the CBC, SADC seems unable to facilitate dialogue with regional BMOs. This inability to provide a platform for dialogue has consequences for the way the private sector organizes itself such as the proliferation of sectorial bodies and competitions among BMOs. ASSCI, supposedly the key apex BMO in the SADC region, has limited capacity to represent member's interests and suffers from financial and human resources constraints. Similar constraints are faced by other sectoral BMOs in the region.

At national level there have been several attempts over the years in a number of countries to establish formal trade negotiations forums with representation both from public and private sectors, however none of these initiatives seem to have been successful. Only in South Africa do BMOs have real power to represent member's interests in public policy making, however the South African private sector is divided between companies with regional interests and companies bent on protecting their domestic markets from regional imports. The first group is comprised by companies, mainly services providers, that have successfully invested in eastern and Southern Africa, but that are not organized in a coherent way and reticent about initiatives to improve regional integration in the region. The latter is very well organized and has a lot of power to influence SA government,

Similar issues are faced by BMOs representing the interests of multinationals operating in Africa. Their member's interests are very diverse and therefore it has been complicated to incorporate regional integration issues on the organisations' agenda. Nevertheless, companies seem to be increasingly interested in directing efforts to support regional integration. Whilst our consultations have shown that the private sector is sceptical about engaging in dialogues with the RECs, they are more positively motivated to work in local activities, with local companies and associations, as well as supporting initiatives such as SAGOT, AgDevCo and Grow Africa.

CHAPTER 8: INTERNATIONAL PARTNERS

8.1 Introduction

This section outlines a review of the support from development partners in the Southern Africa region. The table below summarises some of the key findings for the mapping work but it should be emphasised that this is merely a snapshot and is not a comprehensive treatment of all donors in the region. A more detailed mapping and analysis of each international partner and potential opportunities for collaboration with these can be found in Annex 12.

Table 11 - Mapping donors

	Reg. Cooperation	Countries with activities in Southern Africa	Policy priorities in SADC region	Regional Activities	Opportunities for collaboration
AFD	✓	South Africa, Namibia, Botswana, Zambia, Zimbabwe, Malawi, Lesotho, Angola, Mozambique and Swaziland	Regional infrastructure financing with focus on energy, transportation and telecom; development of regional financial sector; and climate change	Namibia-Zambia grid construction	Regional infrastructure development
AfDB	✓	Angola, Botswana, DRC, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe	Regional infrastructure and capacity building in support of infrastructure interventions	Sasol Natural Gas Project, Nacala Road/Corridor Project, Common Market for Eastern and Southern Africa Air Space and the NAVISAT Project, Common Market for Eastern and Southern Africa's/(COMESA's) Public Procurement Reform and Capacity Building Project	Regional infrastructure development
Austria Development Cooperation	✓	Mozambique	Rule of law, land issues, energy supply	Energy and Environment Partnership Programme with Southern Africa and East Africa; Southern Africa Solar Thermal Training and Demonstration Initiative (SOLTRAIN)	No opportunities for collaboration identified
DANIDA	✓	Mozambique, Tanzania, Zambia, Zimbabwe	Regional economic integration with focus on trade and investment facilitation and support to BMOs with view of private sector investments in selected value chains	A regional Southern Africa initiative is currently being developed	Regional value chains development; private sector development; trade facilitation and capacity building for BMOs. Potential to work in priority countries - Malawi, Mozambique and Zambia.
DBSA	✓	Angola, Botswana, Lesotho, Mali, Malawi, Mozambique, Namibia, South Africa, Swaziland, Zambia, Zimbabwe,	Economic development through the financing of commercially viable public and private projects/programmes (investments, capacity building and human development)	Southern Africa Financing: include economic infrastructure such as transportation (i.e., roads, rail, airports, harbours/ports, logistic hubs, pipelines), water and sanitation, energy (generation, transmission and distribution), telecommunications, and infrastructure for oil and gas (liquid fuels)	Regional infrastructure development
DFID	✓	Angola, Botswana, DRC, Lesotho, Malawi, Mozambique, Namibia, South Africa, Tanzania, Zambia, Zimbabwe	Regional economic integration; trade; development of transport corridors; support to civil society	TMSA; Mozambique Regional Gateway Programme; Making Financial Markets work for Poor People in Southern Africa; Southern Africa Trust; East and Southern Africa Staple Food Markets Programme	

<p>EC</p>	<p>✓</p>	<p>Angola, Botswana, DRC, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe</p>	<p>Regional economic integration through the support of trade and integration activities, infrastructure project preparation and capacity building for the SADC Secretariat. Regional Political Cooperation through strengthening of civil society interaction, capacity building for SADC Electoral Council and elections monitoring.</p>	<p>Regional Economic Integration Support Programme (REIS), Support to the SADC's Project Preparation Development Facility (PPDF), SADC Trade Related Facility</p>	<p>Project preparation for infrastructure projects; public-private dialogue</p>
<p>EIB</p>	<p>✓</p>	<p>Angola, Botswana, DRC, Lesotho, Malawi, Mali, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe</p>	<p>Broadening and deepening of local financial sectors; small and medium enterprises through credit lines and equity; infrastructure projects in the energy, water, transport and telecommunications sectors; local industries and manufacturing;</p>	<p>Ohorongo plan in Namibia; rehabilitation of the Great East Road linking Zambia to Malawi and Nacala in Mozambique; Sub-marine fibre optic cable for international connections in Seychelles.</p>	<p>Regional infrastructure development; SMEs development</p>
<p>Finland</p>	<p>✓</p>	<p>Mozambique, Tanzania, Zambia (priority countries); Namibia and South Africa</p>	<p>Environment; renewable energy; ICT; science and innovation; SMEs development; education and trade facilitation</p>	<p>Southern Africa Partnership Programme to strengthen NEPAD/SanBio Network; Energy and Environment Partnership with southern and Eastern Africa; Creating Sustainable Business in Knowledge Economy; Southern Africa Innovation Support Programme; SADC Renewable Energy Support Programme; Regional Basel Centre Support Programme; African Management Services Company/ African Training and Management Services; Association for Development Education in Africa; Policy Framework for Investment; Southern and Eastern Africa Customs project.</p>	<p>Trade facilitation - capacity building for customs in 22 countries in Southern Africa. Capacity building to SEMs.</p>
<p>GIZ</p>	<p>✓</p>	<p>Angola, Botswana, DRC, Lesotho, Malawi(priority country), Mozambique, Namibia, South Africa, Tanzania, Zambia (priority country)</p>	<p>Support for regional economic integration through capacity building of main stakeholders involved in the regional integration process; consolidation of operation of transboundary water management; support for the protection and sustainable utilisation of natural resources</p>	<p>Strengthening the economic and trade policy capacities and performance in SADC; Advisory Service for Private Business; working with the South African Institute of International Affairs (SAIIA) and SADC on identifying the 10 top constraints facing businesses in the region; working on private sector involvement in regional integration process.</p>	<p>Technical assistance to BMOs; private sector development</p>

<p>JICA</p>	<p>✓</p>	<p>Botswana, DRC, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Tanzania, Zambia, Zimbabwe</p>	<p>Support for corridor development; project preparation; strengthening of development financing institutions (DFI)</p>	<p>Nacala Corridor (Nacala Port development; agricultural development, roads and bridges; industrial development; social infrastructure; access to water and sanitary improvement; forest monitoring); ProSavana Development Initiative; North-South Corridor (Kazungula Bridge; one stop border posts; development of economic zones; power system development; investment promotion). Knowledge sharing and networking events between African DFIs and Asian DFIs; technical assistance and strengthening DFI's financial capital through loans.</p>	<p>Corridor development; development of regional value chains; regional infrastructure financing</p>
<p>USAID</p>	<p>✓</p>	<p>Angola, DRC, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe</p>	<p>Economic growth through increased trade with emphasis in agriculture, promoting trade in strategic value chains and improving performance in trade corridors; reduce impact of HIV/AIDS in the region; improve rule of law and respect for human rights; food security.</p>	<p>Technical assistance on trade facilitation; Southern Africa Trade Hub; Feed the Future Initiative. USAID is currently working on a "new" SATH</p>	<p>Development of regional value chains; trade facilitation. Programming in the priority countries - Malawi, Mozambique and Zambia, including improving performance of corridor along these corridors.</p>
<p>World Bank</p>	<p>✓</p>	<p>Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe</p>	<p>Regional infrastructure, institutional cooperation for economic integration and coordinate interventions to provide regional public goods.</p>	<p>Southern Africa Power Market; Regional Communications Infrastructure Programme; Accelerated Programme for Economic Integration; Southern Africa Trade and Transport Facilitation Programme Project for Tanzania</p>	<p>Support for new initiatives such APEI; programming with stronger focus on PEA; trade facilitation</p>

8.2 DFID's role in the Southern African region

DFID's trade and regional integration activities in Southern Africa are a key part of the AFTI. DFID's overall approach to AfT is to address trade policy and regulation support at a regional level, while addressing productive capacity in its private sector development programmes. At the national and regional levels DFID funds direct trade-related infrastructure development. DFID aims to create opportunities for businesses by improving access to markets and finance as well as to reduce the costs of transport by rehabilitating trade-related infrastructure and ease the passage of goods between countries by tackling border delays. To this extent, DFID is helping to reduce tariff and NTBs to trade. Also, it works on the rehabilitation of corridors in order to reduce the costs of transport.

8.2.1 DFID regional activities

DFID's current regional portfolio includes various significant programmes. First, although the **TMSA programme** has not yet able to meet its goal of a TFTA, it has been agreed by many stakeholders that it provided the incentives that started the TFTA negotiations and supported the progress in those negotiations to date. In this way, TMSA put in place a framework for future progress in reducing barriers to trade and deepening regional integration. Furthermore, TMSA made progress in creating the building blocks for the free trade agreement, particularly the modalities and institutional mechanisms for the negotiations and the technical support and training to regional organisation and member country officials on key aspects of this agreement. In addition, the programme provided effective coordination to the rehabilitation of NSC while it was further able to increase capacity to plan and manage infrastructure projects in the region.

However, recent external reviews of TMSA have argued that there were also weaknesses in terms of the programme's design and implementation. The Independent Commission for Aid Impact (ICAI) review for example argues that the design of the programme did not sufficiently consider the transmission mechanisms that could link increased regional trade to poverty reduction. Furthermore, more involvement from other donors and enhanced political economy analysis would also have been beneficial at the design stage.

Second, the **MRG Programme** is run by DFID and aims to catalyse inclusive growth and economic development around main transport corridors in Mozambique. Its regional component aims to ensure transport corridor developments translate into trade benefits for the landlocked neighbouring countries of Malawi, Zimbabwe, Zambia, Botswana by decreasing transport costs and improve the efficiency of the transport corridors.

Third, the **Africa Enterprise Challenge Fund (AECF)** is a private-sector fund aimed at encouraging greater participation by Africa's poor in markets, both as consumers, and as workers and producers. The fund provides grants and "non-recourse" loans on a competitive basis to fund profitable business ideas that also have a developmental impact on the poor. These ideas have to comply with the rules (eligibility and selection criteria) of the particular competition being applied for. All competitions seek business ideas from competent companies where the idea is commercially viable, innovative and will have a large development impact.

Fourth, the **TMEA** programme, funded by a range of development agencies but with DFID as a founding donor and largest investor, aims at growing prosperity in East Africa through trade. It promotes rapid advances in East Africa's integration, trade and global competitiveness for all East Africans under the banner that enhanced trade contributes to economic growth, a reduction in poverty and subsequently increased prosperity. TMEA works closely with EAC institutions, national governments, the private sector and civil society organisations to increase trade by unlocking economic potential.

Fifth, the **Regional Infrastructure Programme for Africa** (RIPA) is a relatively young programme, established in late 2012. RIPA is a key component of the AFTi as set out in the 2011 Trade and Investment White Paper and collaborates closely with DFID in its initiatives. The programme aims to improve regional infrastructure and, as such, boost economic growth and reduce income inequality. It has been designed to address some of the binding constraints for regional infrastructure development, namely technical capacity and the high cost (and risk) of regional project preparation, linkages with investment financiers, the availability of full packages of financing to meet the needs of a project, and coordination of project planning between multi-laterals. The programme consists of four complementary components; a financial contribution to the NEPAD Infrastructure Project Preparation Facility, financial support to the Infrastructure Consortium for Africa (ICA), a financial contribution to the EU – Africa Infrastructure Trust Fund (ITF), and provision for up to five secondments to related organisations. According to the most recent Annual Review (2013), the programme has successfully improved cross-border and cross-financer coordination on regional infrastructure programmes, as well as increased the availability of private and public financing for these projects.

Sixth, **Food Trade East and Southern Africa** (FoodTrade ESA) is a 5 year trade enhancement and promotion programme, with a focus on staple food crops. It provides targeted interventions in the areas of storage, inputs and service markets, information and coordination mechanisms and policy and regulation with the aim to get more people trading in regional staple food markets. FoodTrade has two major funds: the Challenge Fund – aimed at stimulating innovative business models that deliver commercial benefits, solutions to market failures in regional food staple markets – and the Development Fund – which invests in micro, small and medium enterprises with innovative ideas to connect smallholders to regional markets but without resources to access the Challenge Fund.

8.2.2 DFID's global and Africa-wide role

DFID is also engaged in various global or Africa-wide programmes.

One such global programme which is heavily invested in Africa is the **Trade Advocacy Fund** (TAF). The TAF is established by DFID to provide legal advice and support to the world's most vulnerable countries to prepare for and engage in key trade talks. This came about as lack of access to legal expertise or resources meant the poorest countries had been marginalised in negotiations around their own future, making it harder to reach global and regional trade deals. TAF training, capacity building and logistical support governments from LDCs, Low Income Countries (LICs), Lower-Middle Income Countries (LMICs), and their representative membership organisations (e.g. RECs).

DFID also funds the **ITC women & trade programme** (see Text box 5). As part of the recently announced **Trade and Global Value Chain Initiative** (TGVC), DFID will further provide up to £3.8 million to support increased and better employment opportunities, as well as improved incomes and working conditions within horticulture and garment sector value chains in Kenya and South Africa, and Bangladesh respectively.

DFID is also a major funder of the agricultural development social impact investor, **AgDevCo** (see Section 8.4 below)

8.3 Key multilateral and bilateral institutions

A number of international organisations are active in the region's trade and development. First, the **WB** has a number of national projects that have a corridor-based approach and therefore will improve trade and transportation links across various countries. Also, the WB is a knowledge hub with influential papers on the role of trade and regional integration. However, regionally, the WB has a very limited portfolio for integration programmes for

southern Africa, especially considering its initiatives with the other RECs. Currently the bank is aiming at incorporating PEA to its programming and is building on “new” initiatives such as the APEI to support greater regional integration in Africa.

The **Public-Private Infrastructure Advisory Facility (PPIAF)** is a WB-hosted multi-donor facility that acts as a catalyst to increase private sector participation in emerging markets and provides technical assistance to governments to support the creation of an enabling environment for the provision of basic infrastructure services by the private sector. It seeks to improve a “business enabling environment” that consists of strong institutions, legal systems and rule of law, high standards of public and corporate governance, transparency, competition, protection of investments, enforcement of laws, and dispute resolution mechanisms. PPIAF is a multi-donor technical assistance facility, financed by 17 multilateral and bilateral donors.

The **IFC**, a member of the WB, is the largest global development institution focused exclusively on the private sector in development countries (IFC, 2013). In SSA, its efforts are concentrated in improving investment climate by working both at national and international levels to enable private investment; promoting entrepreneurship; and transforming key markets and industries with focus on infrastructure, food security and agribusiness (IFC, 2014). During the project team’s consultations with the IFC staff, the IFC reported that they currently have several national projects that may lead to regional impacts such as the Facility for Investment Climate advisory Services in Zambia that seeks to upgrade the Automated System for Customs Data Software (ASYCUDA) in Zambia to facilitate trade. They are seeking to enhance collaboration with DFID to develop a regional trade programme in southern Africa.

The **AfDB** has regional integration as a core part of its mandate. The Bank’s approach focuses on two pillars: regional infrastructure and capacity building in support of infrastructure interventions. Regionally, the AfDB works on infrastructure, capacity building, providing technical assistance, and working on regional energy development. The AfDB has focused on supporting the development of the TFTA as well as developing joint frameworks and programmes to improve the coordination of regional activities.

The **DBSA** is a Development Finance Institution wholly owned by the South African Government. The DBSA’s current mandate supports all aspects of regional integration in the SADC as it aims to promote greater regional integration through financing infrastructure and productive sectors, maximising private sector involvement in infrastructure development and facilitating and promoting commercialisation of public sector initiatives.

The **EU** has a significant regional programme dedicated to Southern Africa, particular in comparison to some of the other donors. On regional integration, the EU focuses primarily on regional economic integration, with trade and integration, infrastructure development, food security, and capacity development being the main areas of intervention. Three significant programmes are: i. Regional Economic Integration Support Programme, ii. Support to the SADC’s Project Preparation Development Facility, iii. SADC Trade Related Facility. During our consultations with representatives of the EU, the Commission stressed their interest in partnering with other development partners and co-financing projects.

The **European Investment Bank (EIB)** overriding aim in the ACP regions has been to help generate long-term private sector-led sustainable economic growth and reduce poverty through job creation and improved access to productive resources. Furthermore, the Bank supports public sector infrastructure projects that are important in underpinning private sector development and create a thriving business environment, particularly for SMEs, which are the foundation of developing countries’ economies.

The **ITC** aims to “foster sustainable economic development and contribute to achieving the Millennium Development Goals (MDGs) in developing countries and countries with economies in transition through trade and international business development. The ITC has two programmes of particular relevance:

- The Programme for Building African Capacity for Trade - PACT II works with COMESA, ECCAS, and ECOWAS to support Africa’s regional integration agenda.
- The Women and Trade Programme aims to strengthen the gender component in the design and implementation of sectoral and national strategies.

Text Box 5: ITC’s Women & Trade Programme

Under its mandate on the Aft initiative, the ITC has taken to the implementation stage the same kind of multi-level intervention described in the Eru case-study through the launch of an ambitious regional programme on Women and Trade, funded by the UK. The programme aims to systematically introduce the gender component in the design and implementation of sectoral and national strategies in selected key commodities. The rationale lies in the socio-economic benefits, including empowerment that women could achieve through increased participation in export trade.

Within the programme, a remarkable project involved women and coffee trade in Eastern and Southern African countries. Coffee represents one of the most important export commodities for ESA countries, and women make up to 90 percent of the work force involved in the harvesting of coffee. However, they suffer from being confined to the lower end of the value chain and underpaid for their work, with no connection whatsoever to international marketing channels. In close collaboration with the International Women Coffee Alliance, the project aimed at the establishment of women’s coffee associations in Burundi, Tanzania, Kenya, Rwanda and Uganda, the development of a “women’s coffee” brand to increase visibility in international markets and the promotion of linkages connecting women’s coffee harvesters and producers to international buyers.

The project, now at the development of its second phase following its success, constitutes a valuable example of how women can benefit of improved access to inputs, credit, information and training and dedicated marketing channels. Traditional impediments deriving from lack of access to relevant market information and the small-scale, fragmented nature of coffee entrepreneurship in ESA countries have been overcome by connecting African women traders with like-minded entrepreneurs and workers in other parts of the world.

Moreover, an important element of success of the project has been the empowerment and self-confidence that participating women have gained by having a major control over their participation in coffee production activities and over the allocation of incomes coming from these activities. Discussions over the future of the project concern the possibility to scale it up to other countries and sectors in which African women detain a primary role.

Regarding bilateral donors, several of the major OECD DAC donors are active in the areas of trade and regional integration in Southern Africa.

First, the activities of **USAID** in the region are to promote greater regional integration, develop regional capacity through institutions and networks, and build upon successful programmes such as the SATH. It focuses on increased trade with an emphasis on agriculture, fostering sound regional trade policy in the region, and improving performance of targeted trade corridors. Two programmes stand out. i. *The Feed the Future (FTF) initiative* focuses on storage and structured trade, development and adoption of regional food and seed standards, strengthening of regional business organisations, and provision of grants to South African companies, which have innovative technology of use to regional producers. ii. The SATH aims at increasing international competitiveness, intra-region trade and food security in Southern Africa. The programme promotes activities in trade facilitation, agricultural value chains, textile and apparel, clean energy and creating an enabling environment for business. USAID is currently working on the development of a “new phase” of the SATH which will build up on previous activities undertaken by the Hub as well as other

successful regional efforts such as FTF (which in Southern Africa, is focused on the development of selected agriculture value chains in Malawi, Mozambique and Zambia).

Second, the **GIZ** has been providing support to the SADC integration agenda since 1985 and has recently prioritised three areas of support in the region: conservation and sustainable use of natural resources, regional economic integration and transboundary water resources management. They are also committed on providing support to the strengthening of SADC institutions and in the areas of peace-building, security and good governance within the region. GIZ's current flagship regional economic integration project seeks to build the institutional capacity of the three stakeholder groups which GIZ sees as central to the regional integration process – the SADC secretariat, member states and private sector apex business associations.

Third, **JICA** holds an annual *Tokyo International Trade Conference on African Development*. Among the bilateral donors JICA appears to be the one most extensively committed the corridor/regional development approach - JICA has been working extensively on the NSC and Nacala and to a lesser extent on Maputo and Beira. JICA programmes have the overall aim of creating intra-regional industrial linkage.

Fourth, the development initiatives of **Danida** have focused on regional integration around peace and security, fostering stronger trade links between EU and Africa, and creating a more enabling environment for business and FDI in Africa. Direct support to regional economic and political integration has been mostly provided to East Africa under the Regional Economic Integration Support Programme (REISP). However, Danida is currently scoping a sister project for REISP in southern Africa (REISA). Danida is exploring the possibilities of providing capacity building to the Southern Africa Development Accreditation Service (SADCAS) with the goal of reducing regulatory barriers to trade and investment, as well as providing support for regional BMOs with the aim of promoting and facilitating private sector investment within selected value chains (Danida, 2014). As part of REISA, Danida is also considering a returnable capital and technical assistance grant investment into AgDevCo's agri-business portfolio in Malawi, Mozambique and Zambia (see section 8.4 below for more information on AgDevCo).

Finally, the **French AFD** focuses on financing regional infrastructure in energy, transportation and telecom and the development of the regional financial sector. The only current AFD programme with a regional dimension is focused on constructing the transmission grid connection between Zambia and Namibia, to secure Namibia's electricity supply.

8.4 Private financing institutions & private sector organisations

There are various institutions private financing institutions that have been reviewed as part of this study. These institutions are particularly noteworthy given the new focus of DFID and other development partners on working more directly with the private sector and investing into returnable capital vehicles.

AgDevCo is an agricultural development company aimed at developing Africa's agriculture and agribusiness. Supported by DFID and other development partners, AgDevCo is a non-profit social impact investor which is actively investing in small and growing agriculture businesses in four countries in the southern and eastern Africa (Mozambique, Malawi, Zambia and Tanzania). It consists of a social impact fund that is being increasingly allocated with non-refundable or refundable grants and/or concessional loans from donors. They are the fund manager of the Beira Agricultural Growth Corridor Catalytic Fund and have currently invested in 12 projects along the corridor. More information about AgDevCo and its existing portfolio can be found in Text box 6 below.

Prorustica also aims developing of Africa's agriculture. Yet, their focus is on the establishment of PPPs to foster profitable and sustainable development programmes by facilitating communication between stakeholders and ensuring that investments are properly coordinated within existing commodity supply chains. They are current working with the public sector and donors, private sector, international organisations, and other initiatives. Prorustica is currently operating on the Dar es Salaam Corridor in Tanzania and they are partnering with AgDevCo on the BACG and SAGCOT. Prorustica's role has been to work on the development of the concept and investment blueprint to attract partners, as well as establishing partnership secretariats to coordinate implementation and activities, including investments to bring commercial agribusiness operations within the corridor.

CDC is part of DFID's private sector strategy to alleviate poverty, but operates independently. It supports the growth of businesses and job creation across all of Africa and South Asia. Their investments have a job creation focus and are market driven. They look at commercial projects that banks would not engage in the short term. In 2012, CDC made commitments worth of £ 169.2m, supporting 1,250 businesses who in turn provide 1,109,000 jobs. CDC's work in Africa has so far been focused on South Africa and Nigeria. In the future, CDC's portfolio of investments will however become more concentrated on low and lower middle income countries in sub-Saharan Africa. The first investment made by CDC's new equity investment team is an example of an investment that could have positive impacts in regional trade in the whole of Southern Africa. CDC has provided US\$ 32.5m to the founders of Export Trading Group (ETG) which is an African agribusiness with operations in crop buying, warehousing, distribution and merchandising that employs over 7,000 people.

PIDG is an innovative multi-donor organisation with the objective to encourage private infrastructure investment in developing countries that contribute to economic growth and poverty reduction. PIDG has established a range of facilities and investment vehicles which provide varying types of financial, practical and strategic support in order to realise this objective. They focus on donor co-ordination and to ensure best practice in funding subsidiaries' programmes. PIDG has two facilities dedicated to Africa. The first is *InfraCo Africa Ltd* aims at addressing the market failure of bankable projects not being developed in Africa due to high risk of early stage project development. It addresses the challenge developing commercially viable infrastructure projects in Africa. The second facility is *Emerging Africa Infrastructure Fund Ltd (EAIF)*, which aims at addressing the shortage of long-term loans at sufficiently low interest rates due to perceived risks in developing countries in Africa. It responds to the challenge providing long-term loans to private sector infrastructure projects in SSA. DFID is a member of PIDG since it is inception in 2002 and had up until 2012 disbursed USD 423.9 million.

Text Box 6: AgDevCo

AgDevCo invests in a range of businesses at all points along the value chain – from input supply, through primary production and processing to logistics and marketing. By investing in “clusters” of inter-related businesses in specific regions (including across borders) they help fix gaps in value chains and address coordination failures. For example, AgDevCo has invested in a seed company, which sells inputs to smallholder farmers, which supply materials to a storage and milling operation, which sells animal feed to local livestock businesses. Where appropriate they will also link business to large buyers of agricultural commodities (eg breweries and international food companies) in order to help local businesses get to scale and be in a position to offer smallholder farmers better prices and more stable contractual arrangements.

In their existing portfolio (\$25 million committed to date) and pipeline (over \$20 million in 2014) they have a number of investment opportunities where they can promote value addition and cross-border trade for commodities like maize, soya and groundnuts. For example, AgDevCo have already invested in a smallholder grain trading business in Mozambique (“ECA Lda”), which now has modern storage and milling. ECA works with more than 2,500 farmers providing them with inputs, extension support and a guaranteed market.

In Zambia and Malawi AgDevCo are looking at investments in grain handling facilities with a capacity of up to 50,000MT each which will provide a reliable local market for smallholder farmers to sell their grain at fair and transparent prices. Farmers may also opt to store their grain for a fee, allowing them to take advantage of higher prices later in the season. Around these hubs AgDevCo will help the project sponsors develop outgrower/ extension schemes to ensure that smallholder farmers have better access to credit, technology and training on conservation farming methods.

In Mozambique, Zambia and Malawi AgDevCo are investing in the groundnut value chain, including seed production, smallholder farmer buying programmes, storage and processing. In Mozambique and Zambia they are also investing in commercial soya farms with associated outgrower schemes. These farms are supplying local poultry producers.

8.5 Donor collaboration efforts and opportunities for enhanced cooperation

Annex 12 highlights two instances of donor collaboration efforts, where there has been effective collaboration between donors. First, the **Nacala Corridor - ProSavana and Nacala Corridor Fund Initiative**. ProSavana is a trilateral initiative between the governments of Brazil, Japan and Mozambique that aims to contribute to the agricultural development of the Tropical Savannah region in Mozambique. The project consists of an agriculture development master plan in the Nacala Corridor, in line with Japan's integrated approach to regional integration and corridor development.

Secondly, **Multi-stakeholder Initiative SAGCOT** is a multistakeholder initiative addressing the challenges of agricultural development in Tanzania through an agricultural growth corridor strategy. The initial concept note in 2010 was developed by Prorustica, AgDevCo and the Tanzanian Agricultural Partnership (TAP), with inputs from a range of stakeholders. Yara, Prorustica and AgDevCo aim at a corridor approach that would in operate in a defined geographic area with backbone infrastructure and high agricultural potential. In addition, a Catalytic Fund is also in the process of being established. The goal of the fund is to develop innovative forms of financing that reduce the cost and risk of early-stage agricultural investment. The fund will be institutionally independent of SAGCOT.

8.6 Summary & key findings

DFID has been playing a strong role in Southern Africa's development. Their current portfolio comprises six main projects: TMSA, MRG Programme, AECF, TMEA, RIPA, and FoodTrade ESA. Recently, TMSA, the main trade and regional integration programme for Southern Africa, was closed following external reviews that argued that the programme had several weaknesses in terms of design and implementation.

Two DFID-supported projects and institutions are worth special attention in the context of this study: MRGP and TMEA. MRGP has successfully combined a national and a regional component promoting synergies between DFID's country and regional offices to catalyse inclusive growth and economic development around main transport corridors in Mozambique. TMEA has been able to attract and harmonise bilateral donor funding, and it has built up considerable institutional expertise and experience in work linking national programmes for coordinated support to regional integration, trade facilitation and infrastructure development.

Several multilateral and bilateral donors, private financing institutions and private sector membership organisations have been reviewed for this study. Among multilaterals, regional integration efforts have been focused on hard infrastructure financing and private sector development while bilaterals presented more diverse portfolios that include trade facilitation, trade policy, energy and environment, governance, health and education. Most of the

partners consulted demonstrated interest in enhancing collaboration with DFID SA and other donors, as well as to engage in innovative partnerships.

In terms of multilaterals, although the WB has a budget for regional integration projects, it currently possesses an extremely limited portfolio for SADC countries, especially in comparison to EAC and ECOWAS. The Bank is seeking to incorporate more PEA analysis to their programming and build on “new” initiatives such as APEI. Besides opportunities for enhanced cooperation with AfDB on regional infrastructure and capacity building in support of infrastructure interventions, the IFC and ITC’s programmes seem to offer great scope for joint-work with DFID SA and other partners. IFC is currently working with the private sector on trade promotion in the region and they are looking for opportunities to engage with DFID SA to develop a regional trade programme. One promising entry point is the ITC Woman & Trade Programme, which has been successful and is already funded by DFID centrally, but with great opportunities to scale up in Southern Africa.

Several DAC donors have extensive portfolio of projects in Southern Africa. Nevertheless, Danida and USAID’s priorities for the region seem to be more aligned with DFID SA’s plans. Danida is currently scoping future Danish support to regional integration in the Southern Africa region (REISA). USAID is also planning a new phase of the SATH building on other US initiatives in the region such as the FTF which plays a strong role in agriculture development in Malawi, Mozambique and Zambia.

Private financing institutions have been created to overcome market failures to enable private sector investment in Africa and they have been appearing as innovative and efficient mechanisms to support economic growth in Africa. AgDevCo, PDIG and CDC are important and accessible financing vehicles which offer excellent opportunities for future partnerships with DFID SA and other development agencies which DFID could crowd-in.

Finally, international private sector organisations, although face difficulties to incorporate regional integration issues in their agendas, seem to be increasingly interested in promoting intra-trade and integration Africa which offer opportunities for future engagement. Nevertheless partnerships should be established selectively and pragmatically based on a fully understanding of which organization is effective in the region since organisations such as BAA seem to play a stronger role than others such as PIA.

Part 3: Lessons & Recommendations

CHAPTER 9: LESSONS AND RECOMMENDATIONS

9.1 Introduction

Two over-arching lessons form the backdrop for this aspect of the study.

Firstly, the evolution of current DFID-thinking and corporate priorities on transformational economic growth and poverty reduction can be well-linked in the context of future programming on regional trade and integration in Southern African. Interviews with DFID staff have confirmed that trade will continue to be a priority theme within DFID's work on growth and within the forthcoming economic development strategy. At the same time, there will be a stronger emphasis on working with the private sector and through DFID's bilateral programmes in priority countries and regions.

Taken together with the positive feedback from the private sector regarding DFID's continued engagement on the regional trade agenda in Africa,⁴⁴ it would be a wasted opportunity if, in the wake of the criticisms of TMSA in the recent ICAI report, DFID SA did not move to develop and lead an ambitious, innovative and contemporary major new engagement on regional trade and integration over the next DFID programming cycle.

Secondly, the importance of understanding the PE framework and how PE issues can be included in future programming relate to – for example – negotiation and implementation of regional trade agreements, harmonising trade facilitation systems at borders, and accelerating regional infrastructure development. Indeed, PEA may help in the feasibility assessment of future directions of DFID's, as well as other donors, engagement on trade and regional integration in the region. In relation to future corridor work for example, more fine-grained political economy analysis on prospects, challenges, and entry points for supporting port reform and modernization would be important. Likewise, in relation to future support for the negotiation and implementation of regional trade agreements, a richer understanding of the dynamics between key players would allow identification of areas where there may be more traction for donor support.

Against the backdrop of these general findings, some more specific emerging lessons and potential directions for future support by DFID on regional trade and integration in Southern Africa are set out below. To varying degrees, these maybe more or less relevant to other DFID-supported vehicles (eg PIDG, AgDevCo, CDC, PPIAF, TMEA) and other development partners (WB, AfDB, IFC, bilateral donors such as USAID, BIZ, EC and JICA).

9.2 Targeting DFID support in the Tripartite region

Lessons

A key lesson from DFID's experience to date in Southern Africa is the mismatch between the goals and geographical/thematic coverage and the resources/capabilities of the TMSA vehicle – even more so when compared to TMEA. In the Southern African region, unlike the EAC, there is a much wider variation in national income levels amongst the countries and a far larger number of countries.

Although the region has experienced significant economic growth in the past years, growth has varied across countries and poverty remains high in the DFID priority countries in the region (Malawi, Mozambique, DRC, Zimbabwe & Zambia). Targeted support is therefore still required.

⁴⁴ See for example the submission to the recent G8 Summit by Business Action for Africa.

The slower growth of the Southern African region and South Africa specifically may mean that this 'belt' of countries is likely to focus trade northwards towards in the future. A conclusion of the TFTA may also spur this trade pattern.

Recommendations

DFID and other donors' support to regional trade and integration in Southern Africa will continue to be important, but due to differences in development levels across the region, there should be a more explicit focus on the countries that require assistance the most, namely Malawi, Zimbabwe, DRC, Mozambique and Zambia.

Programming goals further need to be more realistic and better aligned with DFID's capabilities and focus countries. A promising potential option for the future would be to concentrate DFID efforts on developing regional value chains, reducing trade barriers and building more efficient trade facilitation infrastructure in the Zambia-Mozambique-Malawi sub-region to connect better with the faster integrating East Africa (including fast-growing Ethiopia, South Sudan and DRC) rather than the traditional focus on the slower-integrating Southern cone and slower-growing South Africa.

This may mean building on "new" initiatives such as the APEI currently being pursued by Mauritius, Mozambique, Malawi, the Seychelles and Zambia. It could also mean that DFID should seek to expand the coverage of the innovative, durable platform provided by TMEA which allows multiple donors and their different regional and country offices to work in a highly joined-up manner on a comprehensive suite of regional trade and integration interventions.

9.3 Coordinating with DFID programmes & country offices

Lessons

For the shape of DFID SA's future engagement on regional trade and integration, there seem to be more potentially high-impact options available than "more of the same". DFID support on regional trade and integration in Southern Africa (via TMSA) has operated very much at the regional level with COMESA, SADC and the Tripartite and there has been little cross-engagement between regional and country teams.

There have been some notable successes. But there are major limitations in the implementation capabilities and mandates of the RECs (especially at the level of the Tripartite) across the range on programming areas on the regional trade and integration agenda (for example, in respect of infrastructure development or returnable capital investments into regional businesses to increase productive capacity and boost regional trade such as undertaken by AgDevCo and CDC).

Indeed, achieving impact-level results from initiatives like the TFTA process and the Tripartite Industrialization pillar will be for the long term. TMSA support to the Tripartite negotiations has been successful to a degree in its work to establish a strong negotiation platform and a framework for future progress in reducing barriers to trade and deepening regional integration. It has however also been found that TMSA has been perceived by some interviewees as being 'too close' to the negotiations and that it has underestimated some key PE issues (e.g. South Africa's defensive and protectionist negotiating position).

Recommendations

DFID SA should seek to link with and scale-up relevant new DFID bilateral and global programmes in the region which can provide potentially high-impact, quick-delivery interventions on the regional trade and integration agenda. This will require a new, more

joined-up approach to planning and managing the DFID SA regional programme alongside the on-going country programmes, some of which already have a cross-border dimension e.g. the MRGP.

Predicting the outcome of the TFTA negotiations is difficult at this early stage. As suggested by the TMSA MTE, support to TFTA negotiations could therefore perhaps be more efficiently supported through other means. Combined with the recommendation above, a particular focus on DFID priority countries could be explicitly made. This support could be channelled through specialist DFID (or other) facilities that maybe better placed to provide this kind of specialised technical assistance support. The DFID Trade Advocacy Fund is for example already supporting the TFTA negotiations.

DFID could further consider how to more pro-actively use national and regional offices of the Foreign Commonwealth Office (FCO) (e.g. in Gaborone) and the UK Trade & Investment (UKTI), looking at how collaboration could be enhanced. The UKTI is increasing its presence across Africa could be very relevant in terms of working with DFID on supporting British business engagement on the regional trade, investment and integration agenda in Southern Africa.

9.4 Effectively supporting infrastructure & trade facilitation

Lessons

In Southern Africa, infrastructure development is a critical determinant of growth. The lack of adequate power infrastructure erodes growth by 0.2 percent, more in Southern Africa than in any other region. If Southern Africa's infrastructure could be improved to the level of the strongest-performing country in Africa (Mauritius), regional per capita growth performance would be boosted by around 3 percent. It has further been found that a 1 percent increase in the ratio of trade over GDP is associated with a short-run increase in growth of approximately 0.5 percent per year and the long-run effect is larger, reaching about 0.8 percent after ten years. The economic geography of Southern Africa is challenging, reinforcing the importance of adopting a regional approach to infrastructure development. Furthermore, costs and benefits of regional infrastructure are always not symmetrically shared between countries and stakeholders which can be an obstacle to agreeing on a way forward.

The corridor approach is still valid, although strategy should not be limited to transport corridors, but rather "development corridors" designed to promote increased trade and growth along the corridor, not just shorter, more predictable journey times. Moreover, the financing of this kind of approach by countries along the corridor raises equity and distributional issues that may need a political resolution.

In addition to trade facilitation challenges, Southern Africa faces particular issues in its infrastructure related to road, rail, ports and energy among others. Africa has been doing less well than other regions in terms of privately financed infrastructure projects, but investments are highly imbalanced in sectoral terms with 80 percent of all private investment in infrastructure in Africa went to the telecom sector.

The financing gap that is currently not being filled by the private sector for a number of reasons related to: i) distribution of costs and benefits; ii) project preparation & project bankability; iii) framework conditions and political risks; and iv) challenges of PPPs. Also, traditionally, infrastructure financing in Southern Africa has been aid-based, creating dependency. Although, bilateral and multilateral donors are willing to provide financing, they are not always seeking out their comparative advantages.

Recommendations

DFID and other donors must consider specifically and strategically how to engage on regional infrastructure and development corridors going forward, including the levels of its potential investment, the value they can add, the skills required and the timeframes within which programmes will expect to deliver impact. One potential avenue is for DFID to concentrate on using its convening and coordination power to harness private sector participation in regional infrastructure projects, and involve the private sector at a very early stage of project programming to understand private sector interests. DFID has already had a coordinating role as the lead ICA donor on the North South Corridor but this has only been in relation to other cooperation partners, not the private sector,

A new paradigm for multi-country projects with private sector involvement finds that the challenge is to ensure that all the regional partners, public and private, as well as their external partners, have sufficient information to allow them to understand the benefits, costs and risk that will accrue to each partner. This suggests that one possible avenue for DFID and other donors to engage on regional infrastructure development through attracting private finance is to create an advisory facility that at a very early stage of project design could carry out a preliminary, rapid assessment of the regional impacts of the project and of the potential for involvement of the private sector.

The key difference from current practice would be to decompose the project into its component parts so that the stakeholders who would benefit and the stakeholders who would bear the costs can be clearly identified for each component. In this way, stakeholders can objectively assess who will benefit from the project relative to the costs that they will bear. At the same time, financing solutions could be developed for the individual components rather than seeking an overall financing solution a whole corridor project for example.

This would reduce the risk that projects falter because stakeholders do not understand what they are being asked to contribute and how they will benefit within the context of, for example a complex multi-country development corridor project. In addition, it would permit public and private financing options to be tailored to each component in such a way as to maximise private funding and limit the costs borne by the government.

Furthermore, as suggested in the TMSA MTE, the Tripartite PPIU could play a critical role in providing ongoing support to the preparation, packaging and promotion of regional infrastructure projects but it will need to be sufficiently capacitated and funded. DFID and other partners should engage with the RECs with a view to developing a sustainable work programme for the PPIU, and considering whether it should be incorporated within a continental group as a regional “branch”, to promote scale efficiencies and better leverage the narrow base of super-specialist skill sets related to private infrastructure financing available in Africa. A further benefit of integrating the Tripartite PPIU within a continental group under common leadership is that PPIU agencies set up in contiguous regions need to have certain degree of common objectives; otherwise, results achieved within RECs will fall apart when the issues between RECs are looked at.

Also, some successes were made by TMSA on trade facilitation that DFID SA could continue to support/scale up (e.g. facilitating reform as borders and the NTB reporting mechanism) and demand for support in this area remains strong from the private sector. TMEA has also developed considerable expertise in the area of trade facilitation along corridors, at ports and through OSBP work which DFID southern Africa could seek to leverage. The recent WTO Trade Facilitation Agreement provides another framework through which support may be provided. Recent evidence suggests that the improvement of customs procedures will produce trade and welfare gains that will be somewhat lower than

those achieved through infrastructure improvements but that, given the much lower costs and shorter timeframes for implementation, would still be desirable to pursue.

9.5 Engaging the private sector

Lessons

DFID SA and other donors' engagement with the private sector on the regional trade and integration agenda have not been extensive to date. This applies to local and international business as well as PSOs.

The report has found that extractive industries still dominate to a large extent the makeup of economic growth in the region. Greater economic diversification and linking up with global value chains are essential in the region, as is the scaling-up of support for commercial-scale agricultural development to enable the sustainable incorporation of small farmers and SME agribusinesses into stronger regional value chains.

Furthermore, business organisations are key in taking the regional integration forward and putting pressure on Member States on implementation of trade agreements. There is much investor interest and engagement in the region but the private sector faces some specific constraints to investment and trade, particularly relating to NTBs and infrastructure. The private sector is also lacking strong regional and national business membership organisations that effectively represent their interests.

Recommendations

There are excellent opportunities for enhancing engagement with the private sector for expanding regional trade and investment in Southern Africa. The private sector sees Southern Africa as a growth market and business opportunity and there is appetite to engage (in the right way), potentially through more of a brokering and coordinating role, an approach that is being used to some extent in the SAGCOT and BAGC corridors and from which more might be learnt.

DFID and other donors can probably engage more with the private sector most easily and productively in the areas of (i) identification, advocacy and completion of priority trade and investment climate regulatory reforms at country level; (ii) regional infrastructure finance and (iii) impact funds investing with firms integrating into regional value chains (including those regional value chains managed by major South Africa or European corporates like Shoprite or Unilever who may have supplier diversity objectives for small-scale or women-owned businesses).

A potentially promising way to combine all three of these would be around SDIs or sections of key corridors in DFID priority countries in Southern Africa, simultaneously increasing potential returns and reducing risks for a raft of related-investments and bringing into play a number of different vehicles in a co-ordinated manner. There seems immediate scope for more progressive alignment between the impact investment and aid communities. It would be possible to leverage and crowd in well-established returnable capital vehicles such as PIDG, CDC and AgDevCo, which are often already operating in SDIs in the region and may include multiple donors as well as DFID. These organisations do not have regional offices so DFID Southern Africa could contribute intelligence about local markets, convening power, knowledge of key players in the region as well as contact-networks. This would also align well with DFID's aim of increasing the share of returnable capital in aid.

Because of their status, multi-donor funding and investment policies, some returnable capital vehicles may face operational challenges in taking specific policy direction from DFID Southern Africa to support projects. However, given the importance of engaging the private

sector in regional programming, DFID could for example set 'regional infrastructure' as a broad goal in southern Africa and subsequently target its own activities (e.g. on trade facilitation) *around* projects funded for example by PIDG, CDC and AgDevCo. This requires effective coordination at the programme design phase and more collaborative efforts on overcoming constraints to doing business in the region.

In terms of engaging the local and international private sector organisations, DFID should involve business at a much earlier stage of the programming phase than has previously been the case to understand constraints the private sector faces in the region. This would of course potentially benefit the private sector but it will also provide DFID with trade and regional integration programmes that are more firmly rooted in the stakeholders actually actively involved in trade and investment – local and international business.

Engagement with and funding for private sector organisations (e.g. BAA, PIA, EABC) should be done selectively and pragmatically based on a thorough understanding of which organisations are effective in the region. There is however much potential for a number of these to act as platforms for DFID engagement. TMEA's models and experiences of supporting business advocacy on regional trade and integration in East Africa could be studied and potentially leveraged in future programming by DFID SA.

Lastly, DFID SA should link up with UKTI in the region to work on the British business agenda specifically as UKTI is more suited for this work.

9.6 Improving linkages to poverty reduction

Lessons

The TMSA MTE found that the potential impact of the TFTA on vulnerable sectors and countries in the region had not been adequately considered in programming.

This study has attempted to provide some evidence-based guidance on the linkages between trade, growth and poverty reduction. It has been found that at an aggregate level, openness to trade has a potential positive impact on poverty alleviation through the effect it has on economic growth. The study has also found that the potential effects of supporting women and trade through targeted interventions may be particularly impactful.

Recommendations

DFID SA should more thoroughly assess the poverty impact of its activities on trade and economic integration in the region at the programming stage in order to deliver VfM for money in its key priority countries.

DFID SA should also learn from its past involvement in activities with potentially only weak links to poverty reduction. DFID should for example not necessarily engage on the Tripartite regional industrialisation agenda before further rigorous assessment of the potential effects of a common regional approach to industrial development is undertaken.

Given the well-documented links between informal trade, poverty and gender equality, DFID SA should consider how to integrate women and trade in future programme design. A focus on women and girls is further currently a key strategic priority for DFID. With regards to this agenda, it is worth exploring the work being undertaken by the DFID-funded ITC Women & Trade programme as there may be opportunities for enhanced collaboration specifically in Southern Africa.

9.7 Working with other partners

Lessons

A key issue to explore is how DFID and the FCO can engage with South Africa on the regional trade and integration agenda, despite the ending of the UK's bilateral aid programme. The study has also mapped the large and diverse portfolio of activities related to regional trade and integration undertaken in the region by traditional OECD donors as well as BRICS, and specifically South Africa, in the region (see Annex 12).

Recommendations

There is much scope to improve coordination and enhance collaboration going forward in DFID programming on regional trade and integration. There can be valuable lessons to learn from the experience of DFID's work in establishing TMEA as a multi-donor vehicle and its subsequent success in crowding-in and harmonizing significant investments from Denmark, Sweden, Finland, the Netherlands, Belgium as well as from DFID.

There is excellent scope for enhanced collaboration with bilateral donor partners especially with Danida and USAID as both agencies are currently working on the development of their new regional integration programmes in Southern Africa, both with a focus on facilitating private sector investment in selected regional value chains. Dialogue between DFID SA and these partners should be strengthened urgently in order to coordinate efforts over the next 3-5 year programming horizon.

DFID should also consider how best to engage the AfDB and World Bank going forward in Southern Africa. DFID has well-established working relationships with the World Bank across a range of sectors elsewhere, but there is room to do much more together in Southern Africa. The World Bank has signalled that it would welcome an approach from DFID and sees intrinsic, distinct value-added to be gained in working with DFID on regional trade and integration. DFID and other partners should also consider how to engage with the IFC which is currently working on trade facilitation at national level in the region, but it is seeking partners to develop a regional trade programme in Southern Africa.

The AfDB's approach and priorities for the Southern African region focuses on two pillars that closely align with DFID priorities: regional infrastructure and capacity building in support of infrastructure interventions. On regional infrastructure, AfDB focuses on the areas of transport, energy, and ICT, all anchored in the corridor approach. In the area of capacity building, the Bank has supported the Tripartite in developing the FTA road map and is also providing technical assistance to countries and RECs strengthening their ability to design, manage and monitor infrastructure programmes. There are challenges in working with the AfDB, but this may be a good solution for larger regional infrastructure projects.

Inside South Africa, scope for co-ordination and collaboration could include the potential for engaging with the relevant key parastatals – DBSA, Eskom and Transnet – as well as central government ministries as these actors have a strong stake and growing footprint in cross-border regional infrastructure co-operation and investments. DFID SA would need a different trajectory of approach to working with South African parastatals to be effective as they are a non-traditional partner. Some initial investment up front would be required to better understand these agencies interests and existing plans for engagement in the Southern African region, as well as to build stronger relationships with the leadership of these organisations.

Another option is to work collaboratively with South Africa in delivering its own aid programme through SADPA (South African Development Partnership Agency) that is expected to be operationalised in the near future.

An important issue to explore in future programming is how DFID's future engagement on the regional infrastructure agenda in Southern Africa can take more explicit account of investments coming in from the BRICS (especially China). There is clearly an important role here to be played by high-level and ministerial dialogue, both in respect of engaging with South Africa and China, where the UK has been less active in recent years in the region. Lessons could perhaps be learned from TMEA who is engaging Chinese business on upcoming corridor projects. Consideration could also be given as to how to leverage the weight of the EU in the region for the purpose of engaging with South Africa and China.

Finally, there should be an explicit assessment by DFID SA in its future programming exercises of the potential to invest ear-marked funds through TMEA. As noted above, in contrast to TMSA, TMEA has been able to crowd-in and harmonize bilateral donor funding. DFID started to fund TMEA from a £20m regional programme in 2008. By 2013, TMEA had developed programmes based on a budget of USD \$500m. TMEA has also developed considerable institutional expertise and experience in working on a wide range of regional trade and integration activities and its design in terms of linking regional and national programmes is very functional for co-ordinating regional integration work (even intra-DFID coordination). One option that could therefore be explicitly considered is for DFID SA and DFID priority countries in SA (Malawi, Mozambique and Zambia) to make investments into earmarked country and sub-regional "funding windows".

At the same time, it is noted that TMEA clearly has a strong historical focus and mandate on East Africa, which some stakeholders may prefer to preserve and not extend. Moreover, TMEA's independent governance structure would mean that DFID southern Africa and country offices would have to negotiate and agree any new partnership and funding arrangements with TMEA's top management and Programme Investment Committee.