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2011 - 2015

(Revised Draft for Regional Team Meeting)

REGIONAL DEPARTMENTS – EAST
(OREA/OREB)

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ACRONYMS AND ABBREVIATIONS

AAP:	African Action Plan
ADB:	African Development Bank
ADF:	African Development Fund
AEC:	African Economic Community
AFT:	Aid for Trade
APRM:	African Peer Review Mechanism
AU:	African Union
AUC :	African Union Commission
CEDAW :	Convention on the Elimination of all forms of Discrimination Against Women
CEMAC :	Communauté Économique des États d'Afrique Centrale
CIDA:	Canadian International Development Agency
CITES:	Convention in International Trade in Endangered Species
COMESA:	Common Market for Eastern and Southern Africa
CSO:	Civil Society Organization
CSP:	Country Strategy Paper
DFI:	Development Financing Institution
DFID:	Department for International Development
DRC:	Democratic Republic of Congo
EAC:	East African Community
EAPP:	Eastern Africa Power Pool
EASSy:	East Africa Submarine System
ECCAS:	Economic Community of Central African States
ECOWAS:	Economic Community of West African States
EPA:	Economic Partnership Agreement
ESW:	Economic and Sector Work
EU:	European Union
FDI:	Foreign Direct Investment
FSAP:	Financial Sector Assessment Programme
FTA:	Free trade Area
GCI:	General Capital Increase
GDP:	Gross Domestic Product
GNI:	Gross National Income
ICT:	Information and Communication Technology
IMF:	International Monetary Fund
IGAD:	Inter-Governmental Authority on Development
IOC:	Indian Ocean Commission
IPPF:	Infrastructure Project Preparation Facility
JICA:	Japan International Cooperation Agency
LIC:	Low Income Countries
MDG:	Millennium Development Goals

MIC:	Middle Income Country
MTS:	Medium Term Strategy
NEPAD:	New Partnership for Africa's Development
NRE:	New and renewable Energy
ODA:	Official Development Assistance
OINF:	Infrastructure Department
ONRI:	NEPAD, Regional Integration and Trade Department
OREA:	Regional East 1 Department
OREB:	Regional East 2 Department
PIDA:	Programme for Infrastructure Development in Africa
PRSP:	Poverty Reduction Strategy Paper
RFI:	Regional Financial Integration
RI:	Regional Integration
RIS:	Regional Integration Strategy
RISP:	Regional Integration Strategy Papers
RMC:	Regional Member Country
RO:	Regional Operation
RPG:	Regional Public Good
SADC:	Southern African Development Community
SDI:	Special development Initiative
SFCD:	Strategic Framework for Capacity Development
SIDS:	Small Island developing States
SME:	Small and Medium-Sized Enterprises
TMEA:	Trade Mark East Africa
UMEOA:	West African Economic and Monetary Union
UNECA:	United Nations Economic Commission for Africa
WB:	World Bank
WTO:	World Trade Organisation

EXECUTIVE SUMMARY

1. **Regional Integration is a core mandate of the Bank as reflected in its Medium Term Strategy (MTS), 2008-2012 and the Regional Integration Strategy (RIS), 2009-2012.** The RIS commits the Bank to preparing Regional Integration Strategy Papers (RISPs) to provide an analytical framework for streamlining regional operations (ROs) in the Bank and to identify Regional Public Goods (RPGs). In accordance with the Bank's regional classification, the region covers 12 countries: Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Rwanda, Seychelles, Somalia, Sudan, Tanzania and Uganda. This RISP is the first to be prepared by the Bank for Eastern Africa. It draws on the analyses and conclusions of various sector studies and benefits from discussions with the country and regional stakeholders. It pays close attention to fragility concerns in the region such as insecurity, cross border conflicts, governance challenges and capacity building, as well as cross-cutting issues related to the environment and climate change.

2. The RISP is underpinned by the Strategic Frameworks of both EAC and COMESA and the COMESA-EAC-SADC (CES) Tripartite Arrangement. Support for the Tripartite Arrangement is a key feature of the RISP. In line with the regional vision of COMESA and EAC and the objectives of the CES Tripartite, the Bank's agenda for Eastern Africa regional integration is to create a well connected, economically prosperous and peaceful Eastern Africa.

3. The Eastern Africa region has the largest number of RECs and intergovernmental regional bodies in Africa. The 12 countries in the region are members of six of the eight RECs recognized by the African Union, with each belonging to 2-4 RECs/regional intergovernmental organizations (IGOs) notably IOC and IGAD that also have strong influence on the regional integration process in the region. This multiple membership feature is counter-productive and often results in duplication of resources and conflicting goals and policies. The CES Tripartite Arrangement is a bold attempt aimed at addressing this multiple membership issue.

4. **Consolidating peace and security and strengthening the democratic process remain a key challenge in the region.** Over the decade, Eastern Africa, especially the Horn of Africa, has been plagued by civil wars, cross-border conflicts, social strife, and arms trafficking. Lately, piracy in Somalia has added a new dimension to the insecurity problem in the region, posing threats to ships navigating the Indian Ocean. Democracy also remains fragile.

5. **Over the decade (2000-2009), economic growth has been strong in the region, with regional real GDP growth averaging 6.6% annually.** The EAC partner states (6.1%) and countries in the Horn of Africa (6.9%) demonstrated strong growth performance, but the island countries (2.9%) lagged other countries, due to the instability in Comoros and past policy failures in Seychelles. Other macroeconomic indicators show mixed performance. Inflation remained at a single digit level, real export growth rates were positive, and external debt was sustainable, while debt servicing burden was relatively low. On the negative side, the fiscal, trade and current account balances were in deficit.

6. In the medium- to long term, the CES Tripartite Arrangement, launched in 2008, will define the vision and regional strategic objectives of both Eastern and Southern Africa. Support for the Tripartite Arrangement is therefore a major focus of the RISP. The tripartite arrangement, covering 26 countries which constitute 50% of the continental population, is a bold initiative aimed at promoting inter-RECs collaboration and trade expansion. The Tripartite Arrangement extends the EAC and COMESA regional integration vision to a larger vision of a single REC at an undefined future date, which is in consonance with the long run continental vision of a United States of Africa.

7. **A number of issues pose challenges for regional integration effort in the Eastern Africa region, but there are also opportunities.** The key challenges include: inadequate and poor regional infrastructure network, water scarcity and difficulty in managing shared water resources, weak institutions and human capacity, and insecurity and political instability. Other challenges are diversity across the economies and divergent country attitudes towards regional integration; as well as widespread and onerous food safety, technical and other standards that have a chilling effect on the agricultural exports of countries in the region. The availability of abundant natural resources offer opportunities for productive activities, while the CES Tripartite arrangement, backed up by political commitment at the highest level of government, offers a major opportunity for concerted effort to upscale infrastructure development and trade expansion in the region. Kenya's vibrant private sector, already operating across the EAC, provides a best practice case for other countries in the region for enhancing the role of the private sector in the regional integration process.

9. **In line with the RIS, the two pillars for the RISP are regional infrastructure and capacity building.** RPGs, private sector development, knowledge management and networking are also covered. The strategy also conforms to the operational thrusts of the Bank Group MTS (2008-2012). To decide on the Bank's priority focal areas within each pillar, a set of selection criteria are applied based on selectivity, Bank's comparative advantage, complementarities among priorities, and areas of intervention of other donors. Within the infrastructure pillar, the strategy will focus on: transport, energy, ICT and development of shared water courses. In particular, the Bank will take leadership in promoting environmental and climate friendly infrastructure development (in the areas of energy and transport), so as to reduce carbon gas emissions. To deliver its assistance, the Bank will mobilize both its sovereign and non-sovereign financing instruments. Within the capacity building pillar, the Bank will provide support to the CES Tripartite process, notably through technical assistance for the harmonization of infrastructure master plans, the Tripartite FTA and the development of Tripartite Strategic Framework. Capacity building activities will also support the infrastructure focus areas of the RISP, especially corridor approach and clean energy development. The Bank will selectively consider investing in undertakings and institutions that augment the capacity of public and private actors to perform their respective roles across the region, for economic growth and development.

10 In line with the agreement during the ADF-12 negotiations, ROs will be screened following a two-step filter. *First*, the areas of focus will depend on (i) the MTS Strategic Thrust and the ADF XII pipeline prioritization; (ii) RECs/NEPAD-AAP priorities and member countries' priority regional projects; (iii) regional growth drivers and related areas of focus; and (iv) lessons learnt and Bank's comparative advantage. *At the second stage*, the Bank will take into account: (i) resource envelope constraints for regional operations; and (ii) continued dialogue with RECs and regional member countries on priorities and selectivity. The projects will further be filtered during implementation.

11. **The Bank will undertake dialogue with the regional and country stakeholders on a number of pertinent issues necessary to enhance the success of regional integration efforts.** These include the need to balance national and regional commitments, and ensure synergy between regional and national priorities; harmonization of policies, regulations and standards; and the need for better commitments to quality implementation of ROs at the level of the RECs and the countries. Others include the need to strengthen multinational operations monitoring teams, and to put in place an effective monitoring and evaluation mechanism for ROs at both the Bank and the RECs level.

12. **Four main potential risks to the successful implementation of the RISP are identified namely:** weak institutional and human capacity of RECs and national implementation units; poor performance of ROs which poses a serious risk to their ability to deliver the expected benefits of regional integration; limited capacity to mobilize the participation of private sector actors in the structures and processes leading to the creation of a regionally integrated market; and insecurity and cross-border conflicts. To mitigate the insecurity and cross-border conflicts risk which negatively impact its operations, the Bank will play a supportive role and coordinate closely with relevant international and regional institutions whose core mandate aimed at promoting peace and security, through a number of opportunities offered by the UN, the AU, IGAD and other Development Partners.

13. **Conclusion: In line with the vision and objectives of the region, the Bank's strategic goal and agenda for Eastern Africa is to create a well connected, economically prosperous and peaceful Eastern Africa.** To this end, the Bank will support the regional integration effort of the region through (i) regional infrastructure development in transport, energy, ICT and shared water courses; and, (ii) capacity building, with emphasis on support for the CES Tripartite process, the sustainability of the infrastructure focus of the strategy and, selectively, institutions, undertakings and stakeholder platforms that augment public and private capacity in enhancing the regional integration process. The Bank will also promote cross-cutting issues (gender, environment and climate change) and knowledge management and networking.

14. **Recommendation**: The Board is requested to approve the strategy proposed in the RISP for Eastern Africa, covering the period 2011-2015.

1. INTRODUCTION

1.1 **Regional Integration is at the core of the African Development Bank's (AfDB) mandate and is a key priority area in the Bank's Medium Term Strategy (MTS), 2008-2012.** In keeping with this strategic thrust, the Board approved a Regional Integration Strategy (RIS), 2009-2012, in March 2009, which commits the Bank to preparing Regional Integration Strategy Papers (RISPs) to provide an analytical framework for streamlining regional operations (ROs) in the Bank and identify the Regional Public Goods (RPGs) for which the Bank could potentially provide funding support. The timing of the preparation of the RISPs is significant since it coincides with the Twelfth Replenishment of the African Development Fund (ADF-12) and the Sixth General Capital Increase (GCI-6) of the Bank, both of which seek enhanced resources for ROs. In the Bank's regional groupings for Africa, the Eastern Africa region covers 12 countries: Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Rwanda, Seychelles, Somalia, Sudan, Tanzania and Uganda.[1]

1.2 Support for the Tripartite Arrangement is a key feature of the RISP. The COMESA-EAC-SADC (CES) Tripartite Arrangement (see section 3.2 and Annex 7), launched in October 2008 with the vision of the three RECs merging into a single REC, is a significant milestone in the regional integration process. In the context of Eastern Africa, this RISP also focuses on the two regional economic communities (RECs), recognized by the African Union, that drive the regional integration process in the region namely, the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA), but also takes into account the role of the Inter-Governmental Authority on Development (IGAD) and the Indian Ocean Commission (IOC) on the regional process. **In line with the vision of EAC and COMESA and the objectives of the CES Tripartite, the Bank's regional integration agenda for Eastern Africa is that of a well connected, economically prosperous and peaceful region, through support for both the public and private sector actors engaged in the regional integration process.**

1.3 The RISP is organized into six chapters. Following this introduction, Chapter 2 presents continental initiatives and African Agenda, Chapter 3 covers regional context and prospects, Chapter 4 articulates Bank Group Strategy for the region, Chapter 5 highlights management and delivery, while Chapter 6 presents conclusion and recommendation. This RISP is the first to be prepared by the Bank for Eastern Africa. It draws on the analyses and conclusions of various sector studies[2] and benefits from discussions with the country and regional stakeholders. It pays close attention to fragility issues in the region such as insecurity and cross border conflicts, governance challenges, climate change, and capacity building.

2. CONTINENTAL INITIATIVES AND AFRICAN AGENDA

2.1 Regional Integration has been part of Africa's strategy for economic transformation since the 1960s and concrete agreements have subsequently been adopted, including the Lagos Plan of Action (1980) and the Abuja Treaty (1991). The Abuja Treaty recommended the rationalization of RECs to address the problem of multiple membership. Using the RECs as building blocks, continental integration culminating in the African Economic Community (AEC) is to be achieved

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[1] Somalia and Sudan are under sanctions with the AfDB for having accumulated arrears on their debt obligations repayments for several years. As a result, the Bank cannot resume normal operations in these two countries unless the arrears are cleared. Nevertheless, the Bank remains engaged, primarily through monitoring of the political and economic situation, capacity building operations, knowledge generation work and dialogue on arrears clearance. In the context of this RISP, the use of instruments suited to the particular situation of these countries will be pursued..

[2] These include studies on the macroeconomic and governance context, energy sector, transport sector, Information and Communications Technology (ICT) and private sector.

progressively[3]. Other initiatives that have been taken include the Constitute Act of the African Union and the New Partnership for Africa's Development (NEPAD). The Eastern Africa region has been taking decisive steps towards the achievement of the continental vision. COMESA and EAC have attained a Customs Union and Common Market status respectively. The programs of both RECs are also closely aligned to the AU/NEPAD African Action Plan (AAP), 2010-2015, anchored on NEPAD's Guiding Principles. The CES Tripartite Arrangement is in consonant with the continental vision. Development partners active in Africa support the continental vision and recognize that regional integration is vital for accelerating Africa's development and poverty reduction prospects. Also, private investors, both foreign and domestic, are stakeholders in the objective of larger and well connected markets and can bring their distinct capacities towards its realization, alongside governments, RECs and development partners.

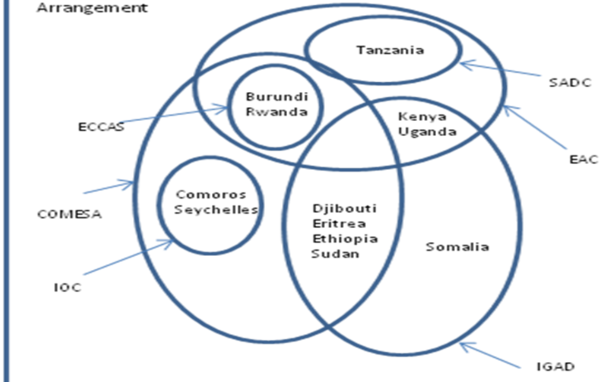
3. REGIONAL CONTEXT AND PROSPECTS

3.1 Special Consideration, Regional Setting, Political, Economic and Social Context

3.1.1 **Special Consideration and Regional Setting:** The countries covered in this RISP constitute a diverse group, with four being landlocked, two island states, and the remaining six with direct access to sea. Of the six countries with port facilities, three of them are either under international sanctions or remain in a state of conflict. The region is also not a monolithic unit, but rather reflects a diversity of cultures, ethnic and religious identities, languages, and autonomus or territorial claims. One challenge to integration in this context is to increase the interconnectivity and trade patterns beyond the current sub-regional blocks, namely, the five EAC Partner States, the five countries in the Horn of Africa and the two Indian Ocean island countries.[4]

3.1.2 Institutional Arrangements in the Region: Eastern Africa is a region with the largest number of RECs and intergovernmental regional bodies in Africa. Nearly all of the 12 countries in the region are members of four of the eight RECs[5] recognized by the African Union. Each of the countries belongs to at least two RECs while some belong to up to four RECs/regional intergovernmental organizations (IGOs). This multiple membership feature (illustrated by figure 1) is counter-productive and often results in duplication of resources and conflicting goals and policies. In addition, East African countries are also members of development finance institutions that span across different regional groupings. These include the PTA Bank, the East African Development Bank (EADB), the Agency for Trade insurance, and other financial institutions with broader regional scope and membership. In this context, trends such as that of the Tripartite Arrangement are encouraging.

Figure1: Overlapping RECs Membership in the Institutional Arrangement



Source African Development Bank, 2009

[3] The intermediate steps are creation of a Free Trade Area (FTA), Customs Union, Common Market and Monetary Union (and ultimately a single currency).
[4] With the exception of Seychelles, all of the countries considered in the RISP for Eastern Africa are classified as ADF countries. Moreover, Burundi, Comoros, Djibouti, Eritrea, Somalia, and Sudan qualify for the Fragile States Facility since their composite averaged AfDB and World Bank's Country Policy and Institutional Assessment (CPIA) score is 3.2 or below.
[5] The eight RECs are CEMAC, CEN-SAD, COMESA, EAC, ECCAS, ECOWAS, SADC and UEMOA.

3.1.3 <u>Political Context</u>: Consolidating peace and security and strengthening the democratic process are critical for the region to be able to attract FDI, enhance growth and reduce poverty. Over the decade, Eastern Africa has been plagued by civil wars, cross-border conflicts, social strife, and arms trafficking. These include the prolonged civil strife between Northern and Southern Sudan and the conflict in Darfur; the two wars and continued uneasy relationship between Ethiopia and Eritrea; the long standing social strive in Somalia; the conflict in Northern Uganda; and the intermittent outburst of civil conflicts among the various constituent islands of Comoros. The situation along the border between Rwanda and the Democratic Republic of Congo (DRC) also remains restive. Lately, piracy in Somalia has added a new dimension to the insecurity problem in the region posing threats to ships navigating the Indian Ocean.

3.1.4 The region has made significant strides in strengthening political stability, civil liberty and openness. Nevertheless, the system of democracy remains fragile. While election processes have been reinforced, credibility of political institutions and election outcomes remain a major challenge. The outcomes of the 2011 and 2012 planned elections in a number of countries[6] and a referendum in Southern Sudan will exert significant medium- to long-term impacts on peace and political stability in the region. These elections will be a real test of the democratic process in the region. Given the periodic lapses into domestic and multi-country conflict, the region is vulnerable to negative investor perceptions, which entails expectations of high return on equity to compensate for the high risk profile. Ultimately, the ability for countries to fully benefit from intra-regional trade in the integration process is dependent on peace and security in Eastern Africa,

3.1.5 The AU, COMESA, EAC, IGAD and IOC have been implementing conflict prevention and arbitration systems in line with the AU's African Peace and Security Architecture with some degree of success. There are also country level initiatives to combat piracy and provide peacekeeping forces with a view of resolving the conflicts in the region.[7] Peace and security is not a core mandate of the Bank. However, even though the Bank is apolitical, it plays a supportive role especially with respect to dialogue and coordination and takes advantage of initiatives by other partners whose core mandate is of peace and security.

3.1.6 **<u>Economic Performance and Growth Drivers</u>: In terms of weight, the Eastern Africa region comprises about 26% of Africa's population, 16% of the combined GDP of Africa in 2009 current prices, and 22% of the continental landmass.** The region thus represents an important market which potentially offers opportunities for trade expansion, growth and poverty reduction in member countries, if well integrated. Figures 2-7 below illustrate the key macroeconomic features of the region.

3.1.7 On balance, the region weathered the global economic crisis relatively well with positive real growth (5.8%) achieved in 2009[8], Regional GDP growth was propelled by rising oil output in Sudan[9]; mineral exports in Ethiopia and Tanzania, and reform efforts by countries in the region. Kenya is the regional trade hub (see Figure 11) and the transport link to the world for many of the

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[6] In 2011, elections will be held in Djibouti, Uganda and Seychelles (Presidential election). In Comoros, the election was postponed to December 2010, after a period of political tension and disagreement of the parties involved. IN Kenya, the next general elections under the new Constitution will be held in 2012.

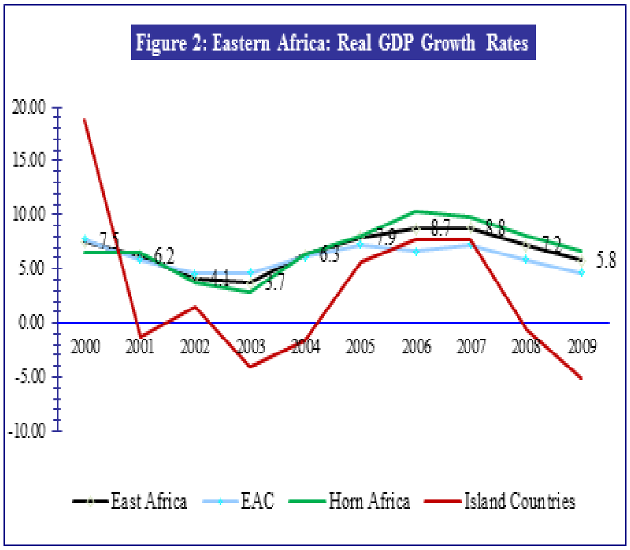
[7] Djibouti and the Seychelles has made its land and port facilities available to foreign powers including US, Japan and EU in combating piracy in the Gulf of Aden. Seychelles has also amended it penal code to allow for the prosecution of pirates, including those captured by the EU naval forces outside Seychelles' waters. Moreover, a number of countries maintain peacekeeping troops in Sudan and Somalia.

[8] albeit below the convergence rate of 7% for EAC

[9] Sudan's contribution to regional GDP growth is expected to decrease over time unless new oil reserves are discovered given a decline in oil production.

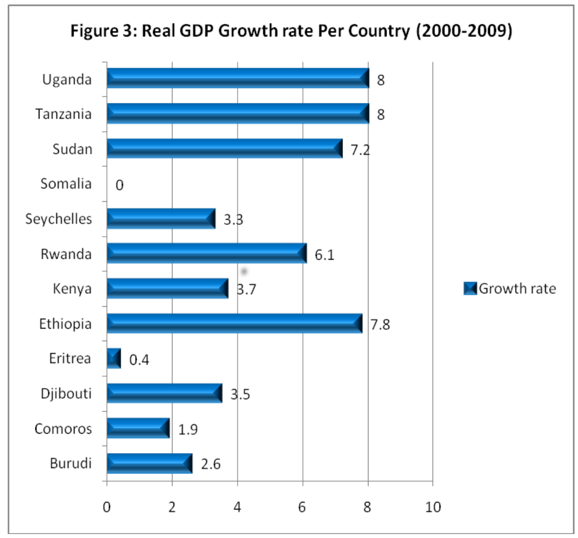
countries in the region. Efforts to integrate markets would boost demand for goods manufactured in the region thus enhancing economic diversification and leading to more robust growth. It will be reinforced trough improvements in ICT and a more robust services sector. The recent hike in commodity prices (oil and minerals), which has benefited natural resources rich countries (Sudan, Ethiopia and Tanzania), with growth staying strong in these countries, posits good prospects for enhanced medium-term growth in the region.

In general, regional growth performance over the decade has been strong particularly in the EAC and the Horn, but the island countries lagged behind the two groups.



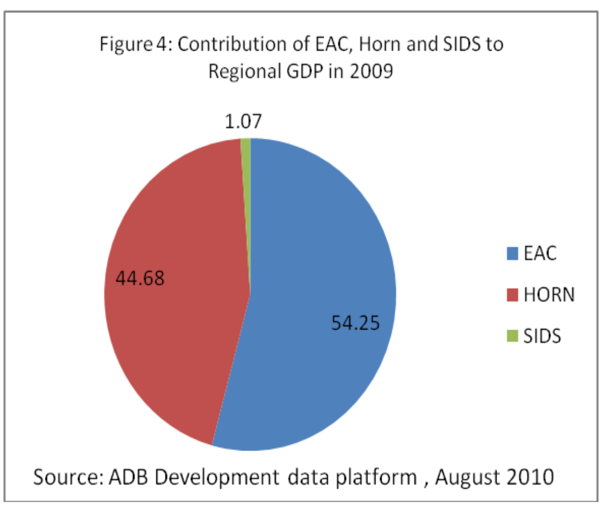
Source: ADB Development data platform, August 2010

Uganda, Tanzania, Ethiopia and Rwanda, with over 6% average annual real GDP growth rates from 2000-2009, drive the regional growth process.

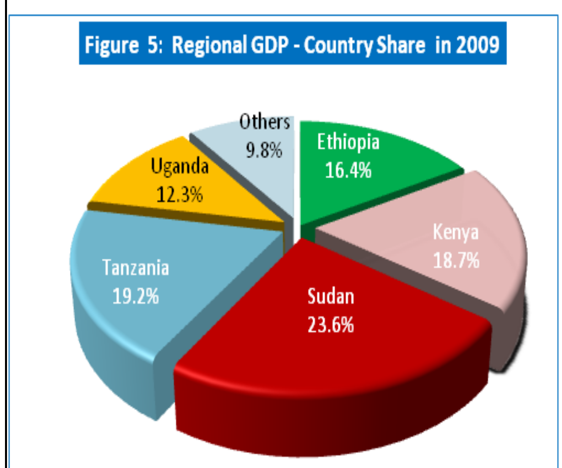


Source: ADB Development data platform, August 2010.

The EAC and the Horn contributed about 54% and 45% of regional GDP respectively in 2009.



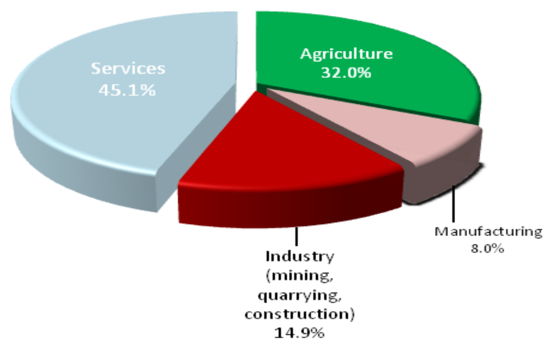
...and Sudan, Tanzania, Kenya, Ethiopia and Uganda have the highest shares of regional GDP in 2009.



Source: ADB Development data platform, August, 2010

Services (45.1%), agriculture (32%) and minining and quarrying (14.9%) drive the regional growth process, while the contribution of manufacturing (8%) is still smal and could be improved through economic diversification.

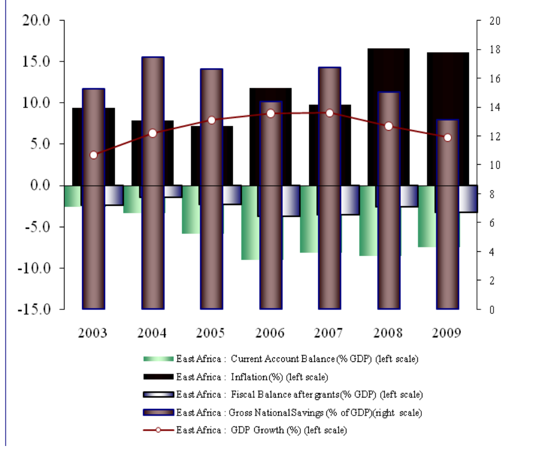
Figure 6 : Sector contribution to Regional GDP in 2009



Source: ADB Development data platform, August 2010

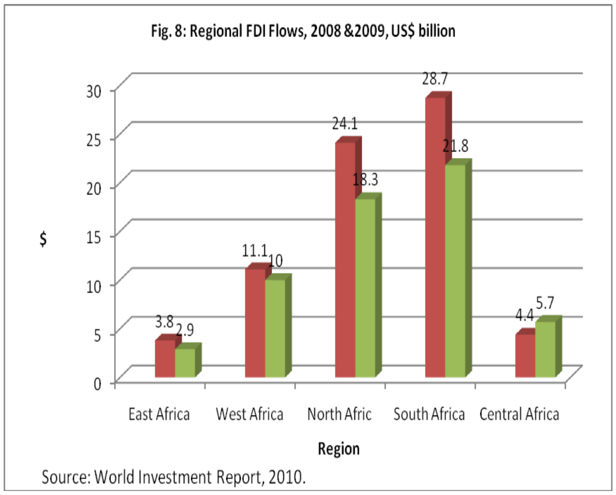
The other macroeocnomic indicators showed mixed performance with single digit inflation rate, positive real exports/GDP ratio and sustainable external debt. Negative fiscal, trade and current account balance pose a challenge for macroeconomic convergence and hence the integration process.

Figure 7: Macro Indicators

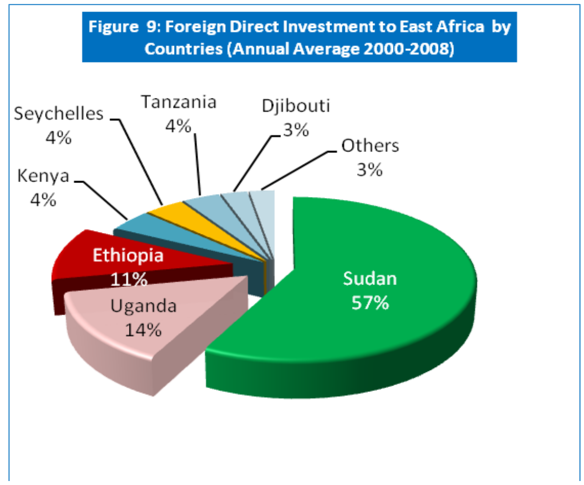


Source: ADB Development data platform, August 2010.

3.1.8 **<u>Foreign Direct Investment</u>:** Among the five African regions, Eastern Africa was the lowest recipient of foreign direct investment (FDI) in 2008 and 2009 (Figure 8) due to supply side factors, notably instability and governance challenges, in the region. FDI is more likely to flow to a peaceful and stable economy, with sound legal/regulatory framework, governance safeguards and good infrastructure. In terms of FDI flow to the individual countries in the region, Sudan attracted the highest share (57%) in view of foreign investments in the oil sector, followed by Uganda (14%) and Ethiopia (11%), while the shares of the other countries were limited to 4% or below (Figure 9). FDI flows to the region is likely to improve in the medium term due to several factors including: (i) potential new investment flow to oil and mineral exploration in Sudan, Uganda and Ethiopia; (ii) intensified economic reforms in the area of business environment led by Rwanda; (iii) the pipeline of large infrastructure projects in the context of the Central, Northern, North-South corridors and corridors in the Horn; and (iv) potential investments requirements for developing the abundant hydropower resources in the region and backbone interconnectors. These large infrastructure investments are expected in the form of public-private-partnerships (PPPs). Although the resource potential may mobilize foreign capital, it is important to note that the investment climate for foreign capital investment continues to lack predictability, particularly in the realm of extractive industries with speculative behaviour to secure concessions racing ahead of policies development.



Source: AfDB Development Data Platform, August 2010



3.1.9 **<u>Regional Financial Integration</u>:** Financial markets integration in Eastern Africa is uneven. While in the EAC, some of the countries in the Horn and in the island countries, Liberal access to foreign banks and cross-border ownership of banks are allowed in most of the countries in Eastern Africa[10]. For example, Kenya banks have opened subsidiaries in Rwanda, Sudan and Uganda. The past decade has also seen the appearance of emerging pan-African banks in the region. The role of these institutions in facilitating intra-continental trade and investment cannot be understated. Several regional commercial banks in the region have adopted a market development model combining the setting up of subsidiaries at country level with an attempt to develop regional linkages between their clients and their undertakings. This regionalization of the financial sector is arising in the context of higher capital requirements and consolidation at the global and national level, which allows relatively stronger banks and financial institutions to take advantage of increasing levels of liberalization and opening of domestic markets.

3.1.10 Even though efforts are being made to strengthen national level regulatory frameworks and supervision, without harmonized regulations governing the structure and terms of financial products, the development of uniform products for cross-border transactions and associated economies of scale will be difficult to achieve. Also, in the absence of cross-border credit information, which enhances lenders' ability to collect debts effectively and with certainty, domestic commercial banks may find it difficult to compete in the larger regional market. From a supervision perspective, it is unclear that the Central Banks effectively monitor the exposure of commercial banks' holding companies that have lending operations or subsidiaries across a number of countries. Stock exchanges have also been established in several countries, but cross-border listings are limited.[11]

3.1.11 The EAC has developed a financial integration policy, with the objective of creating a single harmonized market in financial services. A recent assessment of progress made in this regard by the EAC Monetary Affairs Committee (MAC)[12] showed that Partner States have made progress in modernizing and integrating payment and settlement systems. In this regard, countries are implementing Real Time Gross Settlement System (RTGS) and promoting interconnectivity of

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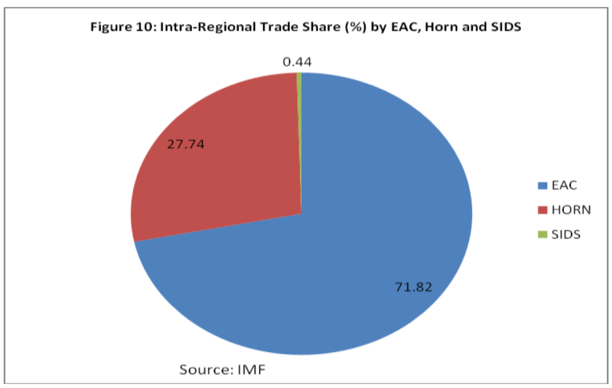
[10] Eritrea and Ethiopia are exceptions.

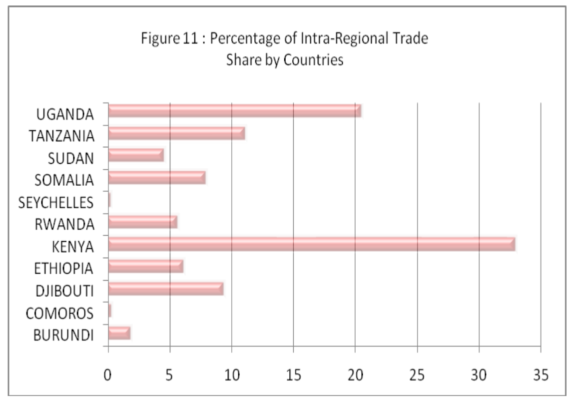
[11] Apart from Kenya, stock markets are characterized by few market participants, low capitalization, and low trading volumes.

[12] Monetary Affairs Committee (MAC) – Committee of EAC Central Bank Governors - Communique of the 13th MAC Meeting held in Arusha, Tanzania, May 10, 2010.

payment card switches, which will play a key role in facilitating regional trade. In terms of banking supervision, there has been progress in promoting safe, sound, efficient and inclusive financial system. Specific measures being taken include developing and operationalizing legal and regulatory frameworks for anti-money laundering, credit information sharing, microfinance, risk-based supervision, supervision coordination, and cooperation in Business Continuity Management. Going forward, MAC urged countries to strengthen crisis management and resolution frameworks to provide effective response to global financial crisis.

3.1.12 **Trade:** The average share of intra-regional trade in total trade in Eastern Africa during the period 2000-2008 was 9% (see Annex 5). Among the three groups in the region, the EAC Partner States dominate intra-regional trade flow with a share of 71.82%, followed by the Horn of Africa (27.74%). The island countries have a lower share of trade of 0.44% (Figure 10), illustrating their limited trade link with the mainland. The EAC Trade Protocol contributed to the better trade performance of the sub-group.[13]





Source: IMF

3.1.13 Comparative RECs' trade data over the period 2003-2007 reveal low intra-regional and intra-African trade, with more emphasis on trade with the rest of the world (Table 1). Both EAC and COMESA trail behind SADC in terms of intra-regional trade, but both performed better than SADC and the other RECs in terms of trade with the rest of Africa. COMESA FTA has had a positive effect on trade in the FTA member countries. In general, intra-COMESA trade grew by an annual average of 31% during the period 2004-2008, while trade among FTA member countries grew by over 39% annually. The FTA has in particular facilitated trade in the tea, sugar, and tobacco sectors, while trade among FTA countries exceeded trade with other regions in the same commodities. Furthermore, intra-industry linkages have developed significantly, as trade in semi-manufactured goods between FTA members has overtaken trade in similar products with the rest of the world. The EAC Common Market, which came into force on 1 July 2010, is also expected to further enhance intra-EAC trade. During this phase, partner states will undertake a variety of trade and trade facilitation measures including elimination of tariff, non-tariff and technical barriers to trade; implement harmonized standards; adopt an integrated border management system and eliminate restrictions on movement of labour, services and service suppliers and capital. The proposed CES FTA will further expand intra-regional trade in Eastern and Southern Africa.

[13] Regarding the share of the individual countries (Figure 11), Kenya is the regional trade hub accounting for 33% of intra-regional trade, followed by Uganda (21%) and Tanzania (11%). Kenya's trade performance is influenced by a relatively more developed private sector.

Table 1: Comparative RECs Regional Trade Flow, 2003-2007

	Within REC		Outside REC – Africa		Others – Global	
	Export	Import	Export	Import	Export	Import
CEMAC	0.9	5.2	2.7	8.9	96.4	85.9
COMESA	8.7	11.1	8.6	17.2	82.7	71.7
EAC	12.6	18.7	7.2	9.9	80.2	71.4
ECCAS	0.7	3.8	2.2	14.0	97.1	82.2
ECOWAS	13.9	15.8	5.5	5.2	80.6	79.0
SADC	19.9	33.1	2.3	2.6	77.8	64.3

Source: JICA Study Report 2009 (Prepared by the Study Team from UNECA, Assessing Regional Integration in Africa, 2008)

3.1.14 However, significant trade barriers still exist. The lack of harmonized instruments governing trade and market integration programmes means that each REC has its own different rules of origin and certification process, which tend to limit inter-RECs trade. Cumbersome trade logistics due to multiple roadblocks along transport corridors and time wasting border procedures result in excessive delays and high transit costs. Efficient customs operations are hampered by excessive documentary requirements, insufficient use of automated systems, and lack of cooperation among customs and other governmental agencies. In view of these factors, the trade logistic perception rankings for Eastern Africa countries are the lowest in the world as at 2010[14].

3.1.15 **Competitiveness and Business Climate**: The World Economic Forum 2010 Global Competitiveness Report placed Eastern Africa region within the African average in terms of competitiveness of economies and regions (Figure 12). Kenya, ranked number 98 globally among 133 countries, was the topmost performer in the region and in Africa (see Annex 6a). Kenya performed especially well in the areas of financial market sophistication (37), labour market sophistication (40), innovation (48), business sophistication (59) and goods market efficiency (73). With the accession of the EAC to a common market status and the on-going efforts to improve the regional policy and the infrastructure environment, Eastern Africa is likely to attract more investment and become more economically competitive.

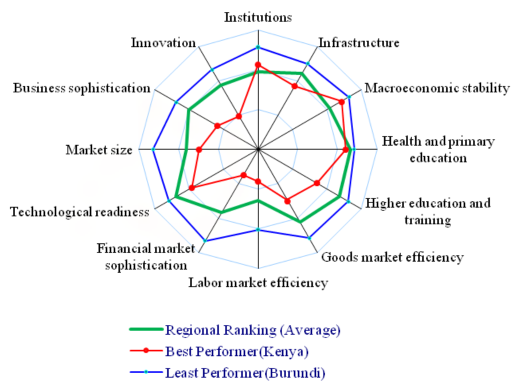
3.1.16 Ease of Doing Business Rankings (Figure 13) show that, on the average, the performance of the Eastern Africa region is not particularly impressive, aligning closely with that of the least performer (Burundi). However, in terms of best practice in the region, Rwanda which ranked 67 globally among 181 countries (see Annex 6b) has become a top global reformer, the first Sub-Saharan Africa (SSA) country to be so named, by enacting sound business policies and removing bottlenecks that hamper the establishment and operation of small-to-medium size firms. Rwanda has made it easier to start businesses (reducing number of procedure from 8 to 2 and the length of time it takes from 14 days to 24 hours), register property, protect investors and access credit, while also improving the working condition. On a more integrated Eastern Africa, a positive regional pace setting action by Rwanda can have spill over effect on the region as a destination of FDI.

3.1.17 However, in most of the region, the state remains the primary driver of capital formation and investment. With about a third of gross capital formation derived from private investment, Djibouti and Seychelles are notable outliers. At the other end of the scale, is Burundi, with less than two percent of gross capital formation being driven by the private sector. While these figures do not capture the value of capital formation generated by the informal sector, the diversity in share of capital formation brought by private investment throughout the region reflects unevenly

[14] African Infrastructure Country Diagnostic (AICD), East Africa's Infrastructure: A Regional Perspective. July 2010.

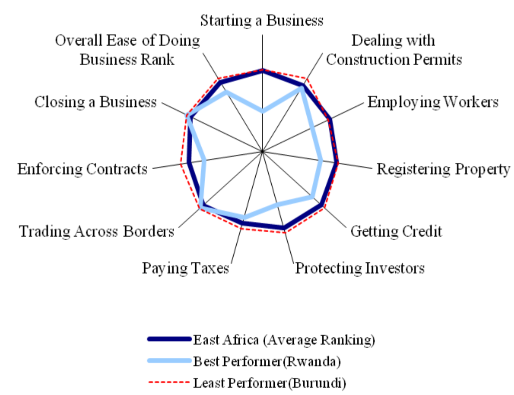
enabling business climate affecting the ability of private investors (both domestic and foreign) to channel capital into economic activities at the country and regional level.

Fugure 12: Global Competitiveness Index (Ranking 2010)



Source: World Economic Forum, 2010

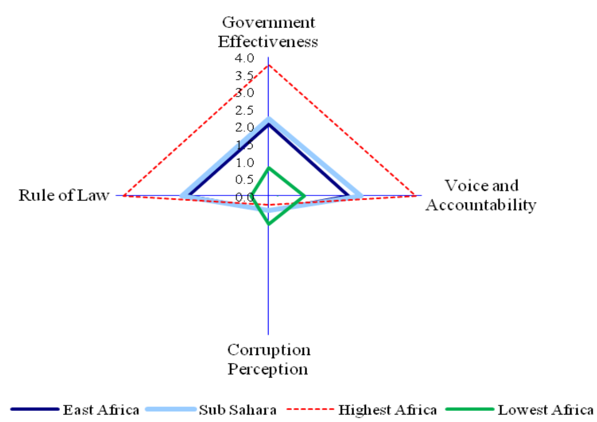
Figure 13: Ease of Doing Business (Ranking 2010)



Source: World Bank Doing Business, 2010

3.1.18 **<u>Governance</u>**: Figure 10 presents a composite view of relative Governance situation in Eastern Africa, in terms of Government Effectiveness, Rule of Law, Voice and Accountability and Corruption Perception. The region's performance mirrors the generally poor governance situation in the SSA, which is particularly poor in terms of corruption perception. The democratic system also remains fragile (see paragraph 3.1.4). However, on the positive side, several Eastern Africa countries including Ethiopia, Kenya, Rwanda, Tanzania and Uganda, have acceded to the African Peer Review Mechanism (APRM) in their effort to subject their governance systems to peer review. The APRM assessments have indicated that several dimensions of governance, including the adoption of international standards in public taxation and revenue management, are being assigned increasing importance in the public sector management processes in many countries in the region. The Bank is supporting countries in addressing these critical economic and financial governance challenges primarily at the national level, through institutional support and reform programs aimed at improving public financial management as well as accountability and transparency safeguards.

Figure 14 : Governance (Score 0-4)



Source: World Bank - World Governance Report, 2010

3.1.19 **<u>Social Context</u>:** The challenge in Eastern Africa is to develop cost-effective and sustainable safety net for the poor and social security for the vulnerable, ensuring that the people of the region have access to basic healthcare and job security and food security, Over 50% of Eastern Africa population live below the poverty line defined as less than US$1 per day. Access to basic social services, especially water and sanitation, is also a major challenge. The conflict situation in the region also makes the refugee problem a major challenge. Notwithstanding the above, most countries in the region have made progress. There has been a significant success in reducing communicable diseases (polio, malaria, etc). While HIV/AIDS continues to impacts not only the health sector, but potentially economic development, there is a general trend of stabilizing or declining adult (15-49 years) HIV prevalence in Eastern Africa. In the mid-1990s, HIV prevalence rate was up to 14% of the adult (15-49 years) population in most countries. According to UNAIDS, surveys carried out in different countries between 2005 and 2006 revealed lower national adult prevalence of 6.7% in Uganda, 6.5% in Tanzania, 5.1% in Kenya, 3.3% in Burundi, 3.1% in Rwanda, 2.4% in Eritrea and 1.4% in Ethiopia, amid evidence of changing behavior (abstinence, use of condoms and decrease in percentage of adults with multiple partners). Programs in place in Eastern Africa to combat the HIV/AIDS pandemic include IGAD's Regional HIV/AIDS Partnership Program for the Cross-Border Mobile Population as well as the EAC and COMESA regional HIV/AIDS programs. Development partners active in the area of HIV/AIDS include the World Bank, UNAIDS, EU, USA, Global Fund and the Gates Foundation.

3.1.20 Despite positive economic growth in the past few years, reaching the Millennium Development Goals remain a challenge in Eastern Africa. On the positive side, most countries in the region will most likely meet the MDG for education. However, the quality of education has not kept pace with the region's development needs or the capacity to adapt new industrial technology. Consequently, the EAC Partner States have agreed on common objectives to revamp the education system with universal primary education and improved quality as common goals.

3.1.21 **Gender**: All countries in the region, with the exception of Somalia and Sudan, have ascended to the Convention on the Elimination of all forms of Discrimination against Women (CEDAW). However, while the international legal protections are in place, gender equality remains a challenge in practice. To address this challenge, both the EAC and COMESA have frameworks aimed at gender equality, gender equity and gender mainstreaming into development policies, programs and activities. The EAC Gender Strategic Plan addresses key strategic issues including inadequate policy and legislative framework for gender equality; gender disparity in power, resource distribution and socio-economic opportunities; inadequate gender expertise and gender disaggregated data; and gender-based violence. COMESA Gender Policy (2002) aims to promote effective integration and participation of women at all levels of development, especially at the decision-making level; and to eliminate regulations and customs that are discriminatory against women, especially those which prevent women from owning land and other assets. It also aims to promote effective awareness programs directed at changing negative attitudes towards women. Despite government's firm commitment to gender equity, gender disparity remains pervasive in Eastern Africa.[15]

3.1.22 **Environmental Context: Environmental resource issues and challenges are by nature trans-boundary.** Issues such as deforestation, land degradation, and illegal logging affect many countries in the region. Therefore, ensuring adherence to international standards of forest management will help alleviate these problems. Trans-boundary wildlife corridors must be maintained for migratory species and a coherent approach adopted for the maintenance of wildlife numbers through initiatives such as the Convention in International Trade in Endangered Species (CITES). Conservation and sustainable management of marine and inland fisheries as well as shared water courses require regional approach since most of these resources are shared among various countries. **Climate change is complicating the environmental problem and eroding decades of hard-won development**

[15] It should be highlighted that Burundi, Rwanda and Eritrea have made dramatic gains in terms of ensuring gender parity in government and decision-making positions.

achievements in Eastern Africa.[16] It has negatively impacted on water resources availability, food security, costal development, biodiversity, tourism and human health. The EAC has developed a climate change policy, which provides for the establishment of a climate change fund to help countries to mitigate the effect of climate change.

3.2 Regional Strategic Objectives

3.2.1 **The Tripartite Arrangement**: In the medium- to long-term, the regional integration agenda in Eastern and Southern Africa will be driven by the CES Tripartite Agreement, which has as its vision an expanded market and merger of the three RECs into one at an unspecified future date. The tripartite arrangement which covers 26 countries accounting for about 56% of the population and some 58% of the combined GDP of Africa in 2008, is a bold step to resolve the problem of multiple country membership in the three RECs. Its strategic objectives include the expansion of intra-regional trade and the promotion of inter-RECs collaboration in the form of joint planning, resource mobilization and project/program implementation. The key provisions of the Tripartite Arrangement are: (i) establishment of the CES Tripartite Free Trade Area (FTA) to promote deeper trade integration; (ii) development of joint infrastructure programs, financing and implementation; (iii) design of joint programs for agricultural development and food security; (iv) development of programs to enhance movement of business persons, labour and services across the region; (v) harmonization of legal and institutional framework; and (vi) preparation of common regional positions and strategies in multilateral and international trade negotiations. The draft FTA Agreement prepared by the Joint Task Force proposes the following roadmap: a preparatory period for consultations at national, regional and the tripartite level from early 2010 up to June 2011; a final Tripartite FTA Agreement by June 2011 and signature by July 2011; the launching of the Tripartite FTA in January 2012; and putting in place an autonomous CES Tripartite FTA Secretariat in January 2013. This timeframe however appears too ambitious and some of the timelines have already been missed. The roadmap is being revised to shift the launching of the FTA to 2014 or 2015. More details in the Tripartite Arrangement, including achievements to date, are presented in Annex 7.

3.2.2 **EAC Strategic Framework:** The EAC integration process is guided by the Treaty establishing the Community, which entered into force on 7 July 2000. The vision of EAC is to have a prosperous, competitive, secure and politically united Eastern Africa. The objective according to Article 5 (1) of the Treaty, is to develop policies and programmes aimed at widening and deepening cooperation among the Partner States in political, economic, social and cultural fields, research and technology, defence, security and legal and judicial affairs for mutual benefit. The EAC Development Strategy (DS), 2006-2010, the third in the planning cycle, spells out the policy guidelines and priority programmes of the Community. The DS emphasises economic cooperation and development with a strong focus on infrastructure, social dimension and the role of the private sector and civil society in the regional integration and development process. The EAC Common Market Protocol, which entered into force on 1 July 2010, calls for the scaling up of the services sector and making it more robust and buoyant, cross-border capital movements, free movement of labour, and free movement of people within the region. The groundwork for the EAC Monetary Union is also being prepared by ensuring macroeconomic convergence, harmonisation of monetary and fiscal policies, and financial markets integration.

[16] Increasingly, sea-level rise affects coastal areas of Kenya and Tanzania and the island countries. Coral reef loss is a significant cause of coastal erosion and a major coastal management issue in both Kenya and Tanzania.

3.2.3 **<u>COMESA Medium-Term Strategic Plan (MTSP)</u>:** The vision of COMESA as spelt out in its Treaty is "building a fully integrated internationally competitive regional economic community in which there is economic prosperity; political and social stability; and free movement of goods, services, capital and labour across national geographical borders". The draft 2011-2015 MTSP of COMESA outlines six strategic objectives: (i) removing barriers to factor mobility, (ii) building capacity for global competition, (iii) addressing supply side constraints related to infrastructure, (iv) peace and security, (v) cross cutting issues, and (vi) institutional development. In line with these strategic objectives, the draft MTSP outlined five priority areas namely, building regional productive and technological capacity, infrastructure development, cross-cutting issues (including gender and social development and climate change), strengthening cooperation and partnership; and institutional development. The draft Plan includes a results framework and the indicators to be used to monitor and evaluate the performance of the Plan. As part of the preparatory process for the establishment of a Monetary Union, COMESA is also in the process of putting in place a Multilateral Fiscal Surveillance Framework, through the support of the Bank.

3.3 Main Challenges and Key Opportunities

3.3.1 Main Challenges to Regional Integration in Eastern Africa

3.3.1.1 **Inadequate and poor regional transport infrastructure network limit economic growth and trade expansion:** Infrastructure bottlenecks such as the poor road network and inefficient railway system must be proactively addressed if Eastern Africa is to integrate further and attain the competitiveness to underpin substantial economic growth through trade expansion. The regional transport infrastructure is weak and laced with missing links and incompatibilities in the regional systems. As a result, the different networks are not optimally utilized thus limiting opportunities to achieve the economies of scale necessary to attract and sustain private investment to distinct sections of network. The railway system has weak tracks due to old age and lack of maintenance, different gauges of tracks preventing seamless regional connectivity between Eastern and Southern Africa, and a shortage of serviceable rolling stock limiting operational performance. Rail companies which own the tracks do not have the fiscal space to invest in upgrading existing or developing new rail networks. Poor quality of road networks constitutes an added cost disadvantage. Some roads also have incompatibility problems, with some designed for higher axle load limits than others. Cumbersome trade logistics and regional variations in technical standards constitute transit challenges (see paragraph 3.1.13). The major international seaports in the region (Dar es Salaam and Mombasa) face capacity constraints, resulting in congestion and berthing delays that hamper trade.

3.3.1.2 **In spite of its abundant energy resources (see paragraph 3.3.2.1) Eastern Africa faces an energy deficit, which limits productive capacity**. Eastern Africa has a diversity of energy resources including hydro, oil, gas, coal and NREs. The main land of Eastern Africa region with population of about 270 million has huge energy market including the demand from households, commercial, industrial and mining sectors. However, Power generation capacity is relatively low as are per capita generation and access to electricity. Due to a shortage of financial resources, the region has not sufficiently invested in new energy infrastructure (generation plants, transmission lines and distribution networks), necessary for sufficient, reliable and affordable power supply. The grid bottlenecks indicate lack of up-keep, maintenance and renovation on the existing networks. Although many of the countries in the region have adopted energy policies and established regulatory frameworks to liberalize the electricity supply industry and have enacted environmental laws to ensure conservation and protection of the environment, the existing laws and regulations have some weaknesses or grey areas, which tend to deter investment and promotion of regional power trade.

3.3.1.3 **ICT Infrastructural Constraints**: While investment in ICT infrastructure in the region, and indeed the whole of Africa, has improved significantly, it has primarily focused on mobile infrastructure and access, leaving significant gaps in ICT backbone networks[17]. Yet, ICT, in particular broadband networks, are increasingly recognised as fundamental for economic and social development. A recent study indicates that economic growth up to 1.3 percentages points can be achieved through investment in broadband networks. In addition,, effective high-speed internet services needed for e-application in government, business and domestic use continues to be either very expensive or unavailable. Where available, the cost of broadband internet access is exorbitant[18]. Although the GSM coverage is relatively high, the Eastern Africa region lags behind other Africa regions on intra-regional roaming arrangements. Importantly, ICT infrastructure presents a significant opportunity to leapfrog paper-based business models across a range of economic sectors, in particular by significantly reducing the transactional costs of economic and financial exchanges within and across borders.

3.3.1.4 **Weak Institutions and Human Capacity limit effectiveness of RECs**: Inadequate capacity and resources among countries, RECs and IGOs, such as IGAD and the IOC, have made it difficult to plan, coordinate, and monitor the processes required to further integration. For example, both the EAC and COMESA Secretariats operate as the executive arms of their respective RECs while the authority for real decision and policy making rests with the Summit of Heads of State and the Council of Ministers. Linked to this is the reluctance of countries to cede some sovereignty to regional bodies, resulting in a situation where the REC secretariats have very little power to actually get things done. The RECs and IGOsalso lack technical and human capacity to design sound ROs, especially complicated corridor investment projects, and relevant monitoring and evaluation mechanism for ROs. At the country level, there is a lack of capacity for implementing ROs and corridor investment projects. Both at the national and regional level, there is also a lack of adequate capacity to negotiate international trade and other technical agreements (e.g. WTO Doha; EPAs with EU).

3.3.1.5 Divergent attitude towards regional integration hampers progress: In many cases, regional concerns and priorities are not reflected in national strategic frameworks. In addition, there is a tendency for Governments to resist ceding sufficient authority to the RECs and enacting the proper legislation and regulations necessary to guide the integration process.

3.3.1.6 **Insecurity and political instability pose serious obstacles to effective and deeper integration of the region.** Political strife is a regional public "bad' that frightens investors, inhibits development and stifles economic growth. In addition, the bombings in northern Uganda and the acts of piracy off the coast of Somalia further create the perception that the region is not a safe place for business. These conflicts consume resources that could otherwise be channelled into productive activities. Collaborative efforts leading to *detente* and ultimate resolution of conflicts will strengthen the regional integration process.

3.3.1.7 **Lack of complementarity and similar comparative advantage hamper progress.** The countries in the region have similar resources and their economies are largely based on similar activities. Thus, they do not complement each other sufficiently well and as a result compete in

[17] Connect Africa Summit. Broadband Infrastructure in Africa (background paper) 29-30 October 2007.
[18] Generally in Africa, cost is on the average three times higher than that of Asia.

same markets. This situation impacts on the ability of the countries to trade internally within the region and with other regions. The challenge is for countries to identify complementary areas of activities based on their comparative advantage and diversify into them.

3.3.1.8 **Water scarcity and management of shared water resources remain major challenges in Eastern Africa.** Water distribution in the region is varied and spatial with precipitation ranging from 700mm/yr in Kenya to 1200mm/yr in Uganda. According to the 2006 United Nations World Water Development Report, countries in the region ranked poorly in terms of water availability per person per year. For example, Uganda was ranked 115, Ethiopia 137 and Kenya 154 out of 180 countries covered. While Eastern Africa freshwater resources account for only 4.7% of Africa's total, the region is home to 19% of the continent's population. Thus, rising population contributes to the perennial water shortage problem which reduces agricultural productivity and access to clean drinkable water. Lake Victoria and the Nile basins are good examples of how riparian countries can cooperate in the use of shared water resources.[19]

3.3.2 Opportunities for Regional Integration

3.3.2.1 **Eastern Africa is endowed with abundant natural resources, including rich arable land, water basins, and minerals such as oil, gold, precious stones and hydropower potential.** The region is home to a variety of exotic wildlife, beaches, lakes, waterfalls and is rich in forests, woodlands and orchards that produce timber and abundant marine life. These natural resources offer opportunities for productive activities and eco-tourism. Lake Victoria is the second largest freshwater body in the world with major ecological, economic and social significance. The region is also rich in energy resources accounting for about 70% of geothermal, 16% of hydropower, 7% of oil, 4% of coal and 2% of gas resources of the continent, thus offering opportunities for resolving the energy crisis in the region if a regional approach is adopted. The geothermal resources are located in Djibouti, Kenya and Ethiopia. Ethiopia accounts for 70% of the regional hydropower resources, followed by Sudan (14%), Tanzania (7%) and Uganda (5%). Oil reserves, which account for about 7% of continental reserves, are located in Sudan and Uganda while gas reserves are located in Sudan, Tanzania, Rwanda, Somalia and Ethiopia.

3.3.2.2 **The CES Tripartite arrangement offers a major opportunity for concerted efforts by the three RECs and their Development Partners to upscale infrastructure development and intra-regional trade.** The Tripartite Summit, held in October 2008, among other issues, directed the three RECs to put in place a joint programme for the implementation of a single seamless upper airspace and accelerated infrastructure network. The RECs were also directed to harmonise policy and regulatory framework for ICT infrastructure development, their Regional Transport Master Plans and Energy Master Plans, as well as their Priority Investment Plans. They are also to device joint financing and implementation mechanisms for the joint programmes. The Tripartite Summit also approved the expeditious establishment of the CES Tripartite FTA, which would take into account the principle of variable geometry allowing each country to move at its own speed. The plan to develop sector strategies to complement the FTA also offers an additional opportunity to boost production and trade capacity. The decision taken by the Tripartite Summit represents a major political support for the regional integration effort in Eastern and Southern Africa.

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[19] The protracted Nile Basin Agreement also illustrates the difficulty of dealing with shared water resources. The countries of the Nile Basin negotiated for 13 years to craft a new agreement (still boycotted by Egypt and Sudan) regulating the use of Nile waters. It replaced the colonial agreements - the 1929 and 1959 Agreements - which gave Egypt and Sudan extensive control over the Nile water, a situation deemed unfavourable by the upstream countries.

3.3.2.3 **A vibrant private sector plays a critical role in stimulating the regional integration process and in propelling a private sector led growth.** While the private sector is still at a nascent stage in many of the countries in the region, it can play a key in enhancing the regional integration process. Government and the national/regional Chambers of Commerce and Business Councils are also already interacting in the region, but the contact has to extend beyond information sharing to involvement in policy making and programme implementation process. P**rivate sector involvement in the regional integration process will also assist regional infrastructure development.** The private sector serves as an additional source of financing and ideas for infrastructure and real trade development. Private sector advice is also critical for strengthening trade and investment policies and the identification of the right set of priorities. The vibrant private sector in Kenya is a best practice case which can provide lessons of experience for the other countries. The Bank will intensify contact with the private sector bodies active in Eastern Africa, to attract private ideas and financing, through dialogue and public-private-partnership arrangements (PPPs).

3.4 Current Responses and Initiatives

3.4.1 The EAC is also implementing several regional initiatives including the Sustainable Development of Lake Victoria Basin; Lake Victoria Transport Project; Joint Concessioning of Railroads; East Africa Power Master plan; East Africa Submarine System (EASSy); East Africa Infrastructure Master Plan; and joint tourism marketing and standardization of hotels. Other initiatives aimed at improving the regional infrastructural deficit in Africa, from which the region will also benefit, include the AUC/NEPAD African Action Plan (AAP) launched in 2009, which provides harmonized framework for continental infrastructure development; and the Programme for Infrastructure Development in Africa (PIDA) study, which aims to provide a framework for long-term continental infrastructure development[20].

3.4.2 Development of transport corridors is a major current initiative in Eastern Africa. Both the EAC and COMESA and their member states have adopted the corridor approach to regional infrastructure development, within the framework of the Spatial Development Initiatives (SDIs). The major transport corridors in the region are the Central Corridor (Tanzania to DRC), Northern Corridor (Kenya to DRC/Sudan), the North-South Corridor (Egypt to South Africa), TAZARA Corridor, which is a combination of roads (e.g. TANZAM road, Dar es Salaam to Lusaka), railways (TAZARA: Dar es Salaam to Kapiri Mposhi and Dar es Salaam to Lusaka) and pipeline (e.g. TAZAMA); and the corridors in the Horn of Africa (Addis-Djibouti, Kenya-Ethiopia, Kenya-Sudan and Uganda-Sudan). The corridor approach has the potential of promoting regional connectivity, thus contributing to the vision of a well connected, prosperous and peaceful Eastern Africa.[21]

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[20] The PIDA Study is being task managed by the ADB in collaboration with AUC and NPCA.

[21] In terms of economic potential, a JICA study (2009) assessed and categorized corridors in the region as low, medium or high, based on three scenarios (see Annex 8). In terms of the scenario relating to potential for growth through intra-regional trade, the Northern, North-South, Kenya-Ethiopia, Kenya-Sudan, and Uganda-Sudan Corridors were ranked as high; TAZARA and Central Corridors were ranked as medium; while Addis-Djibouti and Mtwara corridors were ranked as Medium-High and Low-medium respectively. The scenarios are (i) potential for growth utilizing mineral resources development, (ii) potential for growth through intra-regional trade, and (iii) potential for growth through diversification and advancement of industrial structure. The three scenarios assume that investments in related sectors such as agriculture and forestry, tourism, mining and manufacturing will be induced following the construction of basic infrastructure, and that energy development projects will also be promoted to secure electric power supplies.

3.5 Recent Developments in the Coordination of Aid and Other Interventions

A number of Development Partners are active in the regional integration process in Eastern Africa including the African Development Bank (AfDB), the World Bank, EC, DFID, JICA and TMEA. The World Bank support focuses on infrastructure (trade corridors and transport networks, clean energy, and telecommunication connectivity), trade facilitation; and institutional cooperation. The AfDB, EU and DFID are providing support to the transport corridors, especially the North-South Corridor Investment Programme, trade facilitation and capacity building of RECs while JICA, CIDA and TMEA are involved in corridor studies and trade facilitation. Annex 9 presents detailed donor matrix.

IV BANK GROUP STRATEGY FOR THE REGION

4.1 Rationale for Bank Group Interventions

4.1.1 **Bank Group interventions in the area of ROs are informed by the importance of regional integration is the Bank's mandate and as an important continental initiative** (see chapters 1 and 2). Regional integration offers countries in Eastern Africa an invaluable opportunity to achieve better connectivity and enhance prosperity by collectively investing in growth and development to fight poverty. It is also a tool for raising their international bargaining power and resolving conflicts. The CES Tripartite Arrangement provides additional rationale as well as a unique opportunity for both the Bank and the RECs to formulate an appropriate strategic response to the infrastructure and capacity challenge facing the region.

4.1.2 In view of its mandate in the area of climate change, the Bank will take leadership in promoting environmental and climate friendly infrastructure, notably hydro and new and renewable energy and rail transport development. Beyond supporting climate friendly infrastructure development, the Bank will mobilize both its lending windows ADF and ADB to support the financing of economically productive infrastructure and services linked to the development of the region's natural resources potential. The preparation of the RISPs also enables the Bank to reflect on the performance of its sovereign ROs, which has not been very satisfactory, and to design appropriate responses. However, it is encouraging that many of the non-sovereign ROs perform well.

4.1.3 To draw lessons from the broad range of strategic and project-related issues that regional operations pose, the Bank has recently concluded an internal assessment of its past ROs[22]. The review revealed that ROs move more slowly, and pose more problems during implementation than single country operations (SCOs). Key lessons drawn from the review include: (i) the need to develop business practices within the Bank (including incentives to Task Managers) tailored to the requirements of ROs and the challenges they pose and to strengthen quality assurance arrangements at all levels; (ii) ensure that ROs are underpinned by a strategic vision; in this regard the preparation of the RISPs was seen as a step in the right direction towards improving strategic relevance and approaches for pipeline development; (iii) the regional approach should be better integrated into CSPs and other strategy documents of the Bank and aligned with those produced by RMCs or RECs; (iv) the need to strengthen Economic and Sector Work (ESW) and training on the regional approach, both in the Bank and in client countries; and (v) the need for RMCs to demonstrate stronger ownership of, and commitment to, ROs implementation

[22] African Development Bank: Learning Review of Regional Operations, March 2010. The review was based on findings of previous analytical work on ROs in the Operations Evaluation Department (OPEV) and Project Completion Reports, discussions with Bank staff and managers, and desk review of selected ROs.

performance. The design of this RISP for Eastern Africa has taken note of these lessons. It is underpinned by strong ESW (sector studies), observes the principle of selectivity and seeks synergy between the RISP and country level CSPs. Annex 10 presents the Bank's RO portfolio in Eastern Africa and the specific lessons learned from their implementation.

4.1.4 **Participatory/Consultative Process:** The preparation of the RISP is based on participatory approach. The Bank preparation missions held consultations with various stakeholders, including the Secretariats of COMESA, EAC, NEPAD and Eastern Africa Power Pool (EAPP), member countries, the private sector, civil society organizations, and development partners. The discussions with these key stakeholders sought clarification on the Tripartite Arrangement and focused on progress, constraints and prospects of regional integration in the region, possible Bank Group assistance, donor coordination, and co-financing opportunities. A validation workshop will be held in Nairobi in November 2010 to seek further input into the strategy from both country and regional stakeholders as well as development partners.

4.2 Strategic Pillars, Deliverables, and Targets

4.2.1 The two pillars for the RISP are regional infrastructure and capacity building. RPGs, cross-cutting, and knowledge management/ networking are also covered. **Moving forward, the pipeline of ROs will be screened following a two-step filtering approach.** *First*, the areas of focus will depend on (i) the MTS Strategic Thrust and the ADF XII pipeline prioritization; (ii) RECs/NEPAD-AAP priorities and member countries' priority regional projects; (iii) regional growth drivers and related areas of focus; and (iv) lessons learnt and Bank's comparative advantage. *At the second stage*, the Bank will take into account: (i) resource envelope constraints to regional operations; and (ii) the readiness assessment of the potential projects, and continued dialogue with RECs and their member countries on priorities and selectivity. **Details of the filtering methodology are presented in Annex 2.** The priority areas of focus and deliverables are presented in Tables 2 and 3 respectively, while Annex 11 contains more potential projects. The deliverables and pipeline projects will be further screened during implementation.

Strategic Pillar I: Regional Infrastructure

4.2.2 The choice of infrastructure as the main focus of the strategy is based on the benefits of infrastructure in expanding the regional integration space, production and trade, and its consistency with the core operational thrust of the Bank Group MTS, 2008-2012 and the Bank's comparative advantage (namely being the lead donor for infrastructure under the NEPAD programme and the Bank's ability to finance both sovereign and non-sovereign undertakings)[23]. Several studies have also established that the biggest blockage in the growth of regional trade is poor infrastructure. Among the list of supply-side constraints are: poor transport infrastructure, trade logistics problems, energy deficit, poor access to ICT, and water scarcity. Provision of good infrastructure will contribute to removing supply-side constraints. The focus on infrastructure is also consistent with continental initiatives, namely the NEPAD- AAP and PIDA.

[23] The African Development Fund (ADF) is the lead donor for regional operations in Africa (accounting for 20% of total ODA for Africa), with a clear focus on regional infrastructure.

Table 2: Summary of the Strategic Pillars of the RISP, 2011 – 2015		
	Pillar 1: Regional Infrastructure	**Pillar 2: Capacity Building**
Broad Areas of Focus	(i) Regional Transport/Trade Facilitation Infrastructure (ii) Regional Energy Development (clean energy and Interconnectors) (iii) Information and Communications Technology (ICT) (iv) Development of Shared Water Courses	(i) Support for capacity building for the CES Tripartite Arrangement. (ii) Support for infrastructure, trade facilitation, statistical and legal framework for PPPs capacity building. (iii) Strengthening institutions (RECs and Continental organisations), special utilities and national implementing units. (iv) Enhancing the financial and technical capacity of regional multilateral institutions and agencies that invest in regional infrastructure and private enterprises.
Cross-cutting Issues	(i) Regional Public Goods - Climate Change, management of shared water resources, and trans-boundary animal diseases controls. (ii) Cross-Cutting Issues: Gender and environment, (iii) Knowledge Management and Networks	

Area of Focus 1.1: Regional Transport Corridors/Trade Facilitation Infrastructure

4.2.3 The importance of transport infrastructure to the development of the Eastern Africa region takes a special dimension when viewed in the context of intra-regional connectivity, with particular focus on the land-locked countries (Ethiopia, Uganda, Rwanda, and Burundi) and water-locked countries (Comoros and Seychelles). Thus, infrastructure investments by coastal countries such as Djibouti, Eritrea, Kenya, Tanzania and Sudan serve the double purpose of both domestic networking and the regional networking by providing neighbouring landlocked countries access to the sea and international markets. To maximize regional connectivity which the transport infrastructure is expected to provide, the focus of the strategy is on the development of transport corridors and undertakings that will facilitate the movement of people, goods and services across the region. In this respect, both COMESA and EAC have taken a decision to act jointly in developing transport corridors.

4.2.4 **The Bank's strategy in the transport sector aims to promote seamless connectivity within the regional transport system.** The strategy will therefore focus on missing links along the major transport corridors namely, the Central, Northern, North-South, TAZRA and corridors in the Horn of Africa. As part of its effort to fill the missing links in the North-South Corridor, the Bank is already funding feasibility studies, designs and civil works for parts of the network in Tanzania and Kenya[24]. The Bank is also funding feasibility studies and detailed designs of the Arusha-Holili/Taveda-Voi Road, the Malindi-Lungalunga-Tanga-Bagamoyo Road, the Isaka-Kigali/Kesa-Musongati rail project, and the scoping study on civil engineering contracting capacity in Eastern Africa. **The Bank will continue to concentrate on road and rail transport**

[24] The segments are: Construction of Minjingu-Babati-Singida Road (224 kms); Dodoma-Iringa (260km); and study designs for the Babati-Kondoa-Dodoma section in Tanzania; and Mombasa-Nairobi-Addis Ababa (Agaremarium-Moyale in Ethiopia and Turbi-Moyale section in Kenya).

in the EAC Partner States, while the focus will remain on roads in the Horn of Africa. In view of its comparative advantage in long-haul bulk transportation, railways are quite attractive to the EAC sub-region. Heavy container and bulk traffic along the Central and Northern Corridors would be cheaper to be moved by rail. Thus, focusing on railways will result in extended reduction in transportation cost.

4.2.5 **Bank's interventions in the railway sub-sector will focus on activities aimed at improving the performance of the system.** In this context, emphasis will be on concessioning, system upgrading and restructuring, and addressing the equipment shortage problem (locomotives and wagons) in the region. A comprehensive study will be undertaken to identify and clarify deficiencies in the current concession agreements in the various railway networks and practical legal measures necessary to improve their performance. In the area of system upgrading and restructuring, a particular focus will be on the TAZARA Corridor. The main objective is to allow TAZARA to build on its recent operational improvement by offering a safe and reliable service to clients and be able to handle increasing volumes of traffic at lower unit costs. In this regard, the Bank will provide technical assistance to the Tanzanian and Zambian authorities to formulate an appropriate restructuring plan for TAZARA. For other relevant corridors (Central, Northern and North-South), the Bank will also fund studies to examine options available to governments to open up railways to new investors and to a system that allows them to function as a seamless regional operation. The Isaka-Kigali/Keza-Musongati rail project provides an appropriate climate friendly investment project in this sub-sector. Feasibility studies and detailed engineering designs are being conducted by the Bank, The project will link the Nickel Mine in Burundi and the land locked Rwanda to the Tanzania port of Dar es Salaam, thus contributing to the objective of improving connectivity and boosting trade and growth in the region.

4.2.6 **Addressing the equipment shortage problem**: All the regional railway systems are operating at about 20% to 30% of their original design capacity, due to operational capacity problems related to infrastructure maintenance, repairs deficiency and shortage of equipment. The establishment of a regional railway locomotive and wagon leasing pool, utilising the existing workshops and equipment, suitably repaired, upgraded and maintained, would provide a solution to the problem of equipment shortage in the region. In this regard, the Bank will support equipment leasing pool project based on the repair of existing non revenue earning assets. This has the benefits of permitting the system to improve capacity utilization, enhance the growth of traffic volumes and improve revenue generation.

4.2.7 **Improvement of regional seaports**: To complement the inland transport system, there is need to improve access to regional sea ports and port operations to enhance their efficiency. The main international sea ports which serve the region are the ports of Mombasa in Kenya and Dar es Salaam in Tanzania. The two ports suffer from congestion and berthing delays linked to capacity problems of their respective container terminals. The other regional ports in the region are Tanga, Djibouti and Berbera. Critical to the regional transport infrastructure development in the Berbera corridor is the upgrading/improvement of the Port of Berbera. This is potentially an important regional corridor, with implications for Ethiopia and Southern Sudan. The Bank's work on this corridor outside of Somaliland could have a strong indirect and positive development impacts for Somaliland, especially in collaboration with other donors (e.g. EU, World Bank) who already seem to be working directly with Somaliland. Improving facilities in all these international and regional seaports will improve transport flow along the corridors. Therefore, the Bank will support port improvement as part of the transport strategy, with the benefits of providing transport flexibility and access especially to the landlocked countries in the region.

4.2.8 **Improvement of water transportation, seaports and air transport are critical to the island countries in view of their isolation from the mainland.** Out of the four seaports (Mutsamudu, Moroni, Fomboni and Mwali) in Comoros, only Mutsamudu has been operational as a deepwater facility and all the four need upgrading. The main seaport in Seychelles is Victoria and the country has no merchant marine. There are fourteen airports in the country, the major ones being Seychelles International Airport and Praslin Island Airport. Of the fourteen airports only six have paved runways. The Bank will support the development of air and maritime transport in these islands countries to link them with the continent. Investments in modern transhipment ports will also create opportunities for integration and improved trade with the continent.

4.2.9 **In terms of trade facilitation infrastructure**, the Bank will fund the design and construction of One Stop Border Posts (OSBPs) along the main transport corridors in the Central, Northern, North-South Corridors and corridors in the Horn of Africa, to help reduce waiting time at the borders, improve transit time and lower the cost of transport. The Bank is currently funding the study design of the OSBP at Namanga. The Bank's support in this respect will complement activities of TMEA, DFID, JICA, CIDA, EU and the World Bank in the region.

Area of Focus 1.2: Regional Energy Development

4.2.10 **The objective of the Bank's strategy in the energy sector is to promote regional interconnection and clean and climate friendly energy resources so as to minimize carbon gas emissions.** The Bank will play a catalytic role in financing regional energy projects (including feasibility studies and detailed engineering designs) and leverage additional resources through co-financing and private sector investments. The proposed Strategy will support green energy generation, regional interconnectors, and facilitation/capacity building projects.

4.2.11 **Support to Green Energy Generation:** The Bank will promote green energy investment projects to minimize carbon gas emissions. These will include hydropower and new and renewable energy (NRE) resources (wind and solar energy). In terms of hydro-power, two potential projects have been identified for Bank's support namely: (i) *Rusumo Hydropower Plant; and* (ii) *Ruzizi Hydropower Plant.*

4.2.12 In the case of NREs, the Bank with the assistance of the Canadian International Development Agency (CIDA) carried out a Strategic Study on Wind Energy Development in 2004, which prepared a wind energy map for Africa, identified the constraints and opportunities related to wind power development, and developed a strategic plan for wind energy development on the continent. The study identified four countries in the region (Djibouti, Eritrea, Seychelles and Somalia) as having excellent wind energy resources. It also identified partners who could co-finance wind projects in Africa. Bank's support in this area will focus on these identified countries and Kenya, where the Bank is already involved in the Lake Turkana wind farm.

4.2.13 Given that coal will continue to be a major source of power generation in the region well into the 21st century, the Bank will also promote the development of green coal-fired power stations to suppress greenhouse emission[25], as part of the clean energy initiative. For the island countries, the Bank will support investments in wind and solar energy (for example in Seychelles) to help improve availability and protect the environment.

[25] It might however take some time to develop cost effective and competitive technology to suppress green house gas emission. The better option is to develop the clean energy potential, especially hydro and renewable energy.

4.2.14 **Support to Regional Interconnectors**: The strategy will focus on missing links in the transmission system in order to enhance regional connectivity. In this regard, a number of interconnectors have been identified for the Bank's potential support namely: (i) *Ethiopia-Kenya Interconnector;* (ii) *Kenya-Tanzania-Zambia Interconnector;* (iii) *Tanzania-Rwanda-Burundi Interconnector; and* (iv) *EAPP Load Dispatch Centre Project.* While greater intra Eastern Africa will be prioritised, opportunities to link up the Eastern and Southern Africa Power Pool will also be encouraged to strengthen the robustness of the individual pools and offer generation projects, whether public, private or PPPs, access to a broad pool of credible off-takers. Together with the ongoing interconnector projects (Ethiopia-Djibouti, Ethiopia-Sudan and Kenya-Uganda-Rwanda), expected to be completed by 2013 and the Sudan-Eritrea Interconnector project expected to be commissioned by 2015, all countries in the Region will be interconnected except Somalia. The completion of these interconnectors and the strengthening of the existing ones (Kenya-Uganda, Rwanda-Burundi-DRC) will contribute to the vision of a well connected Eastern Africa. In terms of benefits, the interconnectors will enhance the exchange of power amongst the power utilities in the EAPP and improve reliability of supply in an integrated system.

4.2.15 **Regional Energy Facilitation Projects:** Facilitation projects are intended to identify and implement best practices for efficient operation of the energy sector and unlock the potential for its integrated development. Specifically, the facilitation projects will target *reforming and harmonizing policies, regulations, tariffs and grid codes* in order to facilitate regional integration and thereby attract investment to the development of the sector. The Bank will also promote the *dissemination of best practices* in the Region as related to planning, operation and maintenance so as to promote efficient performance of the sector. Capacity support for energy utilities will be addressed under Pillar 2 of the strategy.

Area of Focus 1.3: Information and Communication Technology

4.2.16 **The Bank's MTS (2008-2012), and the ICT Operations Strategy (2008) put priority on reducing the digital divide among regions and countries, and between towns and rural areas, with the objective of contributing to poverty reduction.** The RISP ICT support programme for Eastern Africa will be implemented in the context of the Bank's ICT Operations Strategy. Particular attention will be paid to the Tripartite requirements of providing support for a joint tripartite program on an accelerated, seamless inter-regional ICT broadband infrastructure network; and the harmonization of policy and regulatory framework that will govern tripartite ICT Infrastructure development. In this respect, the Bank will fund a study to support the design of the tripartite programme as well as an assessment study of policy and regulatory framework in the three RECs to guide harmonization.

4.2.17 In terms of the regional ICT investment programme in Eastern Africa, the strategy will focus on four areas (i) consolidating connectivity with emphasis on regional and national backbones and leveraging private investment, (ii) integrating ICT in the delivery of public services and in sectoral projects to scale up ICT application, (iii) leveraging ICT innovation applications for transformation of public services and economic competitiveness, and (iv) knowledge management and sharing in the field of ICT. In strengthening the broadband infrastructure, the Bank will enforce its policy that requires all regional infrastructure projects/studies (roads, railways, electricity transmission lines, etc) to include a broadband ICT infrastructure component that could be developed at a marginal cost compared to a green field deployment. For the island countries, the Bank will support projects aimed at fibre optic connectivity between the islands and the continent through submarine cable, such as the EASSY and SEAGANET initiatives, with the benefits of reducing communication costs and improving business competitiveness of the island countries. Three potential ICT projects already identified for possible Bank support are EAC broadband Infrastructure Network, Maritime Communications for Safety on Lake Victoria, and Seychelles Submarine Cable Link Project.

Area of Focus 1.4: Development of Shared Water Courses

4.2.18 The Bank will continue to support the development of shared water courses, seek opportunities to mobilize and support private investment in the above focus areas and to accompany private investment in infrastructure and services linked to the development of the region's natural resources potential. To implement this focus area, the Bank will mobilize resources for initiatives aimed at addressing environmental degradation and enhancing socio-economic development, through the promotion of water sources for production of hydropower, the improvement of agricultural productivity and production, water management and regulation, as well as flood control. The goal is to improve the overall quality of live for their people and preserve the environment for the future generation.

Strategic Pillar 2: Capacity Building

4.2.19 In consultation with the RECs and other stakeholders, the Bank is currently finalizing a Strategic Framework for Capacity Development (SFCD) of regional integration institutions. The Framework focuses on strengthening capacity of targeted institutions in the area of regional infrastructure development and trade facilitation in line with the Bank's MTS and RIS. It has four focus areas: (i) support to the rationalization process of the RECs, (ii) strengthening institutions, (iii) trade facilitation including support to the Aid for Trade initiative, and (iv) enhancing the financial and technical capacity of regional multilateral institutions and agencies that invest in regional infrastructure and private enterprises at the regional level. The capacity building support under the RISP will be implemented in the context of the bank-wide **SFCD and the Bank's Higher Education Strategy**, but will be selective and aligned to the requirements of the Tripartite Arrangement and the infrastructure focus of the Bank's support programme, especially the corridor approach, rail transport and clean energy development. In the area of higher education, the Bank will encourage standardization in Higher Education, Science and Technology through dialogue, ESW and capacity building.

Area of Focus 2.1: Support to the CES Tripartite Arrangement

4.2.20 The Bank will provide technical support to the RECs for the: (i) harmonization and prioritization of infrastructure programmes, especially their infrastructure master plans; (ii) development of a Tripartite Strategic Framework linking clear vision with objectives, programs and expected outcomes, with key milestones to facilitate the eventual merger of the three RECs; (iii) capacity support for the implementation of the Tripartite FTA, including strengthening Tripartite Multilateral Surveillance Framework; and (iv) dissemination of best practices through seminars and workshops to help bring RECs to similar levels of integration. Other pertinent areas necessary for fast tracking and concretizing the Tripartite Arrangement requiring assistance will be discussed and agreed with the Tripartite Task Force/CES Tripartite FTA Secretariat from time to time through consultations.

Area of Focus 2.2: Capacity Support for Infrastructure Development

4.2.21 The Bank will align its capacity support programme with the areas of the infrastructure focus of the RISP, especially transport corridors and integrated regional energy, as well as statistical capacity building for strengthening baseline data for monitoring and evaluation of ROs. In collaboration with the RECs and other Development partners, the Bank will organise training programmes, seminars and workshops for regional and country stakeholders including the private sector and civil society groups in critical areas of infrastructure development. **For the transport infrastructure**, the focus will be on building capacity for the design, sequencing, preparation, implementation, as well as monitoring and evaluation of transport corridor projects and railways concessioning and maintenance. **For the energy infrastructure,** the focus will be on skills development in the areas of policy and regulations, project planning and formulation, PPP and IPP arrangements, negotiation related to cross-border projects, tariff formulation and Power Purchase Agreement (PPA), best practices in operation and maintenance of energy facilities and project management. **In the area of shared water resources**, the Bank will promote dialogue (through seminars/workshops) among the various regional and country stakeholders responsible for the management and use of shared water resources. Promoting regional integration and understanding in the management of shared water resources will help to build trust and prevent conflicts. In order to facilitate resource mobilization for infrastructure, the Bank will also strengthen legal framework for PPPs capacities.

4.2.22 The Bank's operational approach to **trade facilitation** involves both hardware and software related issues. The hardware aspects involve the provision of regional physical infrastructure and OSBPs that adequately connect markets (Areas of Focus 1.1). The software aspects relate to policy and regulatory measures that affect the flow of imports and exports. In terms of the software aspect, the EAC has identified three trade capacity building priority areas (which are also relevant to the other RECs), namely trade policy development, trade in services liberalization, and trade and transport facilitation. The Bank's support will focus on the following specific issues: (i) enhancing capacity in trade policy harmonization through the training of trade officials on trade issues and their attachment to relevant international organizations to gain more experience; (ii) creating expertise in the secretariats to drive and coordinate the regional trade in services agenda (including the implementation of the protocol) by providing advisors who will drive the agenda, develop training modules and provide on the job training and knowledge transfer to the staff of the Secretariats; and (iii) enhancing knowledge in modern custom practices by providing assistance to RECs in revising the Customs Management Act (CMA) for make it adhere to the Kyoto Convention and in publishing risk management guidelines as a common regional framework which each country can adopt to develop its own risk management system. The Bank's support will, as much as feasible, be implemented in the context of the CES Tripartite Arrangement to facilitate the take off of the joint FTA.

Area of Focus 2.3: Strengthening Institutions

4.2.23 The Bank will support institutional development of the Secretariats of the RECs/IGOs (EAC, COMESA, IGAD and IOC), the FTA Tripartite Secretariat, and regional utility bodies providing regional infrastructure services. In this context, the Bank will strengthen the capacity of the institutions to: (i) develop bankable cross-border infrastructure projects; (ii) coordinate and manage regional infrastructure projects (see focus area 2.2), and (iii) put in place effective monitoring and evaluation mechanisms for ROs.

Area of Focus 2.4: Enhancing the financial and technical capacity of regional multilateral institution and other agencies that invest in regional infrastructure and private enterprises.

4.2.24 The Bank will continue to mobilize intermediaries that are able to finance smaller undertakings, across sectors and private enterprises operating across the region. These include Regional Development Banks, commercial banks, as well as institutions that offer trade-orientated financial services (for example trade insurance providers) that have a strong regional and pan-African mandate. It will also continue to invest in multi-country private equity funds, with a view to facilitating the spread of capital, technology and management in regionally integrated supply chains, across sectors. The Bank's experience with intermediaries emphasises the importance of mobilizing both financing and technical capacity building to strengthen financial and operational management systems and ensure compliance with safeguards requirements. In so doing, it will aim to facilitate access by investors to appropriate technical and advisory services to strengthen their capacities.

Regional Public Goods

4.2.25 **Climate change concerns will be addressed in the context of the Bank's infrastructure operations**, especially energy and transport projects and through specific stand-alone climate change adaptation projects. Taking actions to address climate change and ensuring climate-resilient development through adaptation and mitigation has become a priority area for the Bank. One RPG project that has been identified is the Interregional Early Warning Systems for Flood Prevention and Water Basin Management. In this regard, the Bank will promote closer collaboration among regional meteorological services so as to enhance water shed management and increase food security. Climate Risk Management will be mainstreamed into cross sector project planning and design. On mitigation, the Bank is strongly promoting the development of clean and renewable energy generation as well as forestation. Countries in the region have also started benefitting from Bank's assistance through the Clean Technology Fund.

4.2.26 **Management of shared water resources:** The Bank will address the challenge posed by the management of shared water resources through the Bank support for the Nile Basin and Lake Victoria Initiatives in collaboration with other Development Partners. In this regard, the Bank will endeavour to use water management schemes to promote equitable use for current and future users, increase access, share benefits and encourage broad participation (including by the private sector and Civil Society groups) in basin-wide initiative so that shared water resources can be used as a pathway to peace and conflict resolution.

4.2.27 **Trans-boundary animal diseases control**: With the financial assistance of the Water Partnership Programme, the Bank has undertaken a number of analytical work in the IGAD region focusing on food security and safety; trans-boundary animal disease controls; and regional policy, legal and regulatory framework, with the overall objective of reducing poverty which is very high in the region. The outcome of the analytical work includes two potential operations namely, IGAD Regional Animal Health and Management Programme and IGAD Trans-boundary Animal Diseases Controls Project. These potential RPGs will be further examined in consultation with IGAD in the course of the implementation of the strategy.

Cross-Cutting Issues

4.2.28 **Cross-cutting issues (gender and environment), macroeconomic convergence and knowledge management/networking will also be addressed by the strategy.** Gender and environmental concerns will be mainstreamed into the design and implementation of specific regional projects/programmes. Given the importance of macroeconomic convergence to the regional integration process, the Bank will support the strengthening of macroeconomic convergence mechanisms especially in the context of the CES Tripartite Arrangement. In this regard, statistical capacity building support will include generation of relevant data to strengthen monitoring and evaluation of macroeconomic convergence indicators. Meanwhile, the Bank is in the process of providing support for the COMESA Multilateral Surveillance Framework. In consultation with COMESA and other CES Tripartite members, the possibility of redesigning this programme and implementing as a Tripartite-wide project would be explored.

4.2.29 **Knowledge Management and Networking:** The Bank's new approach to economic and sector work (ESW) emphasizes the preparation of flagship reports. Two such reports already prepared for the region are the **Infrastructure Action Plan for Burundi – Accelerating Regional Integration and Domestic Resource Mobilization for Poverty Reduction in East Africa**. Two other studies have been identified namely: (i) **The Indian Ocean Commission Flagship Study** aimed to provide input into the design of Bank's strategy for island countries and (ii) **Comparative Cost Analysis of Alternative Energy Sources Flagship Study** aimed to inform policy dialogue on clean and climate friendly energy sources. To ensure effective knowledge sharing the Bank will, in the context of its SFCS, establish Knowledge Networks and organize seminars/workshops for the officials of RECs and member countries, private sector actors, and civil society groups so as to promote sharing of experiences and best practices on regional integration issues and practice.

Potential Deliverables and Targets

4.2.30 A list of potential deliverables, both lending and non-lending operations (Annex 11, Table 1) will be filtered using a two-step approach (see paragraph 4.2.1 and Annex 2) to determine the pipeline of ROs for the ADF-XII period and beyond.

4.3 Regional and Country Dialogue issues

4.3.1 **Balancing national and regional commitments**: Although there is a strong commitment to regional integration by the national authorities in the region, this commitment is often not matched by synergy between national and regional priorities in their development plans. The dialogue will focus on the need to accord priority to ROs in national development plans and make necessary funding provisions for them to facilitate implementation. There is also the need for synergy between ROs contained in national development plans and those reflected in RECs programming documents. To this end, the Bank will closely align Country Strategy Papers (CSPs) and RISPs.

4.3.2 **Harmonization of policy and regulatory environment:** Regional integration efforts can only progress well in a harmonized policy and regulatory environment. Through reforms supported by the Bank and facilitation projects, dialogue will be extended to the various stakeholders aimed at promoting harmonization of standards, policies and regulations.

4.3.3 **Improvement in ROs' portfolio performance**: The assessment of performance of past sovereign ROs showed that performance has been sub-optimal. The dialogue will revolve around the need for better commitments at the RECs and country levels to quality implementation of ROs need for quality assurance including quality at entry, strengthening of multinational operations monitoring teams, and putting in place effective monitoring and evaluation mechanism for ROs at both the Bank and the RECs levels.

4.3.4 **Mobilizing commitment around a hierarchy of national, regional and international infrastructure investments:** Fiscal tightening has encouraged governments to envisage and seek out the mobilization of private investors in the development of infrastructure across the region. However, the development of a hob-and-spoke model of infrastructure requires regional level agreement towards a coherent hierarchy of national, regional and international infrastructure facilities and networks. In its absence, countries will compete against one another for markets to sustain their "hub" infrastructure (all ports), and "spokes" (particularly road and rail) and may not be able to mobilize sufficient throughput to achieve economies of scale to ensure their attractiveness to private investors.

4.4 Potential Risks and Mitigating Measures

Four main potential risks to the successful implementation of the RISP are identified, namely:

- **Weak institutional and human capacity of RECs and national implementation units**, especially limited capacity to prepare and coordinate bankable regional projects and to effectively coordinate and monitor their implementation. The capacity building pillar of the RISP, especially the training courses to be organized in partnership with other donors, will help to mitigate this risk.

- **Poor performance of ROs which poses a serious risk for their ability to deliver the expected benefits of regional integration.** To mitigate this risk, the Bank will establish coordination units within RECs for its projects and programs, intensify institutional capacity support for RECs, and put in place at the Bank level appropriate business practices and institutional arrangements for ROs, including at its field offices, tailored to the requirements of ROs and the challenges they pose.

- **Insecurity and Cross-border Conflicts and political instability in the region pose a serious risk to regional integration process** given that regional integration cannot progress as required in a situation of insecurity and political instability. This risk is being mitigated by the mediation efforts of the AU, RECs and IGAD in the region and the strengthening of democratic process. The Bank will play a supportive role in this process.

V MANAGEMENT AND DELIVERY

5.1 Monitoring and Evaluation: The results framework presented in Annex 1 will be a key aspect of the monitoring and evaluation mechanism. Performance in terms of various aspects of regional development indicators such as trade volume, investment growth, economic growth, reduction in poverty level, will rely on various reports by RECs/IGOs (namely EAC, COMESA, IGAD and IOC) Secretariats. The review of the strategy will be undertaken at mid-term, to correct shortcomings, and at the end to draw lessons.

5.2 Institutional Arrangements: The two key RECs in the region (EAC and COMESA) and where applicable, the IGOs (IGAD and IOC) will have the responsibility for the coordination, monitoring and evaluation of Bank's supported ROs in the region. The Bank will establish a coordination unit in each REC/IGO for its portfolio. At the country level, the Bank will encourage country authorities, through dialogue, to put in place a clear coordination mechanism for regional integration. At the Bank level, the Field Offices will play an active role especially in the countries where the HQs of the RECs coincide with a Bank Field Office to ensure coordination of the implementation of CSPs and the RISP programmes so as to ensure synergy. In addition, an operational meeting would be held once every 18 months in the region with the RECs/IGOs by Bank staff from FOs and HQs covering the regional projects, to discuss implementation issues and other pertinent areas. This will help address some of the key lessons learnt from the recent evaluation of ROs (see section 4.1.3).

5.3 Resource Envelope for the Implementation of the RISP: The financing of the lending operations will be largely from the ADF multinational resources and the AfDB window in the case of the private sector operations. Non-lending operations (analytical work, pre-investment studies, facilitation and capacity building activities) will be funded through ADF grants, NEPAD-IPPF, MIC Technical Assistance Fund, and Bilateral Trust Funds managed by the Bank. The total required resources for the pipelines of ROs for the RISP is below the resource requirement for the RISP deliverables in Eastern Africa The Bank will leverage the additional resources through co-financing and private sector financing, especially through PPPs arrangements.

VI CONCLUSION AND RECOMMENDATION

6.1 Conclusion: In line with the vision and objectives of the region, the Bank's strategic goal and agenda for Eastern Africa is to create a well connected, economically prosperous and peaceful Eastern Africa. To this end, the Bank will support the regional integration effort of the region through (i) regional infrastructure development in transport, energy, ICT and shared water courses; and, (ii) capacity building, in order to ensure the sustainability of the infrastructure focus of the strategy and, selectively, support institutions, undertakings and stakeholder platforms that augment public and private capacity in enhancing the regional integration process. Special emphasis will on support for the CES Tripartite process within the two pillars, The Bank will also promote RPGs, cross-cutting issues (gender, environment and climate change) and knowledge management/networking.

6.2 **Recommendation**: The Board is requested to approve the strategy proposed in the RISP for Eastern Africa, covering the period 2011-2015.

Annex 1: Result Matrix of the Regional Integration Strategy Paper (RISP) for Eastern Africa region

Region's development objectives	*Problems hampering the achievement of region's development objectives*	*Final Outputs*	*Final Outcomes*	*Mid-term Outputs*	*Mid-term outcomes*	*Indicative program of new operations (2011-2015) and ongoing projects*
		(expected at the end of RISP period in 2015)		*(expected at mid-term of RISP period in 2013)*		
Pillar I: Promotion for Regional Infrastructure Development						
Promote economic integration, growth and poverty reduction in the region.	• Missing links in the major transport corridors and poor transport infrastructure. • Energy deficit and under-developed power infrastructure • Significant gaps in ICT backbone infrastructure and costly broadband internet access. • Freshwater shortage and challenges of shared water resources management. • Cumbersome trade logistics and poor trade facilitation infrastructure.	**(i) Support for regional transport and trade facilitation infrastructure**				
		Seamless connectivity within the regional transport system achieved and trade logistics enhanced.	Improved movement of goods and services, leading to increased intra-regional exports from 8% of total regional exports in 2009 to 15% in 2015.	• Improved road and rail transport systems following the bridging of missing links in the major transport corridors in the EAC and the Horn and construction of OSBPs.	Intra-regional trade increased from 9.3% of total trade in 2009 to 12% by 2013.	• Mombasa-Nairobi-Addis Ababa Road Corridor (Phase 3) • Isaka-Kingali/Keza-Musongali Rail project • Railway Concession Study. • Railway equipment Leasing Pool Project • OSBP Construction at Namanga Border • OSBP Construction at Holili/Taveta Border.
		(ii) Support for energy development				
		• Green energy generation enhanced through the exploitation of hydro and new and renewable energy (NRE) resources. • All mainland countries in the region, except Somalia) interconnected and linked to the Eastern Africa Power Pool.	Attainment of reliable power supply with improved availability from 89% to 100%by 2015; and average reserve ratio exceeding the 15-20% acceptable benchmark (reserve margin already reached 34% in 2009).	• Development of regional hydro potential increased substantially by 2013 beyond the 2009 level of 7.5%. • Power installed generation capacity increased from 7,637 MW in 2009 to 16,554 MW by 2013. • All ongoing Interconnectors	Generation capacity availability improve from 89% in 2009 to over 90% by 2013; and average reserve margin maintained at the acceptable 15-20% benchmark (Reserve margin already reached 34% in 2009).	• Projet Hydroelectrique Rusumo Falls Study (Burundi/Rwanda/Tanzania) • Amenagement hydroelectique de Ruzizi III • Power Interconnection (Kenya/Tanzania/Zambia) • Ethiopia/Kenya Power Interconnection Project

Region's development objectives	Problems hampering the achievement of region's development objectives	Final Outputs	Final Outcomes	Mid-term Outputs	Mid-term outcomes	Indicative program of new operations (2011-2015) and ongoing projects
		(expected at the end of RISP period in 2015)		(expected at mid-term of RISP period in 2013)		
				commissioned by 2013 except Sudan-Eritrea Interconnector.		
		(iii) Support for Information and Communication Technology (ICT)				
		All countries in the region are interconnected (inter state fibre connectivity cable) and connected to undersea optic fibre system.	Development of a reliable ICT infrastructure with efficient connectivity to the regional and international Internet backbone network; and reduction in the cost of broadband internet access by half.	At least 80% of Eastern Africa backhaul transmission missing-links is implemented.	Cost of broadband internet access in the region is competitive to the rest of the world.	Study on the Design of CES Tripartite ICT Programme EAC Broadband Infrastructure Network Project. Maritime Communications for Safety on Lake Victoria Seychelles Submarine Cable link Project NEPAD ICT Broadband Infrastructure Network
		(iv) Support for the development of shared water courses	Shared water resources as a pathway to peace and conflict resolution.	Peaceful collaboration in the use of shared water resources.	Improved water supply for agriculture and for drinking.	Nile Basin Initiative Victoria Falls Initiative
	Pillar II: Institutional Capacity Building and Knowledge Sharing					
	• Institutional and human resources constraints.	***(i) Support to the EAC-COMESA-SADC Tripartite Arrangement***				
		(i) Tripartite Strategic Framework prepared to ensure the eventual merger of the three RECs. (ii) RECs transport	(i) The CES Free Trade Area established and functioning. (ii) Improved	(i) CES Tripartite FTA Agreement signed and the CES FTA Secretariat in place. (ii) Regional Transport Master Plans for the	(i) CES Tripartite FTA launched and operational. (ii) Improved transport system marked with reduced	(i) Support for establishment of Tripartite Secretariat. (ii) Support for Implementation of Tripartite Free Trade Area (FTA).

Region's development objectives	Problems hampering the achievement of region's development objectives	Final Outputs	Final Outcomes	Mid-term Outputs	Mid-term outcomes	Indicative program of new operations (2011-2015) and ongoing projects
		(expected at the end of RISP period in 2015)		*(expected at mid-term of RISP period in 2013)*		
		master plans harmonized into one joint master plan.	transport system marked with reduced travel time and cost.	three RECs in place.	travel time and cost.	
		(iii) CES Free Trade Area (FTA) in place by 2015. (iv) Harmonised Regional Infrastructure Master Plans for the three RECs.				
	• Lack of capacities to implement regional programs and projects. • Lack of harmonized policies and regulations on infrastructure development by the RECs. • Lack of harmonized customs regulations and procedures.					
		(ii) Strengthening Institutions (RECs, Continental Organisations and National Implementing Unit)				
		Adequate human and financial resources for implementation of regional projects and programs.	Improved implementation of projects and programs	RECs and National Project Implementation Units strengthened.	Noted progress in the implementation of regional projects by both RECs and National Implementation Units	(i) Capacity support project for Infrastructure Development (ii) Capacity Building Support Project for NEPAD Planning and Coordination Agency (NPCA).
		(iii) Support to trade and transport facilitation, customs modernization and reform and Aid for Trade				
		Trade related procedures harmonised across countries in the region.	Reduced transit time on goods and services across borders within the region.	Progress in the implementation of harmonised trade policies and programs	Noted progress in easing movement of goods and services across borders in the region.	(i) Capacity support for trade policy harmonization. (ii)TA for the enhancing knowledge in modern customs practices and revision of the Customs Management Act. (iii)Capacity support for regional trade in services agenda.

Annex 2: RISP Pipeline Filtering Process

During the ADF-12 consultations, deputies suggested that project selection and prioritization process be divided into a Two Step Approach:

Step One: **RISP**

After broad consultations, 5-year Regional Integration Strategy Papers containing an indicative pipeline of operations recommended for Bank Group support are drawn up. The pipeline will consider:

- Operations' alignment with the Bank's corporate priorities and the Regional Integration Strategy;
- Operations' alignment with the priorities of the African Union, NEPAD, RECs and Regional Member Countries;
- Operations' impact on regional integration; and ownership of participating countries and entities.

Step Two: The prioritization framework (Scorecard)

A. Indicators related to the participating countries

- Portfolio Performance of ROs that the countries participated in previously (based on Annual portfolio performance ratings);
- Countries' commitment to regional integration (i.e. trade and trade facilitation policy, economic convergence, sector investment protocols, implementation of regional programmes, projects, protocols, capacity building programs, institutional structures to support regional integration);

B. Indicators related to the project

- Expected development outcomes (contribution to economic growth, regional integration – regional infrastructure, trade facilitation, competitiveness, common natural resource management and policy harmonization, and expected environmental and climate change issues); and
- Quality and readiness (advanced stage of preparation, existence of MOU agreement between beneficiary countries, capability of the executing agency, evidence of support from relevant RECs, and collaboration/co- financing with development partners).

Source: Regional Operations Selection and Prioritization Framework, October 2010 (Draft).

Annex 3: Regional Setting for Eastern Africa Integration Process

EAC: Five countries in the region namely, Burundi, Kenya, Rwanda, Tanzania and Uganda constitute the EAC. The Permanent Tripartite Commission for East African Co-operation was first formed in 1967, but collapsed in 1977 due to political differences among the participating countries. The Community was re-established in January 2001 by a Treaty, which entered into force on 7 July 2000. Burundi and Rwanda joined the Community on 18 June 2007. The EAC is a key driver of the regional integration process in Eastern Africa and has over the years achieved positive results, including a common market status in July 2010. The target date for establishing a monetary union is 2012. The vision of EAC is to have a prosperous, competitive, secure and politically united Eastern Africa. The objective according to Article 5 (1) of the Treaty, is to develop policies and programmes aimed at widening and deepening cooperation among the Partner States in political, economic, social and cultural fields, research and technology, defence, security and legal and judicial affairs for mutual benefit.

COMESA: Eight of the 12 countries in the region namely, Djibouti, Comoros, Eritrea, Ethiopia, Kenya, Seychelles, Sudan and Uganda, together with eleven other African countries belong to COMESA. COMESA has also attained an advanced stage of integration – a Customs Union and has recorded significant achievements including trade facilitation through elimination of trade and non-trade barriers among member states and establishment of COMESA Fund to facilitate implementation of infrastructure projects. The vision of COMESA as spelt out in its Treaty is "building a fully integrated internationally competitive regional economic community in which there is economic prosperity; political and social stability; and free movement of goods, services, capital and labour across national geographical borders". Its strategic objectives are: (i) removing barriers to factor mobility, (ii) building capacity for global competition, (iii) addressing supply side constraints related to infrastructure, (iv) peace and security, (v) cross cutting issues, and (vi) institutional development.

IGAD: The five countries in the Horn of Africa namely, Djibouti, Eritrea, Ethiopia, Somalia and Sudan, together with two EAC Partner States, Kenya and Uganda, constitute IGAD. IGAD has a strong influence on the regional process in the Horn of Africa and is one of the designated pillars of the AEC. By an Agreement adopted by the Heads of State and the Government on 21 March 1996, the Intergovernmental Authority on Drought and Development (IGADD) was transformed into IGAD and has since become the accepted vehicle for regional security and political dialogue. IGAD has three priority areas namely: (i) conflict prevention, management and resolution and humanitarian affairs; (ii) infrastructure development (transport and communication); and (iii) food security and environment protection.

The IOC is a regional organization grouping two Eastern Africa countries (Comoros and Seychelles) with Madagascar, Mauritius and one ultra-peripheral region of the EU (Reunion, an overseas department of France). Maldives is an observer of the Commission. The IOC was established in 1984 under the General Victoria Agreement. The original ideas were to encourage trade and tourism. Recently, cooperation has focused on marine conservation and fisheries management. These countries have unique characteristics including insularity, smallness of their economies, isolation from the continental landmass and vulnerabilities to climatic and environmental shocks. The challenge is how to effectively integrate the two island countries with the rest of the region.

Annex 4: Macroeconomic Data

Table 1. Key Macroeconomic Indicators, 2000-2009

Indicators	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP Per Capita (US $)	250	250	252	270	310	350	410	500	600	590
Inflation (%)	6.0	3.7	2.1	9.4	7.9	7.2	11.9	9.8	16.6	16.1
Fiscal Balance (% of GDP)	-3.1	-2.2	-1.7	-2.4	-1.5	-2.3	-3.7	-3.5	-2.6	-3.3
Gross Domestic Investment (% of GDP)	18.0	18.6	18.5	19.1	21.1	22.0	23.0	24.3	22.3	21.7
Gross National Savings (% of GDP)	11.8	13.1	13.6	15.3	17.4	16.6	14.4	16.7	15.0	13.1
Real Export Growth (%)	24.9	11.2	16.7	7.3	11.6	10.9	3.8	18.6	9.2	-1.2
Trade Balance (% GDP)	-7.7	-8.9	-7.7	-7.6	-8.5	-10.7	-11.9	-9.3	-9.1	-10.0
Current Account (% GDP)	-5.8	-5.8	-4.2	-2.6	-3.4	-5.9	-9.0	-8.1	-8.5	-7.5
Terms of Trade (%)	-6.6	-8.2	-5.3	-0.4	2.5	4.9	0.6	5.5	2.3	-7.2
Total External Debt (% GDP)	80.5	78.8	80.5	79.9	71.0	59.9	50.7	39.4	34.3	37.6
Debt Service (% of Exp. of Goods & Services)	22.9	28.1	13.1	12.6	10.9	7.6	7.4	21.8	3.2	4.9
Regional GDP Growth Rate (%)	7.5	6.2	4.1	3.7	6.3	7.9	8.7	8.8	7.2	5.8
GDP Growth Rate - EAC (%)	7.8	5.9	4.6	4.7	6.1	7.2	6.6	7.2	5.9	4.7
GDP Growth Rate - The Horn (%)	6.6	6.5	3.7	2.9	6.3	8.0	10.3	9.8	8.0	6.6
GDP Growth Rate - SIDS (%)	18.8	-1.3	1.5	-4.1	-1.7	5.7	7.7	7.6	-0.6	-5.0

Source: ADB Development data platform, August 2010

Table 2. Real GDP Growth Rates (%)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Average 2000-09
EAST	**7.5**	**6.2**	**4.1**	**3.7**	**6.3**	**7.9**	**8.7**	**8.8**	**7.2**	**5.8**	**6.6**
Burundi	-0.9	2.1	4.5	-1.2	4.8	0.9	5.2	3.2	4.3	3.3	2.6
Comoros	1.7	2.3	2.3	2.1	1.9	2.8	2.6	0.8	0.6	1.4	1.9
Djibouti	0.4	2.0	2.6	3.2	3.0	3.2	4.8	5.1	5.8	4.8	3.5
Eritrea	-3.6	8.8	3.0	-2.7	1.5	2.6	-1.0	1.4	-9.8	3.6	0.4
Ethiopia	5.9	7.7	1.2	-3.5	9.8	12.6	11.5	11.5	11.6	9.9	7.8
Kenya	0.5	4.5	0.5	2.9	5.1	5.9	6.3	7.1	1.7	2.5	3.7
Rwanda	2.5	6.7	9.4	0.3	5.3	7.1	5.5	8.8	11.2	4.5	6.1
Seychelles	24.5	-2.3	1.2	-5.9	-2.9	6.6	9.3	9.7	-0.9	-6.8	3.3
Somalia	…	…	…	…	…	…	…	…	…	…	...
Sudan	8.4	6.2	5.4	7.1	5.1	6.3	11.3	10.2	7.0	4.9	7.2
Tanzania	17.9	6.0	7.2	6.9	7.6	7.4	6.9	6.8	7.5	5.5	8.0
Uganda	11.3	8.8	7.1	6.2	5.8	10.0	7.0	8.1	9.2	7.0	8.0

Source:ADB Statistics Department; African Economic Outlook, Mars 2010

Table 3:Gross Domestic Product per Capita (US$)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
EAST	**248.0**	**250**	**252**	**274**	**311**	**361**	**418**	**503**	**601**	**596**
Burundi	110	100	93	86	95	108	124	119	137	146
Comoros	367	390	428	536	615	625	660	716	765	835
Djibouti	762	773	781	808	842	880	938	1016	1157	1228
Eritrea	193	198	184	210	258	246	262	275	300	334
Ethiopia	122	117	108	111	144	164	193	247	324	381
Kenya	401	402	396	438	461	523	612	718	783	772
Rwanda	218	212	202	205	223	265	312	356	458	443
Seychelles	9099	9144	10207	10302	10362	11096	12289	12308	11045	7071
Somalia	…	…	…	…	…	…	…	…	…	…
Sudan	354	376	410	479	568	718	921	1151	1403	1294
Tanzania	298	296	301	316	338	363	357	408	488	469
Uganda	250	251	256	262	304	350	371	442	520	522

Source: ADB Development data platform, August 2010

Table 4: Consumer Price Inflation (%)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
EAST	**6.3**	**3.7**	**2.1**	**9.4**	**7.9**	**7.2**	**11.9**	**9.8**	**16.6**	**16.1**
Burundi	24.3	9.3	-1.3	10.7	8.3	13.2	2.7	8.3	24.5	8.3
Comoros	5.9	5.6	3.5	3.8	4.5	2.0	4.4	4.4	4.8	4.5
Djibouti	1.6	1.8	0.6	2.0	3.1	3.1	3.6	5.0	12.0	1.7
Eritrea	19.9	14.6	16.9	22.7	25.1	12.5	15.1	9.3	19.9	34.7
Ethiopia	6.2	-5.2	-7.2	15.1	8.6	6.8	12.3	15.8	25.3	36.4
Kenya	10.0	5.8	2.0	9.8	11.6	10.3	14.5	9.8	18.5	9.3
Rwanda	3.9	3.4	2.0	7.4	12.0	9.1	8.9	9.1	15.5	10.3
Seychelles	6.3	6.0	0.2	3.6	4.1	0.6	-1.9	5.3	37.0	31.7
Somalia	…	…	…	…	…	…	…	…	…	…
Sudan	6.9	7.4	8.3	8.3	7.3	5.6	15.7	8.8	14.0	10.5
Tanzania	6.0	5.1	4.3	5.3	4.7	5.0	7.3	7.0	10.3	12.1
Uganda	5.8	1.9	-0.3	8.7	3.7	8.6	7.2	6.1	12.0	11.1

Source: ADB Development data platform, August 2010

Table 5: Fiscal Balance (% of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
EAST	**-3.1**	**-2.2**	**-1.7**	**-2.4**	**-1.5**	**-2.3**	**-3.7**	**-3.5**	**-2.6**	**-3.3**
Burundi	-2.3	-3.8	-8.6	-6.4	-5.6	-2.3	-3.2	-3.0	-3.1	-4.0
Comoros		-3.6	-3.7	-3.5	-1.6	0.1	-2.1	-2.0	-2.6	-1.5
Djibouti	-1.8	-1.4	-3.7	-2.3	-1.9	0.2	-2.5	-2.6	1.3	-1.8
Eritrea	-39.6	-33.0	-25.2	-13.5	-16.6	-21.2	-12.0	-15.3	-25.4	-15.5
Ethiopia	-9.3	-3.9	-6.0	-6.1	-2.6	-4.4	-3.9	-3.6	-3.0	-1.0
Kenya	0.8	-1.7	-2.2	-3.6	-0.9	0.1	-3.4	-1.1	-5.9	-5.8
Rwanda	0.8	-4.3	-1.2	-2.2	-0.2	0.3	-0.6	-1.0	0.5	-1.9
Seychelles	-11.5	-8.0	-14.0	5.9	2.2	7.0	3.1	-8.7	-3.3	2.6
Somalia	…	…	…	…	…	…	…	…	…	…
Sudan	-0.7	-0.9	3.1	0.7	1.5	-3.1	-4.6	-5.4	-1.4	-3.7
Tanzania	-1.4	-1.0	-0.4	-1.3	-4.3	-3.2	-3.4	-3.2	0.0	-2.7
Uganda	-6.8	-1.3	-3.8	-4.3	-2.6	-0.8	-2.2	-1.8	-2.4	-1.7

Source: ADB Development data platform, August 2010

Table 6: Current Account Balance (% of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
EAST	**-5.8**	**-5.8**	**-4.2**	**-2.6**	**-3.4**	**-5.9**	**-9.0**	**-8.1**	**-8.5**	**-7.5**
Burundi	-6.8	-5.3	-0.7	-4.1	-4.8	-0.7	-14.2	-11.7	-19.1	-12.9
Comoros	1.7	6.2	-1.1	-6.8	-6.2	-7.4	-6.1	-7.6	-11.8	-8.6
Djibouti	-9.0	-2.9	-1.6	3.4	-1.3	-3.2	-14.7	-25.8	-39.0	-18.2
Eritrea	-0.6	-4.6	6.8	9.7	-0.7	0.3	-3.6	-6.1	-5.5	-4.8
Ethiopia	-4.2	-3.0	-4.6	-1.4	-3.8	-6.3	-9.4	-4.3	-5.5	-5.3
Kenya	-1.9	-3.0	-0.9	1.0	-0.8	-1.3	-2.1	-3.8	-6.5	-4.9
Rwanda	-2.6	-8.1	-9.0	-6.7	-3.1	-2.8	-7.2	-2.3	-6.4	-6.7
Seychelles	-3.1	-21.8	-11.9	0.2	-5.9	-19.0	-13.1	-29.0	-44.4	-28.5
Somalia	…	…	…	…	…	…	…	…	…	…
Sudan	-13.0	-12.7	-10.3	-7.9	-6.5	-11.1	-15.2	-12.5	-9.1	-9.2
Tanzania	-4.6	-1.9	0.9	-1.0	-2.9	-6.1	-8.0	-10.6	-12.4	-10.2
Uganda	-5.4	-5.0	-4.5	-1.9	-0.7	0.0	-3.5	-2.8	-6.1	-5.9

Source: ADB Development data platform, August 2010

Table 7: Gross National Savings (% of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
EAST	**11.8**	**13.1**	**13.6**	**15.3**	**17.4**	**16.6**	**14.4**	**16.7**	**15.0**	**13.1**
Burundi	-2.5	1.6	2.9	6.0	4.9	9.6	1.8	1.8	5.2	11.0
Comoros	9.9	12.5	9.3	7.1	4.8	2.1	3.6	4.5	3.0	5.8
Djibouti	-0.2	5.0	8.4	22.2	19.8	20.0	20.4	16.6	7.5	20.6
Eritrea	21.4	30.7	36.4	35.9	18.9	20.8	10.2	12.0	13.2	6.7
Ethiopia	8.9	19.3	16.1	17.9	17.7	17.1	17.2	21.0	17.3	13.9
Kenya	15.7	16.1	18.5	17.2	17.2	16.1	15.5	16.0	10.9	10.7
Rwanda	14.2	15.5	10.2	9.1	22.2	23.9	15.7	18.5	18.6	16.0
Seychelles	23.9	24.0	18.4	18.1	12.9	14.6	14.2	9.1	-14.1	7.7
Somalia	…	…	…	…	…	…	…	…	…	…
Sudan	9.9	4.9	9.2	12.1	16.0	13.0	9.9	14.0	13.7	10.2
Tanzania	10.8	12.5	10.6	14.6	18.5	20.5	19.5	20.2	19.7	17.9
Uganda	13.0	15.8	15.5	16.3	20.2	21.0	17.8	19.0	20.3	18.9

Source: ADB Development data platform, August 2010

Annex 5: Intra-Regional Trade

Table 1: Intra-EAC Trade, 2005-2008 (US$ million)

	Imports				Percentage Changes		
Country	**2005**	**2006**	**2007**	**2008**	**2006**	**2007**	**2008**
Uganda	550.8	429.7	526.5	566.8	-22	22.5	7.7
Tanzania	175.9	220.6	110.1	425.3	25.4	-50.1	286.3
Kenya	59.5	76.7	188	181	28.9	145.1	-3.7
TOTAL	**786.2**	**727**	**824.6**	**1,173.10**	**-7.5**	**13.4**	**42.3**
	Exports				**Percentage Changes**		
Country	**2005**	**2006**	**2007**	**2008**	**2006**	**2007**	**2008**
Uganda	87.9	101.8	148.8	195.2	15.8	46.2	31.2
Tanzania	142	147.4	169.4	310.5	3.8	14.9	83.3
Kenya	831.2	641	830.4	1,036.60	-22.9	29.5	24.8
TOTAL	**1,061.10**	**890.2**	**1,148.60**	**1,542.20**	**-16.1**	**29**	**34.3**
	Total EAC Trade value				**Percentage Changes**		
Country	**2005**	**2006**	**2007**	**2008**	**2006**	**2007**	**2008**
Uganda	638.7	531.4	675.3	762	-16.8	27.1	12.8
Tanzania	317.9	368	279.5	735.8	15.8	-24	163.2
Kenya	890.7	717.7	1,018.40	1,217.60	-19.4	41.9	19.6
Total	**1,847.30**	**1,617.10**	**1,973.20**	**2,715.40**	**-12.5**	**22**	**37.6**

Source: EAC data from *Partner States Revenue Authorities, Central Banks and National Statistics Offices*

Table 2: Intra-COMESA Trade 2005 to 2008 (% share of Global Trade)

Year	**2005**	**2005**	**2006**	**2006**	**2007**	**2007**	**2008**	**2008**
Country / Flow	**Total Exports**	**Imports**	**Total Exports**	**Imports**	**Total Exports**	**Imports**	**Total Exports**	**Imports**
Burundi	14.1	19.1	21.2	15.3	21.6	29.0	17.3	24.0
Comoros	0.3	3.2	1.0	8.1	9.5	3.2	4.3	5.5
Djibouti	71.1	4.8	8.5	0.8	17.9	5.7	2.7	4.6
Eritrea	39.5	3.7	13.2	8.4	8.8	2.0	15.5	1.5
Ethiopia	10.9	4.8	9.7	7.7	9.8	3.7	9.5	3.7
Kenya	37.3	3.0	29.9	3.4	26.4	4.1	28.9	3.2
Rwanda	27.9	34.0	30.0	51.7	35.0	38.5	54.0	34.8
Seychelles	0.2	3.3	0.2	3.2	0.4	3.6	0.9	5.3
Sudan	1.7	6.9	1.6	7.3	5.0	5.2	1.4	6.0
Uganda	30.6	27.5	28.2	17.6	37.2	15.7	36.9	13.1

Source: COMESA Statistics Division, COMESA HQ

Annex 6: Competitiveness and Business Environment

Table 1: The Global Competitiveness Index, 2009-2010 (Rank/133)

	Burundi	Ethiopia	Kenya	Tanzania	Uganda
Institutions	129	75	107	74	106
Infrastructure	125	96	92	123	119
Macroeconomic stability	132	116	121	77	73
Health and primary education	121	120	110	112	116
Higher education and training	131	125	85	128	123
Goods market efficiency	129	106	73	104	114
Labour market efficiency	101	69	40	82	30
Financial market sophistication	133	127	37	74	86
Technological readiness	129	131	96	120	118
Market size	132	76	74	79	91
Business sophistication	119	118	59	97	108
Innovation	116	112	48	93	98
GCI 2009–2010 (out of 133)	133	118	98	100	108

Table 2: World Bank 2010 Doing Business Rankings

Economy	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Employing Workers	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
Burundi	176	130	172	88	118	167	154	116	175	172	183
Comoros	162	168	66	164	96	167	132	41	133	153	183
Djibouti	163	177	102	151	140	177	178	65	34	161	135
Eritrea	175	181	183	86	171	177	109	110	164	48	183
Ethiopia	107	93	60	98	110	127	119	42	159	57	77
Kenya	95	124	34	78	125	4	93	164	147	126	79
Rwanda	**67**	**11**	**90**	**30**	**38**	**61**	**27**	**59**	**170**	**40**	**183**
Seychelles	111	81	57	130	59	150	57	34	93	70	183
Sudan	154	118	139	153	37	135	154	93	142	146	183
Tanzania	131	120	178	131	145	87	93	120	108	31	113
Uganda	112	129	84	7	149	113	132	66	145	116	53

Source: World Economic Forum Report 2010

Annex 7: The COMESA-EAC-SADC Tripartite Arrangement

In the medium- to long-term, the regional integration agenda in Eastern and Southern Africa will be driven by the CES Tripartite Agreement, which has as its vision an expanded market and merger of the three RECs into one at an unspecified future date. The tripartite arrangement which covers 26 countries accounting for about 56% of the population and some 58% of the combined GDP of Africa in 2008, is a bold step to resolve the problem of multiple country membership in the three RECs. Its strategic objectives include the expansion of intra-regional trade and the promotion of inter-RECs collaboration in the form of joint planning, resource mobilization and project/program implementation. The key provisions of the draft Tripartite Agreement are: (i) establishment of the CES Tripartite Free Trade Agreement (FTA) to promote deeper trade integration; (ii) development of joint infrastructure programs, financing and implementation; (iii) design of joint programs for agricultural development and food security; (iv) development of programs to enhance movement of business persons, labour and services across the region; (v) harmonization of legal and institutional framework; and (vi) preparation of common regional positions and strategies in multilateral and international trade negotiations.

ased on a study completed in 2009, the draft CES FTA Agreement has been prepared, with 14 annexes covering various complementary areas necessary for an effective functioning of a regional market. Some of the complementary areas are: (a) promotion of value addition and transformation of the region into an information – and knowledge – based economy through a balanced use of intellectual property rights and ICT; (b) development of cultural heritage in the region particularly in the area of arts; and (c) development of sector strategies to increase productive capacity and link producers to buyers and consumers. The draft Agreement proposes the establishment of the Tripartite FTA on a tariff-free, quota-free, and exemption-free basis. However, there is a provision for countries to seek permission if they wish to maintain a few sensitive products in trading with some major economic partners for a specific period of time. The roadmap proposed in the draft FTA Agreement includes a preparatory period for consultations at national, regional and the tripartite level from early 2010 up to June 2011; a final Tripartite FTA Agreement by June 2011 and signature by July 2011; the launching of the Tripartite FTA in January 2012; and launching of an autonomous CES Tripartite FTA Secretariat in January 2013. This timeframe however appears too ambitious and some of the timelines have already been missed. The joint Task Force intends to revise the roadmap, shifting the launching of the FTA to 2014 or 2015.

Notable achievements under the Tripartite Arrangement are the launching of the Tripartite North-South Corridor (NSC) Investment Programme, a model aid for trade pilot program, in April 2009 and a successful fund raising for the programme at a High Level Conference held in Lusaka, Zambia on 6-7 April 2009. Donors pledged US$1.2 billion for the programme, of which the AfDB pledged US$ 600 million. Backstopped by DFID through TRADE MARK SA (TMSA), actions are being taken to fast track the implementation of the NSC and other prioritised corridor programmes. Corridor Experts are being recruited by the RECs; an MOU has been signed between the Tripartite Task Force and DFID on the management of the NSC programme; while a second MOU has also been signed between the Tripartite Task Force and the Development Bank for Southern Africa (DBSA) on the management of the NSC Fund. The Investment Committee established under the second MOU has considered financing proposals for the prioritised projects and approved a budget of US$ 10 million for 2010. Feasibility studies on various segments of the NSC network are already being undertaken by different donors, including under the NEPAD Infrastructure Project Preparation Facility (IPPF) managed by the Bank.

Annex 8: Transport Corridors

Table 1: Transport Corridors Serving Eastern Africa Region

Country	Transport Corridors	Country	Transport Corridors
Burundi	1. Central Corridor (starting from Dar es salaam: Isaka-Kigali-Bujumbura) 2. Northern Corridor (starting from Mombasa)	Uganda	1. Northern Corridor (starting from Mombasa) ending at borders with Rwanda and DRC 2. Kampala-Gulu-Juba 3. Possible to benefit from the undeveloped Tanga-Arusha-Musoma transport corridor
Kenya	1. Northern Corridor (starting from Mombasa) 2. Nanyuki-Lokichogio-Juba 3. North-South Corridor (Cape Town to Cairo) 4. Moyale-Negale-Addis	Rwanda	1. Northern Corridor (starting from Mombasa) 2. Central: Isaka-Kigali-Bujumbura 3. Possible to benefit from the undeveloped Tanga-Arusha-Musoma transport corridor
Tanzania	1. North-South Corridor (Cape Town to Cairo) 2. Dar es salaam or Tazara Corridor 3. Central Corridor 4. Potential: Mtwara Corridor 5. Potential: Tanga-Arusha-Musoma transport corridor	Djibouti	Djibouti-Addis Ababa corridor
		Eritrea	Transport corridors linking Asmara with Ethiopia and Somaliland
		Sudan	1. Southern-Sudan: Juba to Northern Uganda-Gulu 2. Southern Sudan: Juba to Northern Kenya: Lokichogio-Lodwar-Marallel-Nanyuki
Ethiopia	1. Addis Ababa-Djibouti 2. Addis Ababa-Wendo-Negale-Moyale	Seychelles and Comoros	Sea and Air links with continental Eastern African cities

Table 2: Ranking of Economic Potential of EAC/COMESA Corridors

Corridor	Scenario-A: Ranking for Potential for Growth utilizing mineral resources development	Scenario-B: Potential for Growth through intra-regional trade	Scenario-C: Growth through diversification and advancement of industrial structure
Addis-Djibouti	Low	Medium-high	Medium-high
Northern	High (with oil discoveries in Uganda)	High	Medium-high
Kenya-Ethiopia	Low	High	Low
Kenya-Sudan	High (oil)	High	Low
Uganda-Sudan	High (oil)	High	Low
North-South	Medium-High	High	Low-Medium
TAZARA	High	Medium	Medium
Mtwara	Medium	Low-Medium	Low
Central	Low-Medium	Medium	Low

Source: Own assessment as adopted from JICA, 2009

Annex 9: Eastern Africa – Donor Matrix

Table 1: Regional Operations – Donors' Areas of Focus

World Bank	Several projects running into an investment value of US$1 billion are currently under implementation in Eastern Africa under the World Bank Regional Integration Strategy for Sub-Saharan Africa (RIAS). They include: East Africa Trade and Transport Facilitation Project (US$300 million); Regional Communications Infrastructure Project (US$300 million); Geo-Thermal Energy Project, financed with Global Environmental Facility (US$70 million); EAC Regional Financial Integration Project (US$40 million); Lake Victoria Environmental Management Project (US$120 million); East Africa Agricultural Productivity Programme (US$120 million); and East Africa Public Health Laboratory Networking Project (US$60 million). The World Bank also a key partner in the Nile Basin Initiative (NBI) and its support has served as a catalyst for broad-based development of regional significant, running into more than US$1 billion in the first round of investments.
DFID	DFID has two major regional operations in Eastern Africa namely, the Regional East Africa Programme (focusing on Capacity Development Action Plan and Support for the CES Tripartite Process) and the East Africa Transit Improvement Programme (focusing on trade facilitation). DFID is also involved in the Nile Basin Initiative.
European Commission (EC)	The EC regional operations in Eastern Africa are in three main areas (i) Regional Economic Integration (80% of budget); (ii) Regional political cooperation (15%) and (iii) Other programmes (5% of budget). The EC' Horn of Africa Initiative, in which other partners, notably the World Bank and the AfDB, are also involved, covers projects in the transport, energy and water sectors along the major corridors in the Horn of Africa.
UNDP	UNDP's goal in Eastern Africa, and indeed in the whole of Africa, is to develop the region's capacity to promote pro-poor growth and accountability to accelerate its progress towards achieving the MDGs. In collaboration with its Regional Bureau for Africa, UNDP is conducting a study of the benefits of regional integration on human development and also assisting to set up a South-South Cooperation Unit.
AfDB	The AfDB's support for Eastern Africa focuses on transport corridors, Energy, ICT, Cooperation on shared water resources (for food security, water and sanitation and environmental management), trade facilitation, and climate change adaptation. The Bank is also participating in the EC Horn of Africa Initiative AfDB's ongoing projects in the region includes East African Trade and Facilitation Project, Arusha namanga Athi River Road Development Project, Arusha-Holili and Malindi-Lunga Mulitnational Roads Project, and Regional Power System Master Plan and Grid Code. The AfDB is also in the process of preparing the Lake Victoria Water and Sanitation Project.
Norway	Norway's ongoing projects in Eastern Africa includes the EAC Climate Change Initiative, the Regional Strategy on Scaling Up Access to Modern Energy Services, and the EAC Regional Integrated Multi-Sectoral Strategic Plan for HIV/AIDS.
USAID	Re-engaged COMESA through USAID Grant Agreement for management of river basins and protection of biodiversity. Co-financed the Diagnostic Study on Djibouti-Ethiopia, Central and Lamu corridors with DFID and JICA.
Holland	The HQ in the Hague is in the process of making a contribution to the TMEA programme for the region.
Denmark	Denmark is in the process of formulating a new programme (about US$30 million) to support the Partnership Fund in Arusha, TMEA, and possible TA.
German	The German Government channels its support to the region through two major German organizations namely the GTZ and KfW. Projects focus on peace and security, as well as water and sanitation.
TMEA	Trade Facilitation (OSBPs, Border Post Infrastructure, procedures audit, procedure mapping trade capacity building and EAC Customs Training Programme), Corridor Diagnostic Studies, Corridors Observatories, and EAC Capacity Building Project.

Source: Compiled from various sources including European Community, 2008. Regional Strategy Paper and Regional Indicative Programme 2008-2013.

Table 2: COMESA - International Cooperating Partners, 2010		
DONOR	**Project/Activities**	**Amount Committed**
European Union	Capacity building for regional integration at RECs and national level	€ 118.0 mil
	Capacity building for conflict prevention and peace building	€ 1.47 mil
	Support to programs on food security and risk management	€ 30.96 mil
	Support for development of ICT infrastructure	€ 21.0 mil
	Promotion of Trade and Business Forum	€ 0.096 mil
	Regional political integration and human support program	€ 1.6 mil
DFID	Capacity building for regional integration for establishment of free trade area	£12.6 mil
	Strengthen agricultural markets and inputs	US$ 2.25 mil
USAID	Support for corridor development projects on regional trade	US$10.71 mil
	Support for regional customs Transit Guarantee/bond scheme	US$1.0 mil
	Support for agricultural production and commodity trade	US$9.38 mil
	Promotion for Trade, institutional strengthening and Business Forum	US$7.6 mil
	Support to COMESA North Corridor Transit Facilities	US$0.65 mil
	Enhanced Livelihoods in Pastoralist Areas (Kenya, Ethiopia, Djibouti and Somalia)	US$14.8 mil
AfDB	Support for agricultural marketing and regional integration	UA 3.736 mil
	Enhance procurement reforms and capacity building	UA 5.658 mil
World Bank	Capacity building for public procurement reform in COMESA	US$0.472 mil
	Contribution to North-South Corridor Trade Facilitation Facility	US$40.0 mil
	Support to COMESA to monitor Implementation of is MTSP 2011 -2015	US$0.869 mil
WTO	Competitiveness and Trade Expansion (COMPETE)	US$ 6-10 mil per year for 4 years
CIDA	Support for regional Trade Development	US$4.3 mil
Norway	Support for initiatives on adaptation and mitigation to climate change	US$2.46 mil
Rockefeller Foundation and WWF	Support for initiatives on adaptation and mitigation to climate change	US$1.0 mil
Others	Support for agriculture, ICT, postal reform, and HIV/AIDS by COMESA countries	US$1.22mil

Source*: COMESA Secretariat.*

Annex 10: Bank Group Regional Operations Portfolio in Eastern Africa

Sector	Project	Approval Date	Signature date	Effectiveness Date	Current Disb. Deadline	Amount Approved (In loan currency)	Amount signed (In Loan currency)	Disbursed Amount (In UA)	Disbursement rate	OREB/OREA linked countries
Governance	Enhancing Procurement Reforms - Comesa	21.07.2006	14.08.2006		31.12.2011	5,660,000.00 UAC	5,660,000.00 UAC	3,983,339.78 UAC	70%	COMESA (Djibouti, Comoros, Ethiopia,Sudan)
Energy	Ethiopia - Djibouti Power Interconnectio	13.12.2004	16.05.2005	08.08.2006	31.12.2010	20,880,000.00 UAC	20,880,000.00 UAC	17,306,850.51 UAC	83%	Djibouti, Ethiopia
	Ethiopia-Djibouti Interconnection	13.12.2004	22.07.2005	08.08.2006	31.12.2010	17,600,000.00 UAC	17,600,000.00 UAC	16,953,945.74 UAC	96%	Djibouti
	Etude Inga Et Interconnexions Associées	30.04.2008	07.08.2008	#	31.12.2011	9,510,000.00 UAC	9,510,000.00 UAC	0.00 UAC	0%	DRC
	Interconnexion Reseaux Electriques Len	26.03.2010	28.05.2010	#	31.12.2014	74,450,000.00 UAC	74,450,000.00 UAC	0.00 UAC	0%	NILESAP- Kenya, Uganda,
		26.03.2010	26.03.2010	#	26.03.2017	5,406,000,000 JPY	5,406,000,000 JPY	0 JPY	0%	Rwanda, Burundi, DRC
	Ethiopia Djibouti Supplementary Loan	08.10.2008	13.11.2008	06.07.2009	31.12.2010	20,920,000.00 UAC	20,920,000.00 UAC	11,094,415.44 UAC	53%	Ethiopia, Djibouti
	Nelsap Interconnection Project-Nbi	27.11.2008	12.09.2009	02.07.2010	31.12.2014	94,190,000.00 UAC	1,210,000.00 UAC	194,810.96 UAC	16%	Rwanda, Kenya, Uganda, Burundi
	Etude Lignes Transport Energie Rusumo	27.10.2006	30.04.2007	05.10.2007	31.12.2009	2,571,210.00 UAC	2,571,210.00 UAC	1,466,310.42 UAC	57%	Tanzania, Burundi, Rwanda
Social	Odl Systems Capacity Building In Sadc Co	20.12.2006	06.04.2007	08.10.2007	31.12.2012	15,000,000.00 UAC	15,000,000.00 UAC	1,989,866.67 UAC	13%	SADC
	Sadc Support To Hiv/Aids, Malaria & Tb	31.05.2006	19.06.2006	15.12.2006	31.12.2012	20,000,000.00 UAC	20,000,000.00 UAC	6,328,687.56 UAC	32%	SADC
	Initiative Prevention Vih/Ist De La Coi	24.11.2004	03.05.2005	20.02.2006	31.12.2010	6,000,000.00 UAC	6,000,000.00 UAC	4,226,115.87 UAC	70%	IOC : Comores, Maurice, Madagascar, Seychelles et France (Ile de la Réunion)

	Apoc (Phase Iii)	15.07.2008	04.12.2008	15.12.2008	31.12.2016	15,000,000.00 UAC	15,000,000.00 UAC	8,834,289.48 UAC	59%	Ethiopia,Sudan, Burundi, Kenya, Rwanda, Tanzanie, Ouganda
	Pattec - Creation Of Sustainable Tsetse	08.12.2004	16.03.2005	21.09.2005	31.12.2011	1,500,000.00 UAC	1,500,000.00 UAC	984,012.02 UAC	66%	Kenya, Uganda, Ethiopia
	Nbi Ensap Irrigation And Drainage Study	31.03.2004	28.01.2005	06.01.2006	30.06.2010	1,750,000.00 UAC	1,750,000.00 UAC	1,533,056.10 UAC	88%	Ethiopia
	Sadc- Strengthening Of Insitutions For R	05.07.2006	13.12.2006	26.09.2007	31.12.2012	13,710,000.00 UAC	13,710,000.00 UAC	5,491,714.56 UAC	40%	SADC
	Prog. D'amenag. Lac Tanganyika	17.11.2004	01.02.2005	29.09.2009	31.01.2012	24,960,000.00 UAC	24,960,000.00 UAC	2,591,918.38 UAC	10%	RDC,Burundi,Tanzania, Zambia
	Agr Mkt Prom & Reg Integration To Comesa	24.03.2004	01.07.2004	21.02.2005	31.12.2010	3,736,000.00 UAC	3,736,000.00 UAC	2,824,189.14 UAC	76%	COMESA
Agriculture	Projet Dev. Rural Du Bugesera	25.09.2009	04.11.2009	06.04.2010	31.12.2015	30,000,000.00 UAC	30,000,000.00 UAC	532,775.86 UAC	2%	Rwanda, Burundi
	Creation Of Sustainable Tsetse	08.12.2004	19.05.2005	22.01.2007	31.12.2011	46,000,000.00 UAC	46,000,000.00 UAC	19,480,666.89 UAC	42%	Ethiopia, Kenya,Uganda,Burkina, Mali
	Water Resources Planning And Management	06.10.2004	05.04.2005	17.11.2006	31.12.2010	2,100,000.00 UAC	2,100,000.00 UAC	1,295,730.12 UAC	62%	Nile Bassin countries
	The company for Habitat and Housing in Africa (Shelter Afrique)	1980				3,391,371.00 UAC	3,391,371.00 UAC	3,391,371.00 UAC	100%	Regional
	PTA Bank Equity I	1991				13,836,793.00 UAC	13,836,793.00 UAC	4,612,264.55 UAC	33%	Regional
	East African Development Bank(EADB) Equity I	10.02.1999	20.04.1999			4,578,350.00 UAC	4,578,350.00 UAC	4,578,350.00 UAC	100%	Regional
	Djibouti Bulk Terminal Project	03.12.2003	11.06.2006			6,782,741.00 UAC	6,782,741.00 UAC	6,782,741.00 UAC	100%	Djibouti
	Eadb Support Project 7	17.12.2003	19.04.2004	29.12.2004	31.12.2010	40,000,000.00 USD	40,000,000.00 USD	35,424,246.14 USD	89%	Regional
	Eadb Support Project 7	17.12.2003	19.04.2004	29.12.2004	31.12.2009	900,000.00 UAC	900,000.00 UAC	683,771.36 UAC	76%	Regional
	Pta Bank First Line Of Credit & Ta Suppo	17.12.2003	10.02.2004	30.09.2004	31.12.2009	30,000,000.00 USD	30,000,000.00 USD	30,000,000.00 USD	100%	Regional
	Pta Bank First Line Of Credit & Ta	17.12.	10.02.	30.09.200	30.12.2	680,000.00	680,000.00	599,527.66	88%	Regional

	Suppo	2003	2004	4	009	UAC	UAC	UAC		
Private sector	Bujagali Hydropower project	02.05. 2007	21.12.2007			74,610,161.9 0 UAC	74,610,161.9 0 UAC	50,871,383. 09 UAC	68%	Uganda
	Eadb Fapa Grant	28.12. 2007	#	#	#	1,000,000.00 USD	1,000,000.00 USD	0.00 USD	0%	Regional
	Shelter-Afrique Fapa Grant	27.12. 2007	31.07. 2009	28.07.201 0	31.12.2 011	950,000.00 USD	950,000.00 USD	538,500.00 USD	57%	Regional
	Buseruka Hydropower project	9.07.2 008	09.04.2009			6,104,467.79 UAC	6,104,467.79 UAC	3,052,233.9 0 UAC	50%	Uganda
	Pta Bank 2nd Line Of Credit & Ta Support	08.08. 2008	15.05. 2008	25.10.200 8	30.06.2 012	50,000,000.0 0 USD	50,000,000.0 0 USD	50,000,000. 00 USD	100%	Regional
	General Capital Increase of PTA Bank	12.03. 2008	15.05.2008			32,285,851.8 8 UAC	32,285,851.8 8 UAC	4,612,264.5 5 UAC	14%	Regional
	PTA Bank Investment Project LOC	08.08. 2008	08.08. 2008	25.06.200 9	31.12.2 010	1,000,000.00 USD	1,000,000.00 USD	400,000.00 USD	40%	Regional
	Shelter-Afrique Financial Support Proj.	18.02. 2009	31.07. 2009	22.03.201 0	31.07.2 010	30,000,000.0 0 USD	30,000,000.0 0 USD	10,000,000. 00 USD	33%	Regional
	Increase of the Bank Equity Participation in the Capital of the Company for Habitat and Housing in Africa (Shelter Afrique)	18.02. 2009	31.07.2009			5,087,056.49 UAC	5,087,056.49 UAC	5,087,056.4 9 UAC	100%	Regional
	Emerging Africa Infrastructure Fund	11.03. 2009	25.06. 2010	#	#	36,250,000.0 0 USD	31,250,000.0 0 USD	0.00 USD	0%	Regional
	Emerging Africa Infrastruture Fund Stdby	11.03. 2009	25.06. 2010	#	#	12,500,000.0 0 USD	12,500,000.0 0 USD	0.00 USD	0%	Regional
	Equity Investment in Aureos Africa Fund LLC.	10.06. 2009	15.12.2009			20,348,225.9 7 UAC	20,348,225.9 7 UAC	8,115,835.6 7 UAC	40%	Regional
	Kenya/Ethiopia: Mombasa-Nairobi-Addis Rd	13.12. 2004	04.02. 2005	24.01.200 6	31.12.2 010	36,150,000.0 0 UAC	36,150,000.0 0 UAC	24,583,042. 31 UAC	68%	Kenya, Ethiopia
	Mombasa-Nairobi-Addis Corridor Ii	01.07. 2009	15.01. 2010	#	31.12.2 015	210,000,000. 00 UAC	210,000,000. 00 UAC	0.00 UAC	0%	Ethiopia, Kenya
	Botswana/Zambia - Sadc North-	01.12.	17.05.	04.09.200	31.12.2	2,050,000.00	2,050,000.00	921,901.23	45%	SADC

	South Corri	2006	2007	8	010	UAC	UAC	UAC		
		01.12.2006	04.12.2007	02.12.2008	31.12.2010					
	Projet De Route Kicukiro - Kirundo	20.09.2006	30.10.2006	15.03.2007	30.11.2011	60,400,000.00 UAC	60,400,000.00 UAC	23,355,947.24 UAC	39%	Rwanda, Burundi
Transport	Arusha- Namanga-Athi River Road Developm	13.12.2006	08.02.2007	28.10.2008	31.12.2012	53,816,000.00 UAC	4,038,000.00 UAC	395,987.45 UAC	10%	
		13.12.2006	09.03.2007	28.10.2008	31.12.2013	6,857,000,000 JPY	6,857,000,000 JPY	1,652,562,701 JPY	24%	
	Multi-Nacala Road Corridor (Mozambique)	10.03.2010	23.10.2009	#	30.06.2015	102,720,000.00 UAC	102,720,000.00 UAC	0.00 UAC	0%	Mozambique
		10.03.2010	10.03.2010	#	10.03.2016	5,978,000,000 JPY	5,978,000,000 JPY	0 JPY	0%	Zambia
	Nacala Corridor Project Phase II	27.09.2010	#	#	#	69,369,000.00 UAC	0.00 UAC	0.00 UAC	#DIV/0!	Malawi
	Multi-Nacala Road Corridor	24.06.2009	21.10.2009	21.07.2010	31.12.2013	14,320,000.00 UAC	14,320,000.00 UAC	0.00 UAC	0%	
	Arusha - Namanga-Athi River Road Dev Pj	13.12.2006	08.02.2007	04.01.2008	31.12.2012	49,241,000.00 UAC	49,241,000.00 UAC	26,691,779.20 UAC	54%	Tanzania
	Sadc Technical Assistance - Transport	01.12.2006	17.05.2007	11.12.2007	31.12.2010	350,000.00 UAC	350,000.00 UAC	162,291.91 UAC	46%	SADC
	Route Nyamitanga-Ruhwa-Ntendezi-Mwityazo	16.12.2008	16.03.2009	14.05.2010	31.12.2013	100,000,000.00 UAC	100,000,000.00 UAC	8,052,046.40 UAC	8%	Burundi, Burundi
	Phase 2 Chemin Fer Dsm-Isaka-Kiga/Keza-M	17.11.2009	31.03.2010	#	31.12.2012	5,000,000.00 UAC	5,000,000.00 UAC	0.00 UAC	0%	Tanzania, Rwanda, Burundi
	East Africa Trade & Transport (Eac)	29.11.2006	08.02.2007	05.05.2009	31.12.2012	15,400,000.00 UAC	9,200,000.00 UAC	2,574,279.41 UAC	28%	EAC
	Sadc-Shared Watercourses Support Project	25.01.2006	18.05.2006	01.02.2008	31.12.2010	9,380,000.00 UAC	9,380,000.00 UAC	1,279,003.93 UAC	14%	SADC
	MAPPING TRANSBOUNDAY WATERS	09.01.2007	18.05.2007	15.08.2007	31.07.2011	1,831,600.00 EUR	1,831,600.00 EUR	1,095,750.00 EUR	60%	Djibouti, l'Érythrée, le Kenya, l'Ouganda, la Somalie, l'Éthiopie et le Soudan.

Water & Sanitation	STRENGTHENING WATER ENGINEERING CAPACITY	29.09. 2008	05.02. 2009	26.02.2009	31.07.2014	1,990,000.00 EUR	1,990,000.00 EUR	820,958.00 EUR	41%	Burundi, Centrafrique, Côte d'Ivoire, Congo, Guinée, Guinée-Bissau, Liberia, RDC, Rwanda, Sierra Leone et Chad andTogo
	LAKE VICTORIA WATSAN	03.03. 2008	01.08. 2008	24.11.2008	31.10.2010	994,000.00 EUR	994,000.00 EUR	994,000.00 EUR	100%	Burundi, Kenya, Rwanda, Tanzania and Uganda,
	SUPPORT TO SADC WSS PROGRAMME	04.06. 2009	17.03. 2010	#	31.12.2011	1,997,000.00 EUR	1,997,000.00 EUR	0.00 EUR	0%	SADC
	GRET LACS RWERU, CYOHOHA ET MAR. AKANYAR	22.12. 2009	16.05. 2010	#	30.12.2011	770,000.00 EUR	770,000.00 EUR	0.00 EUR	0%	Burundi and Rwanda
	SONGWE RIVER BASIN DEVELOPMENT PROJECT	25.05. 2010 25.05. 2010	# #	# #	# #	557,550.00 EUR 2,991,450.00 EUR	0.00 EUR 0.00 EUR	0.00 EUR 0.00 EUR		Malawi et Tanzanie

Annex 11: Potential Regional Operations, 2011-2015

Table 1: Potential Deliverables and Targets

Projects	**Estimated cost UA million**	**Funding Sources**
Energy Projects		
1.Projet Hydroelectrique Rusumo falls Study (Burundi/Rwanda/Tanzania)	3.12	ADF
2.Amenagement hydroelectrique de Ruzizi III	14.0	ADF
3.Power Interconnection Kenya/Tanzania/Zambia)	10.0	ADF
4.Ethiopia/Kenya Power Interconnection Project	200.0	ADF
5.Tanzania-Zambia Interconnector	TBD	ADF
6. NRE Projects	TBD	ADF
Transport Projects		
7. Arusha-Voi Taveta (Tanzania/Kenya) Road Project	20.0	ADF
8. Isaka-Kigali/Keza-Musongali (Tanzania/Rwanda/Burundi) Rail Project	TBD	ADF
9. Mueda-Negomano Road Study (Mozambique/Tanzania)	5.0	ADF
10. Mombasa-Nairobi-Addis Ababa Corridor Project (Phase III)	150.0	ADF
11. Rail Concessions Study	TBD	ADF
12. TAZARA Rail Improvement Project	TBD	ADF
13. Railway Equipment Leasing Project	TBD	ADF
14. Upgrading/Development of Port of Berbera	TBD	ADF
15. Port of Tanga Improvement Project	67.0	ADF
ICT Regional Operations		
16 .EAC Broadband Infrastructure Network (Tanzania/Uganda/Kenya/Burundi/Rwanda)	20.0	ADF
17. Maritime Communications for Safety on Lake Victoria (Uganda/Kenya/Tanzania)	5.6	ADF
18. Seychelles Submarine Cable Link Project (Seychelles and one of the landing points in Eastern Africa - Kenya or Tanzania)	24.0	ADB
Agriculture/Water Projects		
19. Lake Edward and Albert Fisheries Development Project	25.0	ADF
20. Etude de faisabilite du transfert d'une partie eaux du lac Afambo (Ethiopie) a Djibouti	5.0	ADF
Capacity Building/Facilitation/Regional Public Good		
21. T/A for the Preparation of the Tripartite Strategic Framework	TBD	ADF
22. Capacity Support for Infrastructure Development	TBD	ADF
23. Capacity Support for trade Facilitation	TBD	ADF
24. Climate Change Adaptation Project (RPG)	TBD	ADF
25. IGAD Regional Animal Health and Management Programme (RPG)	TBD	ADF
26. IGAD Trans-boundary Animal Diseases Controls Project (RPG)	TBD	ADF
27. Management of Shared Water Courses (Nile Basin and Lake Victoria Basin Initiatives) (RPG)	TBD	ADF

Table 2: EAC Infrastructure Projects Linking with COMESA and SADC

	EAC Identified Projects	Km	USD mil
I	**North-South Transport Corridor**		
1.1	Dodoma-Babati tarmac road (studies and actual construction)-Central Tanzania missing link	263	65.750
1.2	Turbi-Moyale tarmac road (Kenya-Ethiopia link) (compensation, construction)	136	34.000
1.3	10 year annual regular maintenance of the North-South Corridor: from border in S. Tanzania to border in N. Ethiopia) (30% of the whole network from Zimbabwe to Egypt, estimated at USD 9.6 billion for 20 yrs)	1500	1,500
	Sub-total		***1,599.75***
II	**Mtwara Transport Corridor (southern Tanzania linking with SADC and DR Congo)**		
2.1	Mangaka-Tunduru road (studies and civil works) in Southern Tanzania	146	36.5
2.2	Mbinga-Mbaba Bay Road (studies and civil works) in Southern Tanzania	66	16.5
2.3	Nkhata Bay-Mzuzu (Malawi- synergy on the investment on the Tanzanian side)	47	11.75
2.4	Improvements on the port of Mtwara (studies)	1	0.4
2.5	Mangaka-Mtambaswara (S. Tanzania) to Negomano-Mueda (Northern Mozambique)-study	1	0.5
	Sub-total		***64.751***
III	**Central Transport Corridor**		
3.1	Further improvements on the Port of Dar es salaam	1	150
	Improvements on the port of Tanga	1	100
	Arusha to Holili Road (civil works)	125	31.25
	Taveta-Voi Road (civil works)	115	28.75
	OSBP Construction at Holili/Taveta Border (study and construction)	1	2.0
	Mpanda-Uvinza-Kibondo-Nyakanazi (studies, compensation and construction)	562	140.5
	Sub-total		***450.2***
IV	**Northern Corridor**		
4.1	Malindi-Lungalunga-Bagamoyo road (linking northern with Central Corridor, North-South and Mtwara Corridors) (post studies interventions- actual construction) ('000)	400	100
4.2	Malindi-Gasern-Lamu road (studies)	1	0.425
4.3	Kyaka-Murungo-Kikagati road (studies) (Linking Tanzania with Uganda)	1	0.425
4.4	Kitale-Swan-Kapchorwa (studies) (linking Kenya with Uganda)	1	0.425
4.3	Mwandiga-Manyovu (Tanzania)/Mugina-Mabanda-Rumonge (Burundi) (studies)	1	0.45
4.5	Lusahunga (Tanzania)-Rusumo-Kayonza-Kigali (Rwanda) road-154km (studies)	1	0.525
	Sub-total		***100.02***
	Grand Total I-IV, USD million		**1,967.25**

Source: Transport Sector Background Study (projects derived from EAC, 2010 Transport, Communication and Meteorology Sector Council Minutes and discussions by the consultant with EAC Directorate of Infrastructure, EAC Secretariat (June and July 2010). Indicated costs are estimates by the Transport Consultant.

Table 3: Potential Railway Studies and Projects.

(a) Studies

Railways Studies	**Narrative**	**Cost per project or km (USD mil)**	**Total Cost, USD mil**
1. Study to establish a regional locomotive and wagon leasing pool	Feasibility study to establish a regional locomotive and wagon leasing pool to collectively solve the shortage of such facilities	1.0	1.0
2. Establishing a regional locomotive and wagon leasing pool[26]	Initial capital for establishing and running a regional locomotive and wagon leasing pool to collectively solve the shortage of such facilities. Cost over 5 years	30/year	150
3. In-depth Study for upgrading narrow gauged rails to the wider gauge.	In order to share the pool of wagons to be established there is need to have standardised and harmonised infrastructure and systems	1.00	1.00
Total			**152**

(b) Projects

Linked Countries	USD mil	Geographic Linkage and Economic Importance
Uganda-DRC	1,755.0	Kasese to Kisangani, linking mineral rich parts of Uganda and DR Congo
Uganda-Sudan	5,557.5	Linking Northern Uganda and opening southern Sudan as a market for EAC goods and import of natural resources
Kenya-Sudan	2,560.0	Linking Kenya and opening southern Sudan as a market for EAC goods and import of natural resources from S. Sudan
Kenya-Ethiopia	4,548.75	Linking Kenya with the Ethiopian as a market for EAC goods and exports from Ethiopia
Kenya-Somalia	1,200.0	Linking Kenya and Somalia as a market for EAC goods and exports from Somalia
Tanzania-Rwanda-Burundi	3,207.5	Improving access by the landlocked countries to the gateways of Dar es salaam and Tanga ports
Tanzania-DR Congo-Zambia	2,231.6	Improving access by the landlocked countries to the southern Tanzania regions and also access to the Mtwara and TAZARA corridors and the ports of DSM and Tanga
Tanzania-Uganda	2,551.5	Improving access by the landlocked countries to the gateways of DSM and Tanga ports
Tanzania Mtwara Corridor	6,115.4	Linking the Mtwara corridor with TAZARA and the rest of the EAC economy. Transporting coal and iron from Liganga to the industrial cities
Rehabilitation and Maintenance of EAC Railway network	610.0	Improve existing network: Eliminate speed restrictions on core track; rehabilitate bridges to be carried over the next 20 years. Costs for the next 10 years Improve existing network: Eliminate speed restrictions on core track; rehabilitate bridges to be carried over the next 20 years. Costs for the next 10 years
	30,337.25	

Source: East Africa Transport Sector Study