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Concept Note
The Governance of Integration

Department of Economic Affairs

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I. Introduction

1. The theme identified for COMAI VI is 'Governance of Integration'. The purpose behind the selection of this years' thematic focus is to ignite debate and action orientated recommendations to address some of the most debilitating challenges constraining the effective acceleration and realization of Africa's economic integration agenda. While the potential for regional integration is recognised as a means of fostering common and broad based development, sharing of opportunities, managing of risks, reducing poverty as well as production and wealth creation, more decisive action is needed to turn such potential into tangible gains for African citizens and African economies. Gaps remain between promise and performance, with critical bottlenecks in the following areas:

   - Financing constraints exhibited by weak self-financing mechanisms and over reliance on donor funding;
   - Slow pace of free movement across some Communities and the continent as a whole;
   - Insufficient citizen ownership and enabling environment for a people centred approach to integration; and
   - Despite the numerous protocols, that have been signed and ratified, implementation remains poor with legal texts insufficiently transposed into national legislation for implementation in Member States.

2. This Concept Note aims to elaborate on these key constraints with a view to inspiring lasting solutions to the challenges faced. Regional economic integration has been regarded as a rational response by the continent to address and overcome the challenges imposed by globalization with regard to competitiveness, production and supply capacities, trade, investment, finance, technology transfer, knowledge development and innovation as well as skilled human resource capacity. It has also been considered as one of the best means for the continent to stem the adverse effects of Africa's balkanization in the aftermath of colonialism. It is also viewed with positive potentialities to compensate for the disadvantages of being landlocked and the fragmentation that limits market size and denies economies of scale to many countries. Further, by pooling capacities and resources, it has the potential to enhance the abilities of the continent to better respond to vulnerabilities and shocks. African integration has therefore, remained over the decades a major development strategy for the continent and key to overcoming economic fragmentation, promote economic diversification, build cross-border linkages among productive entities, enhance welfare gains, reduce poverty and raise living standards.

3. As a result of the forgoing, many governments have concluded a number of regional integration agreements, with varying degrees of overlap. While the African Economic Community (AEC), as set out in the Abuja Treaty, constitutes the ultimate goal and target of the integration agenda of the AU and its eight officially recognized REC and while many of the regional integration agreements and the

Abuja Treaty itself are characterized by ambitious targets, progress has been patchy and varies, not only across the eight RECs, but also the Member States who constitute the primary enablers of integration. The Abuja Treaty itself is characterized by six (6) stages divided between two levels (region and continental) and is at stage three (3) of the process (establishment of Free Trade Areas (FTAs) and Customs Unions at the regional level by 2017).

4. Yet despite COMESA, ECCAS, SADC and ECOWAS all having reached FTA status, the level of implementation and consolidation varies. Moreover, while all have Customs Union programmes in place for the realisation of this objective before 2017, these have suffered from numerous sets backs, delays and a recasting of the launch date. The only REC to standout as having launched and consolidated its Customs Union and launched a Common Market is EAC, in January 1, 2005 and June 2010, respectively. While the only REC to have in place an operational and functioning self-financing system is ECOWAS, in the form of its Community Levy.

5. It should be underscored, that some tangible progress has been made by African countries towards regional integration, through greater promotion of trade related infrastructure such as customs single windows (one stop border posts), the utilization of computerized customs networks across Member States as a means of integrating, modernizing, digitizing and accelerating customs clearance procedures and to coordinate the collation and exchange of customs information particularly import and export data between national customs administrations.The development of transport infrastructure and power interconnection projects, tariff reductions (which have fallen from 16.7 per cent to 7.1 per cent from 2000-2009) and growing levels of intra-regional trade within some Communities.

6. Free movement is also promoted by some of the Communities, with regional passports and other travel and insurance documents in place, such as the ECOWAS and EAC Passport and the yellow and brown card schemes in operation in COMESA and ECOWAS, respectively. Some RECs are also working towards the harmonisation of investment policies and are monitoring compliance with monetary convergence programme criteria. Further, efforts to bring a degree of order, simplification and coherence to the Africa's integration arrangement and address overlap have recently culminated in the EAC-COMESA-SADC Tripartite Arrangement, whose apparent success has sparked calls by AU Heads of State for its emulation amongst other RECs.

7. Yet despite the noble progress, African integration remains largely fragmented, beset with problems of inadequate human and financial resources at all levels (not only for implementation but research and analysis as well as monitoring and evaluation of impact), poor coordination and information exchange at the various institutional levels (which can decelerate the pace of transpositioning and domestication at the national level), poor implementation of decisions, political reticence on some issues, over emphasis on national priorities rather than regional

considerations, persistent cross border trade challenges such as NTBs and low level of infrastructure and energy development. Further, security concerns and misconceptions by national governments and citizens alike continue to hinder the wide spread application of free movement decisions. Moreover, the process suffers from a general lack of sufficient citizen involvement and an enabling environment for all actors in society (parliaments, private sector, civil society, research institutions) to participate and make a meaningful contribution in policy formulation and decision-making processes. An inclusive approach to integration and economic growth must ensure the mobilisation and utilisation of all available resources within a region for economic and social development.

8. As the benefits of integration begin to be felt in certain sectors, the expectations of Africans is increasing, keen to see tangible benefits in the form of employment, rising incomes and better infrastructure. For Africa to keep pace with these reasonable expectations, governments and regional and continental institutions alike must step up to the mantle by hastening the pace, depth and delivery of integration agreements, while engaging in continuous dialogue with the African citizenry who in themselves breath practical reality into the functionality of integration, constitute the main drivers of the process and on whom its impact will be felt the most – whether negative or positive.

II. People Centred Integration - Citizen Participation

9. The African integration process has typically been characterised as an institutionally driven agenda. While the notion of bottom-up and inclusive approach are often used, this has often been in reference to the RECs. Moreover, regional institutions (AU, RECs) and even NEPAD were created in a top-down fashion and as such sometimes perpetuate a similar *modas operandi*. Consequently, a major weakness of regional integration schemes and processes to date has been the insufficient level of public participation, where by marginalized groups including women, youth, and the poor have been insufficiently included in decision-making and implementation processes. If citizens continue to be insufficiently involved in shaping policies that affect their lives, the integration process could face a severe crisis of popular opposition from the same people required to drive the agenda forward and who experience its impact.

10. For integration and integration institutions to succeed, African people, beyond governmental and institutional technocrats, must begin to feel a sense of ownership towards the organizations and their policies. In this regard, accountability of regional institutions to national parliaments and involvement of local governments is fundamental to the process to enhance legitimacy and accountability of decisions and utilization of funds. A major drawback of regional organizations and Member States in being able to meet integration objectives has been their state-centeredness. Similarly, lack of knowledge at all levels of society about regional integration remains a major impediment to progress. Further, citizens, private sector

and other non-state actors are not aggressive enough in challenging policy makers to create a space for dialogue between the states and non-state actors.

11. It should be mentioned that levels of public participation vary across regional integration institutions. Notable efforts are being made by the AU, ECOWAS, COMESA, EAC and SADC to better engage with the private sector, women, broader levels of civil society as well as parliaments through institutions such as the East African Parliament and Legislative Assembly as well as the Pan-African Parliament and the African Court of Human and Peoples Rights. Some RECs are trying to ensure a people centres approach to integration such as ECOWAS, articulated in its new vision – premised upon an ECOWAS of the people framework, and adopting a vision that replaces the previous 'ECOWAS of States', to 'ECOWAS of the People'. These developments have entailed a gradual recognition of the importance of allowing African people (the average man, women and youth) to participate more actively in decisions that affect their lives and interests and benefit from a transparent, participatory and accountable mode of regional governance. However, these new approaches also imply the necessary empowerment of people (poor, rich and middle class alike) to be able to take hold of a more inclusive processes. Although combating poverty and achieving economic transformation and structural change are overarching priorities of Africa's integration agenda, a people centered, pro-poor regional integration approach is yet to fully be realized.

12. Structural factors prevailing in many Africa economies such as market imperfections, labour immobility, weak and shallow financial systems, low skills base, lack of mineral beneficiation, infrastructure bottlenecks as well as governance weakness can constrain the speed with which the benefits of integration materialize. Recognizing existing constraints and understanding the starting conditions with respect to opportunities and capacities, especially among the poor, is crucial for deciding on the design and sequence of policy reform and the nature of complementary measures to accompany integration. Such an understanding can only derive from people themselves, upon whom integration is predicated. The uneven distribution of the costs and benefits of regional integration can emerge if Member States within a given Community and at the continental level as a whole do not agree on how these should be distributed. This can subsequently affect the sustainability of the integration project itself and therefore requires stakeholder involvement in policy reform processes and the design of re-distributive measures. In this regard, one of the key roles of regional institutions should be to promote regular public discourse for enhanced citizen participation in shaping the regional integration agenda.

III. Implementation of Decisions

13. Despite Africa's positive growth momentum over the past decade and expansion of the middle class, this has not been commensurate with significant levels of poverty reduction, productive and formal employment creation as well as improved health indicators. These have been the annual findings of the Africa MDG Report. The

majority of Africans' still live on less than USD1.25 dollar per day, with productive activities concentrated in the agricultural and informal sectors, while the proportion of the population living below the poverty line in Africa (excluding North Africa) was at 47.5 percent in 2008[1]. Although poverty has been on a slow decline, Africa is unlikely to meet the MDG target of halving the proportion of people living on less than USD 1.25 a day. Consequently the expectations of African peoples are yet to fully materialise after decades of effort towards integration.

14. One contributory factor is that all too often decisions at the regional and continental level are not binding on Member States, with limited accountability, domestication and transpositioning of decisions in Member States legislation. Decisions, Protocols, Agreements and Strategies Programmes are not enforced by the Communities and the AU alike. With the RECs and the AU lacking decision-making power as national sovereignty continues to take precedence over regionalism. Critical instruments for accelerating economic integration in the Continent on trade and customs liberalisation; compensation mechanisms for loss of revenue; rules of origin; multi-lateral surveillance mechanism; elimination of tariff and non-tariff barriers; and democracy and good governance remain in some Communities scantly transposed let alone implemented.

IV. Free movement

15. An essential cornerstone of economic integration and market expansion is the free movement of factors of production (people, goods, services and capital as well as the right of establishment and residence of nationals) within a regional and Continental market area. Free movement of factors of production also includes according individuals, consumers and businesses the right and freedom to live, work, study or retire in another participating country. It also entails enabling those actors to encounter increased competition leading to lower prices; a wider choice of goods and services; higher levels of protection; as well as undertake easier and cheaper ways of doing business across borders.

16. In Africa, comprehensive implementation of protocols on free movement are mixed across the RECs, with implementation hampered in part by poor implementation of legal instruments; corruption and harassment at border points; security concerns, misconceptions and distrust between some Members States; as well as persistent tariff and NTB barriers. However, it is through increasing the supply of productive factors and their seamless movement between participating countries in a given economic space that efficiency gains can be exploited.

a) Goods and People

17. At the level of trade in goods, a number of RECs (COMESA, EAC, ECOWAS and SADC) have embarked on the harmonization and simplification of customs procedures documentation, nomenclature rules of origin as well as installing one

[1] Latest poverty figures from the MDG Report 2012: Assessing Progress in Africa toward the Millennium Development Goals.

stop border posts (OSBP) at key border crossings. However, free movement of people remains the most difficult to realize in practice, despite the existence of legal frameworks and programmes at the level of each Community. Some RECs are taking steps to facilitate the movement of people through agreements on visa relaxation, single tourist visas, regional passports (ECOWAS, EAC) and regional motor vehicle insurance schemes (ECOWAS and COMESA). However, ECCAS, SADC, IGAD and CEN-SAD lag behind due in part to immigration, procedural barriers as well as recent political upheavals, particularly in Libya, the host country for CEN-SAD Headquarters.

b) Services

18. There is also limited progress in service liberalisation, despite stated objectives to the contrary. Most of the RECs are yet to embark on comprehensive services liberalization agendas, with a handful working towards the harmonization of business laws. However, it is understood that successful market integration in financial services requires the coordination of essential prudential rules, mutual recognition of a single license as well as home country control. This would allow cross border supervision of service entities across participating countries with the necessary complement of binding Decisions and regulations from a supra national authority that can strengthen the sector. Africa also has a number of successful home-grown telecommunications and Banking institutions (with a Continental and global reach), such as MTNs, Zain, Standard Bank, Ecobank, UBA, which facilitate international transactions and intra-African trade. Replicating these success stories will contribute to an efficient and deeper financial services sector in the Continent as well the continued development of financial products that support trade in goods across borders, international transactions, while also enabling individuals to access their money from anywhere in the continent.

c) Capital

19. Concerning free movement of capital, some RECs have in place legal texts to harmonise monetary and fiscal policies. For example, COMESA, EAC, ECOWAS, and SADC alongside working towards harmonization of business and financial laws also have in place monetary and fiscal prgrammes in support of capital movement across the continent and internationally. Enhancing capital mobility could help generate the necessary complementary financial leverage required by entrepreneurs and investors, thus also reducing investor risk aversion. However, in view of the recent financial and economic crises, there is need to strike the right balance between regulation and encouraging financial innovation, while also developing the necessary financial architecture that contains inbuilt crisis prevention and management as well as mechanisms that can be used to finance banks that go into a crisis. A number of Communities are yet to venture this far.

V. Financing Integration

20. Regional integration is a resource intensive process and Member States and development partners should not be the only source of finance, yet the contrary is the case with development partners disproportionately supporting the bulk of programmes within the RECs and the AU alike. This not only undermines the principle and concept of ownership, but also raises questions regarding accountability with less accountability registered horizontally to African citizens and more accountability directed vertically to external actors. Further, traditional financing mechanisms are characterized by the following weaknesses and shortcomings:

    - **Member State assessed contributions:** build-up of arrears by Member States; delays in effective payment of contributions; and increased dependence on a singular source of primary funding, which is not paid regularly.
    - **Development partners:** cumbersome reporting requirements of development partners; delayed disbursements from development partners due to poor reporting; interference by development partners in the areas where resources are spent; promotion by development partners of their own integration and development agendas which can be at odds with Africa's own priorities and objectives; and crippling of organisational activities and ability to deliver due to late partner disbursements.

21. The current situation is grossly unsatisfactory and has at times led to the hijacking of the African integration agenda, with the process sometimes pursued according to the priorities of development partners. Another consequence is the uneven distribution of financial benefits to sectors depending on the interest of donors. It is such that economic issues and production factors receive less financial support compared to other sectors and essential integration programmes struggle to secure financing for their implementation. According to OECD data, sector commitments from donors in 2010 was the following: Social (40%), economic (22%), production (10%), multi sector (6%), general programme aid (6%), debt relief (8%), humanitarian (7%) others (1%)[2].

22. The magnitude of the challenges demonstrates the urgency with which the current financing mechanism requires overhauling, replacing and/or supplementing by more diversified sources of financing. This would enable the AU and the REC to be more effective and less dependent on international assistance while giving the revenue side of State treasuries more depth, flexibility and stability. A number of studies have been conducted looking at possible alternative sources of funding for Africa's development and integration and their possible impact on the economies of Member States.

23. Recent studies include the 2009 Study by the AU Commission in on alternative sources of funding. Unfortunately, at the continental level, the debate has been

[2] OECD 2012. Development Aid at a Glance Statistics by Region Developing Countries. *2012 Edition*

protracted with an option yet to be adopted. This has culminated in the creation of a Panel of Eminent Persons to consult Member States on a possible option for adoption. Some Member States have expressed reluctance even hostility to the idea of the States generating a sustainable financing mechanisms for integration institutions and programmes that in essence belong to African countries themselves. This is despite existing mechanisms already in operation in some African countries, such as the:

- Community Levies - utilised by the ECOWAS and even the European Union (EU);
- International solidarity tax on airline tickets – African countries which introduced such an air ticket levy, include Cote d'Ivoire, Madagascar, Mauritius and Niger, which allocate all or a share of the revenues to International Drug Purchase Facility (UNITAID). The tax raised 160 million Euro in 2009.
- Diaspora Bonds – Ethiopia is one of the few African countries with experience of raising capital through Diaspora Bonds. Its recent attempt was to finance its hydro- electric power generation project. The Millennium Bond, was issued by the country's power authority and underwritten by the National Bank of Ethiopia. Three types of bonds were issued according to their maturity date, 5, 7, and 10 years, each bearing an interest rate of 4%, 4.5% and 5%, respectively.

24. Innovative financing is necessary not only because of the inadequacy of traditional sources, but raising revenue from public sources such as taxation has been hampered by the limitations of the taxable capacity (shallow tax base, unbalanced tax mix and poor tax administration) of many African countries. Further, ODA is also falling. According to OECD data, although ODA rose to USD 50 billion in 2011, it is still below the levels required to meet the G8 Gleneagles target of doubling aid to Africa by 2015 and below the 0.7% of donor countries' gross national income (GNI) by 2015.

25. In fact, major donors' aid to developing countries fell by nearly 2.7% in 2011 (providing USD 133.5 billion of net ODA, representing 0.31 per cent of their combined GNI). This is the first major drop since 1977, due to the combined effects of the global financial and economic crisis of 2008/9, with fiscal consolidation occurring in many advanced economies, as well as the Euro zone sovereign debt crisis. Further, Least Developed Countries (LDCs) also saw a fall in net bilateral ODA flows of -8.9% in real terms to USD 27.7 billion. Stronger and coordinated efforts must, therefore, be sought to mobilise resources from within the African Continent as well as through partnerships and linkages with its vast and ever increasing Diaspora community, particularly the private sector. Current estimates suggest that that close to 16 million African migrants from Africa live in Middle East and OECD countries.

VI. Conclusion

26. Integration is an opportunity rather than a threat and this must be translated into action orientated cooperation aimed at managing common threats and challenges through the relinquishing or ceding by Member States of the enormous amounts of power over the integration process. This would allow more authority over decision-making and sanctioning power at the centre, while also making the process more people centred, owned, driven and sustainably financed to ensure expeditious delivery.