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Two to Tango

An Evaluation of World Bank Group Support to Fostering Regional Integration

PRÉCIS

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The Composite Regional Integration (CRI) analysis should not be viewed as a unique or exhaustive assessment of potential regional integration outcomes. The CRI index is just one option to assess regional integration. The analysis presented in this report represents work in progress subject to further review.

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Potential and Risks

The challenges and complexities of development transcend borders: climate change, natural disasters, pandemics, conflict and violence, famine, forced displacement, economic crises, and resource scarcity are increasingly likely to demand actions and responses that are commensurate with their scale; regional rather than national.

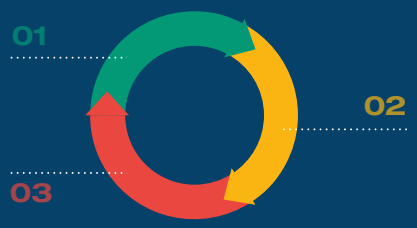
Client countries of the World Bank Group turn to regional integration as one pathway to meeting these challenges: it can help countries overcome divisions and manage shared resources. Regional integration also brings countries together as a "building block" of the larger, integrated global economy, and can help ease countries' access to those larger markets, through infrastructure improvements, or through international policy coordination.

Reductions in conflict, increased intraregional trade, and economic factor flows are some of the observed long-term benefits of regional integration, but these do not come without risk: flows of capital and labor may become more volatile, and the benefits of trade may be distributed unevenly or may not reach some of the nations or entities involved at all. Despite the risks, demand for regional integration is growing, and, with it, demand for the important roles that multilateral institutions play in supporting countries' efforts to put it all together.

Regional Integration Agenda's Direct and Indirect links to SDGs

When governments in a region decide
regional integration, the range of activ
the effort can be divided into three ove

OVERLAPPING ROLES



01

enabling **clients through "upstream" advisory and analytical work to create an enabling environment**

The World Bank Group's Fostering Role

The World Bank Group's institutional mandate allows it, alone or in partnership with other multilateral institutions and development banks, to support its clients' efforts toward regional integration as a stepping stone to integration with global markets. These contributions to integration may range from supporting single-country interventions in a sector (such as energy) or helping a group of countries within a region manage and strengthen their transboundary shared resources (such as a river basin).When governments in a region decide to undertake the process of regional integration, the range of activities that the World Bank can bring to the effort can be divided into three overlapping roles: **(I)** enabling clients through "upstream" advisory and analytical work to create an enabling environment; **(II)** financing "downstream" investments through policy and investment loans; and **(III)** convening state and nonstate actors in dialogue for coordination and collective action to find solutions that support regional integration. This evaluation assesses the World Bank Group's contributions and draws lessons that can influence

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erlapping roles:

02

financing **"downstream" investments through policy and investment loans**

03

convening **state and nonstate actors in dialogue for coordination and collective action to find solutions that support regional integration.**

its future operations in regional integration. It complements three recent IEG evaluations: Trade Facilitation (FY19), Forced Displacement (FY19), and Convening Power (FY19). Its scope includes the activities of the World Bank Group during FY03 – FY17, and the activities of the International Development Association (IDA) Regional Window.

The evaluation finds that the World Bank Group's efforts to foster regional integration have led to mostly positive development outcomes in the Sub-Saharan Africa Region and in infrastructure sectors. The World Bank Group's upstream contribution at the local, national, subregional, and regional levels was most in evidence in enhanced capacity and client knowledge in regional integration; harmonization of policy, regulations, and standards across borders; and the establishment of new agencies and institutions for integration. The most promising outcomes were increased knowledge exchange and clients' enhanced understanding of benefits and the issues associated with integration. Efforts in other regions have been sporadic and not prioritized according to regional needs or client demand.

THE BANK GROUP REGIONAL INTEGRATION PORTFOLIO

867 projects

$37Billion and a combined commitment of 37 billion

15years evaluation period

THE LARGEST SHARE WENT TO IMPROVING REGIONAL CONNECTIVITY

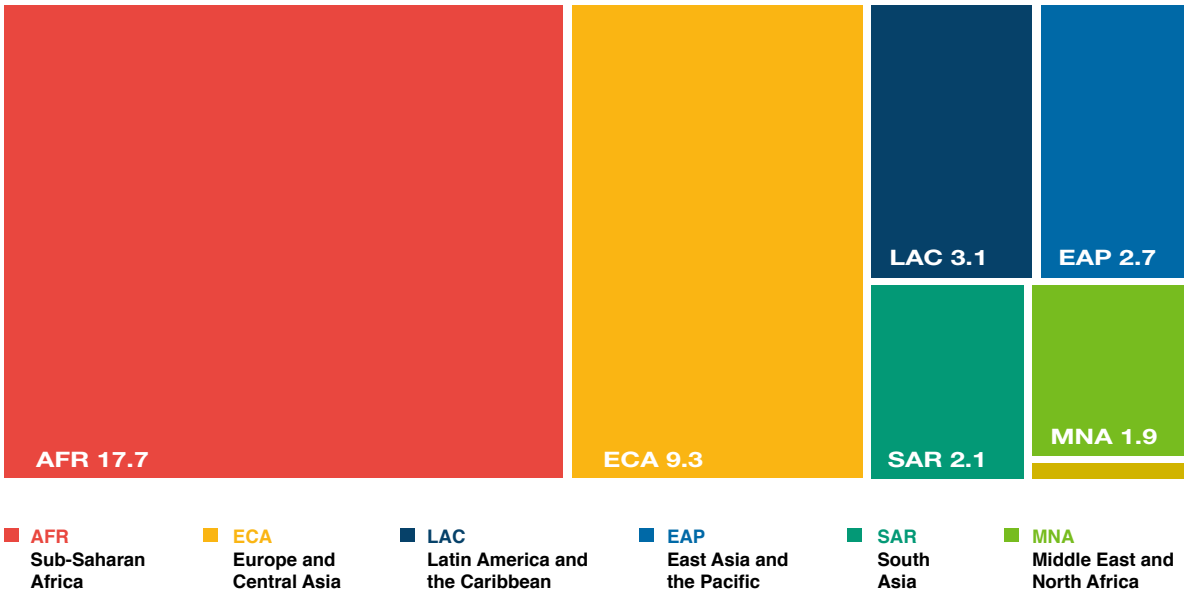
BY COMMITMENT VOLUME, MOST OF THE PORTFOLIO WAS IN

INFRASTRUCTURE, PARTICULARLY TRANSPORT

69% WB | **51% IFC** | **89% MIGA**

The transport interventions enjoyed a 70 percent success rate at improving regional transport infrastructure by reducing time and user costs; however, these improvements had only a weak positive effect on the volumes of trade within the regions. In the energy sector, World Bank–supported investments improved infrastructure and the reliability of services, but the development of energy markets for improved trade is still a work in progress. There is little evidence that these interventions had any broader spillover effects at the subregional or regional level.

The Regional Integration Portfolio, by Region (Commitment $billions)



Source: IEG Portfolio Review and Analysis.

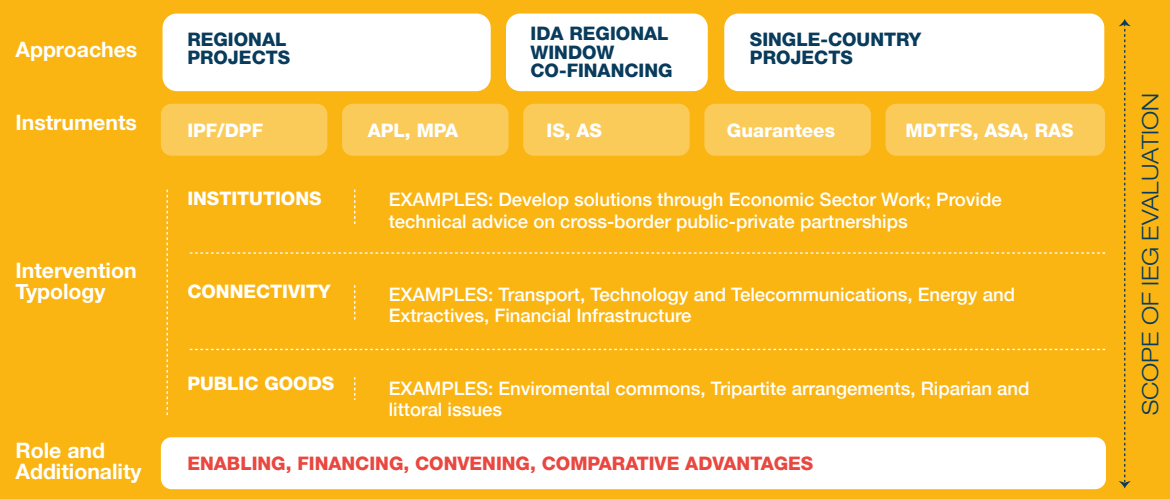
Comparative Advantages and Convening Power

The World Bank Group is uniquely positioned to help efforts at regional integration because of the global reach and perspective it brings to knowledge exchange and to the transfer of good practices and lessons from one region to another. The World Bank Group can deploy a broad range of financial instruments, such as Development Policy Loans, which can be used to advance regional policy coordination and harmonization, which is usually the most difficult part of regional integration. It can catalyze finance and draw on synergies among its institutions. Its apolitical approach and neutral position mean it can act as an honest broker during difficult conversations with clients; this, coupled with its capacity to convene development partners, palpably supports its enabling and financing roles.

Finally, as a knowledge institution, the World Bank Group can mobilize expertise and the experiences of other member countries to strengthen regional public goods and, thereby, strengthen the bases of integration. In this role the World Bank has been particularly effective, as indicated by the resurgence of policy dialogue among neighboring client countries, shared understanding, new agreements and action plans, and improved trust and confidence in the value of connectivity. These are the outcomes of dialogue and shared knowledge and experience, facilitated by the World Bank's unique convening role.

The World Bank Group's comparative advantage is important because the internal drivers of project success in regional integration have been countries' commitment and prioritization at the regional and subregional levels; accountability and incentives at the country level; and political economy, actions of institutions, and cohesion among stakeholders.

Stylized View of Bank Group Approaches and Interventions in Regional Integration



Opportunities and Challenges

Internal constraints within the World Bank Group have weakened its responses to the demand for projects that strengthen regional public goods; consequently, opportunities to reduce conflicts over regional resources have been missed. Regional integration is a slow process: the present incentive structure makes it difficult to develop the specialized expertise and the longstanding relationships that are needed to carry these projects forward.

To leverage its successes, its untapped potential, and its comparative advantages more fully, the World Bank Group can focus on frontier regions and subregions, tailor its strategic priorities to the specific regions where it operates, including the use of subregional diagnostics. It will need to address the constraints related to its internal business model and institutional arrangements.

The IDA Regional Window

The IDA Regional Window co-finances projects that help low-income countries achieve their regional integration objectives. From inception it has been strongly focused on Africa, where it promotes regional integration as a way to better manage externalities, achieve economies of scale, and overcome challenges such as being landlocked. This upstream support has helped set up new regional institutions, strengthened the capacity of existing ones, and promoted regional policy reform and harmonization. Downstream Regional Window support has financed cross-border power and transport projects.

Since its inception the Regional Window has seen an increase in the number of projects and in commitment volume. All IDA-only landlocked countries and IDA-only small states were covered by the IDA Regional Window, accounting for 27.4 percent ($2.3 billion) and 7.3 percent ($600 million) of the total window commitment, respectively. About 39.3 percent of IDA Regional Window resources were invested in FCVs.

Outside of Sub-Saharan Africa, demand for regional integration support increased throughout the evaluation period, but IEG frontier analysis found that Regional Window support is low for subregions that have low regional integration or untapped potential for integration. Although the Regional Window guidelines require that projects tapping its resources should generate benefits that spill over country boundaries, a framework that defines, measures, monitors and evaluates these is not yet in place; as a result, very few portfolios supported by the Regional Window were able to show spillover effects.

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