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PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

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Operation Name	FIRST REGIONAL DEVELOPMENT POLICY OPERATION FOR THE ACCELERATED PROGRAM FOR ECONOMIC INTEGRATION
Region	AFRICA
Country	The Republic of Mauritius, The Republic of Mozambique, The Republic of Seychelles
Sector	Trade 80%; competitiveness 20%
Operation ID	P146512
Lending Instrument	Development Policy Operation
Borrower(s)	Governments of Mauritius, Mozambique, and Seychelles
Implementing Agency	Mauritius: Ministry of Finance and Economic Development; Mozambique: Ministry of Planning and Development; Seychelles: Ministry of Finance, Trade, and Investment
Date PID Prepared	June 5, 2015
Estimated Date of Board Approval	December 17, 2015
Corporate Review Decision	Authorization to Appraise and Negotiate

I. Country and Sector Background

1. The proposed regional DPO programmatic series supports a regional reform program of five countries (Malawi, Mauritius, Mozambique, Seychelles, and Zambia), the Accelerated Program for Economic Integration (APEI). Participation in the two proposed budget support operations for the APEI is linked to readiness criteria, which only three countries (Mauritius, Mozambique, and Seychelles) currently meet. These three participate in the first operation.

2. The APEI was created as a response to the call for rapid integration enshrined by the council of Ministers of Finance and Central Bank Governors of COMESA (July 2011) and SADC (November 2011). Recognizing the persistence of barriers to trade despite commitments to remove them through COMESA and SADC, the five countries agreed to collaborate and jointly accelerate implementation of such reforms. This program follows a flexible approach based on the principles of variable speed and geometry endorsed by Ministers of Finance of both COMESA and SADC.

3. The initiative was launched during a Ministerial meeting in Seychelles in September 2012. The three-year reform program was adopted at a Ministerial meeting in March 2013 and is the result of a long process of several technical and Ministerial meetings. During this process, the countries also developed the institutions to help sustain and implement the program. The Bank has been closely involved in the initiative from the start and has played a facilitating role.

4. The program is designed to address trade barriers fragmenting African markets. The countries aim to use the initiative as a mechanism to increase trade and investment, diversify

exports of goods and services, raise incomes, generate new jobs, and increase food security.[1] It makes use of an increasing body of knowledge on the economic benefits of deeper regional integration in Africa. Two recent World Bank reports, "De-Fragmenting Africa" and "Africa Can Help Feed Africa," demonstrate that a range of policy related barriers are preventing new and emerging opportunities for trade in African countries. Despite progress in removing tariffs, other barriers remain, making trade cumbersome and borders difficult to cross.

5. The APEI reform program is complex and ambitious. It is built around four pillars and is designed to be implemented over a three-year horizon. Many elements of this program remain aspirational and their implementation would be conditional on the provision of technical and financial assistance. Building on their commitments at the regional level and the principles of variable speed and geometry adopted by SADC and COMESA, the countries see the APEI program as the most promising path to accelerate integration among their economies.

II. Operation Objectives

6. The development objective of the Regional Development Policy Operation (DPO) programmatic series is to improve the policy environment for trade in APEI countries by (i) removing barriers to trade in goods, (ii) promoting trade in services, and (iii) enhancing measures to facilitate trade.

7. It encourages joint and accelerated implementation through accountability to peers, peer to peer knowledge sharing and strong engagement with the private sector. The accountability to peers will encourage countries to maintain the reform momentum and stick to the reform plan, and the peer-to-peer knowledge sharing will improve the design of the reforms as well as facilitate execution. Stronger private sector participation in the identification of reforms will increase ownership, help monitoring progress, and ensure that meaningful reforms are being tackled.

8. To increase trade in goods, the focus is on eliminating non-tariff barriers (NTBs). To promote trade in services, the reform program focuses on facilitating the movement of persons. With regard to improving trade facilitation, the program focuses on improving efficiency of customs and border management. While the APEI also foresees reforms to improve the domestic business environment, this area is not directly supported through the proposed operation.

III. Rationale for Bank Involvement

9. This program is built on an approach of collective action and coordination among the countries to catalyze policy reforms. Under this approach, a coalition of countries willing to address common challenges collectively and in parallel aims to accelerate reforms and build additional domestic support for joint reforms. Peer-to-peer exchanges and peer accountability under the initiative will help keep the reform momentum. South-South knowledge sharing

[1] Rising incomes in Africa offer new opportunities for cross-border trade in basic manufactured products such as metals, plastics and food products that are costly to import from the global market. Together with rising costs in China and other East Asian countries, this increases the prospects of regional production chains emerging in Sub-Saharan Africa. Facilitating the movement of goods would also improve food security, allowing staple foods to flow from surplus to deficit areas, often across borders.

among the low-and middle-income countries that are part of APEI will improve the design of the reforms as well as facilitate execution.

10. Effective implementation of the APEI may provide a model for other African countries to follow. As the initiative progresses and starts to deliver results once the program is fully on track, other countries might want to join based on the agreed reform program. The APEI countries are setting the stage and if they succeed, will create a model that other countries could replicate to strengthen economic integration.

11. The Bank is particularly well placed to support such a regional initiative. Because of its leading analytical role and convening power, the WBG has a comparative advantage in supporting this group of countries to design and implement regionally oriented reform policies, and to draw in support from other development partners. The Bank's regional and country-specific analytical work has helped to initiate and inform the regional reform process while the Bank's convening power has stimulated and guided high-level political discussions and attracted assistance from other development partners.

IV. Tentative financing

Source:		($m.)
Borrower		0
IBRD		20
IDA		10
Borrower/Recipient		
Others (specify)		
	Total	30

V. Risks and Risk Mitigation

12. The main risks affecting the implementation of this program are grouped into two broad categories: (i) implementation risks; and (ii) macroeconomic risks. Details on these risks and corresponding mitigation measures are elaborated below. The overall risk rating level of this program is moderate.

Implementation Risk

13. Risks related to implementation can derive from (i) the program's inherent complexity; (ii) complex political economy of trade-related reforms; and (iii) limited capacity in the participating countries to implement the program. These risks could be mutually reinforcing. The program is complex because it seeks to support the implementation of reforms which are substantial in scope and which sometimes require joint coordination and simultaneous implementation of policy actions in a set of countries which are themselves at different levels of development. The program requires simultaneous policy actions by several governments, including a variety of ministries and agencies in each. All of these operate in complex political contexts that could prevent the completion of prior actions in one or more countries. This program also faces risks that could delay implementation of actions due to limited institutional

capacity in these countries. In such a multi-country program with multiple actors interacting in each country, this risk increases significantly.

14. To mitigate these risks, (i) the countries have instituted mechanisms to ensure peer accountability and knowledge sharing, but these institutions require strengthening; (ii) the Bank is undertaking continuous and intensive policy dialogue with the governments as well as support for peer to peer exchanges will help build capacity and overcome some of the domestic political resistance; and (iii) the Bank will continue to provide technical assistance for knowledge activities to help design reforms and support their implementation.

Macroeconomic Risk

15. Given their strong linkages to the global economy, risks for macroeconomic deterioration in Mauritius, Mozambique, and Seychelles exist. However, this risk is low and therefore does not considerably affect the implementation of the program. In the event that these countries suffer from major slowdown in growth, which is unlikely, there could be pressure to slow down implementation of reforms supported by this program as protectionist pressures increase. To mitigate this risk, the reforms under this program will support the creation of an environment that promotes exports and FDI into these countries. Macroeconomic risk will also be mitigated by close monitoring of macroeconomic developments by the Bank and by continuing policy dialogue on macroeconomic issues between the Bank's country teams and the governments of the participating countries.

VI. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

16. Overall, the proposed policy actions supported by this operation are unlikely to harm the poor, but might generate significant resistance from stakeholders currently benefitting from the status quo. Several prior actions have the potential to deliver positive impacts on poverty in the medium term. The actions supported by this program will improve competitiveness and create jobs by reducing burdensome or unnecessary regulatory constraints to investment, trade, and business activities in general. While a more competitive economy will increase income and wealth, many of the reforms identified under the APEI are likely to reduce rents that well placed actors extract currently. These actors are likely to oppose proposed reforms.

17. The improvement of the investment climate and the streamlining of NTBs are both expected to bring significant social benefits and positive impact on poverty. Reducing barriers to trade will expand opportunities to cross-border trade and create jobs. Regulatory procedures and administrative costs place an additional burden on businesses and traders. They render them less competitive and affect SMEs, small-scale producers, and smaller traders in particular. Revising and eliminating NTBs is expected to particularly help create jobs in SMEs and benefit small rural producers, which often belong to the poorest segments of society. Simplifying their access to larger markets is expected to permit a strong supply response which would contribute to higher incomes, and higher food security in rural areas. Moreover, increased private sector competitiveness and investment, including FDI, are designed to support employment generation

and productivity gains. Policies promoting job creation can have a strong and lasting impact on poverty reduction.

18. Support to increasing the coordination and transparency of regulations and procedures affecting trade will reduce the scope for officials to harass operators and will contribute to reducing informal practices.

Environment Aspects

19. Policy actions supported by this RDPO series are unlikely to have negative effects on the country's environment and natural resources. The policies supported under this programmatic series primarily address institutional reforms. The reforms focus on facilitating trade between these countries. The reforms supported will increase productivity, reduce the costs of transactions, and probably generate an increase in the number of formal businesses that are more likely to comply with environmental regulations. Reductions in dwell time across borders, less road blocks, and the emergence of more efficient transport service providers as competition increases may also help to reduce carbon emissions from trucks. In addition, to the degree that agglomeration effects and the emergence of regional supply chains shift sourcing decisions towards regional rather than global suppliers, overall transport costs and environmental impact could decrease.

VII. Contact point

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