



Two to Tango

An Evaluation of the World Bank Group Support to Fostering Regional Integration



IEG
INDEPENDENT
EVALUATION GROUP

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Two to Tango: An Evaluation of World Bank Group Support to Fostering Regional Integration

An Independent Evaluation

April 15, 2019

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Abbreviations

AAA	Analytical and Advisory Activities
AFD	Agence Française de Développement
AfDB	African Development Bank
ADB	Asian Development Bank
AIIB	Asia Infrastructure Investment Bank
ASA	Advisory Services and Analytics
CAFEF	Conflict-Affected and Fragile Economies Facility
CAREC	Central Asia Regional Economic Cooperation
CAS	Country Assistance Strategy
CASA	Central Asia-South Asia
CPIA	Country Policy and Institutional Assessment
CPS	Country Partnership Strategy
DFAT	Australian Department of Foreign Affairs and Trade
DFID	Department for International Development (United Kingdom)
EU	European Union
EBRD	European Bank for Reconstruction and Development
EuDB	Eurasian Development Bank
FLEG	Forest Law Enforcement and Governance
FCV	fragility, conflict, and violence
FY	fiscal year
GTZ	German Agency for International Cooperation
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
ISMED	Investment Security for Mediterranean Region
KM	kilometer
LIC	low-income country
M&E	monitoring and evaluation
MIC	middle-income country
MIGA	Multilateral Investment Guarantee Agency
NDF	Nordic Development Fund
NORAD	Norwegian Agency for Development
PPP	public-private partnership
RIAS	Regional Integration Africa Strategy
SAARC	South Asian Association for Regional Cooperation
SASEC	South Asia Subregional Economic Cooperation
SCD	Systematic Country Diagnostic
SDGPVP	Sustainable Development Global Practice Vice Presidential Unit
SIDA	Swedish International Development Cooperation Agency-

SIL	specific investment loans
USAID	United States Agency for International Development
WDR	World Development Report

All dollar amounts are U.S. dollars unless otherwise indicated.

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Overview

Highlights

- **Potential and Risks.** Regional integration can improve economic growth and reduce conflicts reflected typically in increasing intraregional trade and economic factor flows. Notwithstanding its benefits, the pursuit of regional integration is not without costs and risks including political risk concerning national security and sovereignty; immediate loss of fiscal resources, increased volatility in economic factor flows (e.g. labor; capital) and uneven distribution or lack of mutual benefits between the nations and/or different entities involved. Regional integration is predominantly perceived as a government-to-government initiative where multilateral institutions play a fostering role. The World Bank Group fosters regional integration, playing three overlapping roles: (I) *enabling* clients through advisory and analytical work, (II) *financing* projects through policy and investment loans, and (III) *convening* state and nonstate actors for coordination and collective actions.
 - **Results.** During the recent 15-year period, the World Bank Group's support to fostering regional integration has led to mostly successful outcomes in improving connectivity, primarily regional infrastructure, in the Sub-Saharan Africa Region. Outside of Africa, Bank Group efforts have been sporadic in strengthening public goods and supporting regional institutions. The International Development Association (IDA) Regional Window, a co-financing instrument, has been used well in landlocked countries, small states, and in states experiencing fragility, conflict, and violence, but not in targeting regions and subregions with the most potential for integration. There is no significant difference between the wider economic benefits achieved by Regional Window and those achieved non-Regional Window interventions, while the "spillover effects" of IDA Regional Window co-financed projects, a key eligibility criterion, remain unknown. The role of the private sector and industry associations in Bank Group-supported regional integration projects has been limited to date. Successful projects benefitted from (i) *internal drivers*, such as commitment and priorities at the regional or subregional levels; accountability and incentives at the country level; and (ii) *external drivers*, such as political economy, actions of institutions, and coherence among stakeholders.
 - **Comparative Advantage.** The Bank Group has comparative advantage and untapped potential in fostering regional integration initiatives: it can leverage its global knowledge, its comprehensive set of financing instruments, its synergies from acting as one Bank Group, and its ability to catalyze regional actors and sources of finance. Convening stakeholders for interregional and intraregional energy exports, nurturing global knowledge flows to the regions, and generating and strengthening transboundary water resource management are a few examples of the Bank Group's contributions.
 - **Unfinished business and the way forward.** The Bank Group has missed opportunities to be relevant and effective in integrating frontier regions; thus, its comparative advantages are not being fully used. To be effective in fostering regional integration, the Bank Group should tailor its strategic regional integration priorities to the specific conditions of all six regions where it operates, including the use of subregional diagnostics. The additionality of IDA's Regional Window can be strengthened by better assessing and monitoring the spillover effects of its
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interventions. If the Bank Group intends to scale up its regional integration current and future initiatives, it needs to address constraints related to its internal business model and institutional arrangements. Likewise, the Bank Group will have to intensify efforts to convene current players and new private sector actors.

Motivations for Regional Integration

Development issues and challenges increasingly transcend borders. Examples are climate change, natural disasters, pandemics, conflict and violence, famine, forced displacement, economic crises, and resource scarcity and management. Addressing those issues requires cross-border actions and responses that are commensurate with the magnitude and scope of the challenges.

Client countries of the World Bank Group have turned to *regional integration* as one of the pathways toward faster economic development and peace, to help overcome such development challenges.

The development community broadly acknowledges that regional integration can help overcome divisions between countries and manage shared resources. It is also viewed as a “building block” of an integrated global economy, which includes international policy coordination. In the long term, the benefits of regional integration can be evident, for example in improvements in intraregional trade and economic factor flows (for example, labor, capital). Notwithstanding the evidence of these

benefits, regional integration is not without costs and risks. Most notable are political risk concerning national security and sovereignty; immediate loss of fiscal resources, and increased volatility in economic factor flows. Although many clients regard regional integration primarily as a government-to-government initiative, multilateral institutions and development banks can play a fostering role both individually and in partnerships.

The World Bank Group’s Mandate and Roles

The Bank Group’s institutional mandate¹ allows it to facilitate the global integration of its clients using regional integration as a “stepping stone.” The Bank Group defines regional integration as “economic interactions”² across at least two sovereign jurisdictions that are geographically close, which result in the integration of factors and goods, and the coordination of policy. The Bank Group’s contributions to fostering regional integration are multidimensional and multifaceted: from supporting single-country interventions in a sector (such as energy) resulting in cross-border linkages to helping a set of countries within a region manage and strengthen

their transboundary resources (such as a river basin).

The Bank Group plays three roles fostering regional integration: (i) *enabler* of “upstream” support creating an enabling environment; (ii) *financier* of “downstream” investments (such as World Bank financing, International Finance Corporation [IFC] investment services). and (iii) *convener*³ to engage key stakeholders in dialogue to find solutions that support regional integration.

Evaluation Approach

This evaluation complements three recent IEG evaluations: on Trade Facilitation (FY18), Forced Displacement (FY19), and Convening Power (FY19). Its objectives are to assess the Bank Group’s contributions in fostering regional integration and to draw lessons that can influence its future regional integration operations. The scope of the evaluation includes the activities of the World Bank Group during FY2003–17, and the activities of the IDA Regional Window, which opened in FY2003.

This evaluation applied three sets of methods⁴ to gather the evidence related to the Bank Group’s effectiveness: (i) *Portfolio review and analysis* of a stratified sample of regional integration interventions; (ii) *Regional case studies* in East Africa, Central Asia, and South Asia based on the intensity (high or low) of Bank Group regional integration activities; and (iii) *Econometric analysis*

on the macroeconomic effects of Bank Group support, construction of a regional integration index, and a data-envelopment analysis to identify frontier regions and subregions with the most potential for regional integration.

Results and Comparative Advantage

Overall, the 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. Bank Group regional integration efforts in other regions and sectors have been sporadic and not prioritized according to regional needs or client demand. Though the IDA Regional Window program has also contributed to regional integration (mainly in the Africa Region), the development outcomes of its interventions are not significantly different from similar projects co-financed outside the program.

The Bank Group supported the enabling environment to foster regional integration through multiple instruments, regional institutions, and sectoral approaches. This upstream support at the local, national, subregional, and regional levels was evidenced in: (i) enhanced capacity and client knowledge on regional integration; (ii) regional and cross-border policy, regulation, and harmonization of standards; and (iii) setting up new regional integration agencies and institutions.⁵ The most

promising outcomes were increased knowledge exchange and clients' enhanced understanding of regional benefits and regional issues. The Bank Group contributed, to a lesser extent, to regional policy harmonization and formation of new regional institutions or functional agencies.

Spanning 867 projects with a combined commitment volume of \$37+ billion during the 15-year evaluation period, the regional integration lending portfolio includes a wide spectrum of practice areas, sectors, regions, and subregions. These interventions can be grouped into those improving (i) regional connectivity (the predominant focus of the portfolio); (ii) public goods; and (iii) institutions. A share of 69 percent of World Bank regional integration lending (by commitment volume), 51 percent of IFC investment, and 89 percent of Multilateral Investment Guarantee Agency (MIGA) guarantees were in the infrastructure sector, particularly in the transport sector. The performance of the regional integration portfolio across sectors and instruments is summarized as follows:

- i. Seventy percent of transport operations were successful in improving regional transport infrastructure, leading to reduced transit time and user costs. The Bank Group's portfolio in other sectors has achieved mixed results;
- ii. The Bank Group's support for regional transport and trade integration projects had a weak yet positive effect on intraregional trade volumes.⁶
- iii. In the energy sector, the Bank Group was more successful in improving regional energy infrastructure and service reliability, whereas developing regional energy markets for improved trade remains unfinished business.
- iv. In the information communications technology (ICT) sector, the Bank Group has been successful in developing regional infrastructure and increasing the region's access to services.
- v. Beyond such sectoral efforts, there is little evidence on the wider economic benefits of the spillover effects of Bank Group interventions at the sub-regional or regional level to foster economic integration.

The Bank Group's comparative advantage in fostering regional integration manifests itself in several ways:

- i. Its global coverage that facilitates knowledge exchange and the transfer of good practices and lessons from one region to another. Stakeholders

- interviewed by IEG view the Bank Group's ability to provide global perspective and multisectoral regional integration solutions as an advantage compared with other development banks that can provide primarily regional or single-sector perspectives.
- ii. Its ability to deploy a broad range of financial instruments to support regional integration solutions. For example, Development Policy Loans focusing on policy and institutional actions are also potentially useful tools to prompt regional policy coordination and harmonization, which is usually the most difficult part of regional integration. the relevance of the Multiphase Programmatic Approach (MPA) instrument in the regional integration context is high.
 - iii. Its ability to catalyze finance and draw on synergies among its institutions for regional initiatives that cannot be entirely supported through its own balance sheet. In the case of the Southern Africa energy connectivity initiative, all three World Bank Group institutions have leveraged their relative strengths to foster regional integration.
 - iv. Convening power resulting from its apolitical approach and neutral position during difficult conversations with clients on regional integration issues. The Bank Group's convening power promotes collective action by relevant development partners to address regional development challenges and works in tandem with its enabling and financing roles.
 - v. Another manifestation of the Bank Group's convening power is its ability to mobilize global expertise to strengthen regional public goods (RPG). Client countries want to learn from the practical regional integration experiences of others facing similar challenges. Successful campaigns can be noted in the Nile River Basin initiative, South Asia Energy Sector Reforms, East Africa Community transport initiatives and Central Asia energy generation and transmission projects. The effectiveness of such convener campaigns was evidenced in the resurgence of policy dialogue among neighboring client countries, shared understanding, new collective agreements and action plans, and improved trust and confidence in the value of connectivity.

Challenges and Missed Opportunities

The Bank Group faces internal and external challenges that limit its efforts to foster regional integration in those regions that need it the most.⁷

Except for the Africa Regional Integration Assistance Strategy (2008, 2018), the Bank Group currently lacks a corporate view (high-level commitment or strategic priorities) on regional integration issues.

The Bank Group's current accountability mechanisms for developing or implementing new regional operations and regional approaches are unclear, except in the Africa regional Vice Presidency. Even though regional integration operations require more time and resources to design and implement than non-regional integration operations, teams managing regional integration operations are neither more experienced, well-resourced, nor more stable than those managing other operations. Managing regional projects does not add weight to performance assessments or staff incentives. Hence, task teams are generally reluctant to pursue regional integration operations.

Coordination among donors is insufficient, with all development agencies ultimately bound by their own institutional mandates across regions. The Bank Group's convening power and leadership potential during the

evaluation period were underused, given the extent and nature of its engagement with the Regional Economic Communities (RECs), the private sector and other development partners.

Although the concentration of the IDA Regional Window in the Africa region is justified, IEG frontier analysis found that non-Africa subregions with low regional integration or untapped integration potential, such as Central Asia or Central America, received limited IDA Regional Window support. Likewise, Northern Africa did not receive any IDA Regional Window support. IDA Regional Window projects showed little evidence that they generated spillover effects over country boundaries (a project eligibility criterion supporting the value addition of the Regional Window program) or had additional effects on economic growth and poverty reduction in the region.

The Bank Group's convening power primarily materialized in regional connectivity infrastructure interventions; however, evidence suggests that the demand for strengthening public goods has increased but the project pipeline for such efforts is relatively weak because of internal constraints. As a result, there were missed opportunities to support and strengthen regional public goods with the potential to reduce conflicts among neighboring countries which share regional resources.

Conclusions and Recommendations

The World Bank Group has contributed to fostering regional integration among client countries during the past 15 years through its roles as an enabler, financier, and convener. However, it has missed opportunities and not fully used its full potential. The Bank Group's contribution is evidenced by improved regional policy coordination and harmonization of standards, improved regional connectivity and financial markets, and its associated positive increase in intraregional trade, improved trust among neighbors, and better understanding of the benefits of regional integration among clients and stakeholders. The Bank Group has comparative advantage and untapped potential for fostering regional integration initiatives—especially in nurturing global knowledge flows to the regions, supporting regional public goods, and strengthening sectors such as agriculture, health, and education.

The IDA Regional Window has been useful in promoting regional integration initiatives, but its allocation criteria need recalibration to emphasize (i) spillover effects from the interventions it co-finances; and (ii) de-risking the effects of high concentration in one region and criteria to target frontier IDA subregions that have the highest potential for economic integration. Lack of quality data on outcomes related to integration, either improved growth or reduced conflict, increases the difficulty of

promoting regional integration as a pathway to economic development.

If the Bank Group institutions want to prioritize their regional integration engagements, the evaluation offers the following six recommendations to address key barriers and support clients' regional integration aspirations:

1. **Initiate high-level, strategic commitments to regional integration in all operational regions in addition to Sub-Saharan Africa, with tailored approaches.** The Bank Group has been sporadic in identifying pathways to fostering regional integration. A sense of direction in the Africa Regional Integration Strategy has guided their operational teams, but this has not been replicated in other regions. The Bank Group should strengthen its strategic approach to regional integration, starting with an assessment of the potential for Regional Integration Strategies for its operational regions, and diagnostics at the subregional level. Such potential mainstreaming efforts can provide impetus and direction to operations.
2. **Realign the Bank Group's business model to achieve managerial accountability both at country management unit and Global Practice levels, and create incentives for project teams.** The Bank Group should review its institutional setup to make it more

conducive for regional integration interventions, and better clarify managerial accountability⁸, and incentives for the project teams. The Bank Group should mainstream regional integration issues into the institutional setup such as Bank Group systems, accountability, and staff incentives.

3. **Rebalance the Bank Group regional integration projects to emphasize regions with high integration potential, and regional public goods.**

The Bank Group's comparative advantage should be pursued to put a stronger emphasis on regions with untapped potential, and selective interventions in regional public goods to generate robust pipeline of regional integration projects and to rehabilitate clusters with levels of integration. Such efforts may have long gestational periods and require "patient capital," yet they can make meaningful impacts in reducing conflicts among neighbors and increasing the probability of achieving wider economic benefits and spillover effects.

4. **Intensify partnerships with traditional and nontraditional regional stakeholders to promote collective action and knowledge sharing within and across regions.** Create and promote universally accepted frameworks at the region and sector levels, and crowd-in new

partners, most notably the private sector, international industry associations, and regional institutions. At the institution or agency level, capacity building and strengthening efforts generate positive results when regional economic communities are involved from the start. Deepen and promulgate collaboration with development partners, regional economic communities, and state actors by streamlining institutional procedures among development partners. This requires playing a greater role as enabler and convener through Advisory Services and Analytics and IFC Advisory Services that can lead to co-financing and de-risking market integration efforts, potentially allowing the Bank Group to scale up regional integration efforts, and to achieve its Cascade objectives as stated in the *Forward Look*.

5. **Strengthen the design of projects supported by the IDA Regional Window, to improve the assessment of spillover effects and to generate evidence based on robust indicators.**

One of the key conditions for leveraging IDA Regional Window resources is that the Bank Group project should generate spillover effects regionwide. Over the course of the five cycles, there is little evidence that such spillover effects were achieved, in part because there are

no robust indicators in place for tracking and reporting such results. The Bank Group should strengthen the design of projects that qualify for IDA Regional Window support and provide evidence on results achieved.

6. **Recalibrate the IDA Regional Window's resource allocation to expand support for subregions with high untapped potential for integration.** Although the Regional Window offers opportunity to leverage co-financing, and has been useful in addressing regional integration needs for IDA countries, countries afflicted with fragility, conflict, and violence, landlocked countries, and small states, challenges remain in expanding this

portfolio to regions and subregions with high potential. The Bank Group should revisit and recalibrate the allocation of IDA Regional Window resources, to expand “envelopes” for subregions with high potential for regional integration.

Note on the Composite Regional Integration Index

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.

¹ Articles of Agreement, 1944.

² Based on the context of World Bank Group senior management technical briefing to the Board; the phrase “economic interactions” includes social sectors as well such as Education, Health/Pandemics and related regional public goods.

³ Convening power is an ability to bring various international and national actors and stakeholders together to address some of the most critical global development challenges.

⁴ Refer Table A2 in Appendix A for a tabular view of the methods deployed

⁵ AFR recently provided guidance on engagement with (and managerial responsibilities for) regional institutions in Africa to strengthen its Regional Integration program. It has classified the 60+ regional

institutions the continent into three groups of partners: Strategic -- with whom the World Bank has strong overlap with the RIAs, Thematic -- which have important geographic roles and where the strategic overlap can be strengthened over time and Collaborating -- which have specific mandates and with whom the World Bank interfaces on specific RI programs.

⁶ IEG Econometric Analysis, refer Appendix I.

⁷ See Appendix B for a case analysis on political economy issues; Further, a recent IEG evaluation (“Grow with the flow: IEG evaluation of World Bank Group support to Trade Evaluation”, FY18) calls for a renewed emphasis on understanding political

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economy in the context of Trade facilitation and integration.

⁸ IEG interprets Managerial accountability as manifesting / extending beyond

Accountability and Decision-Making Framework (ADM) and reflected in performance indicators and targets for Country Directors, Regional Vice Presidents, Regional Directors and Global Practice Vice-Presidents.

Management Response

The Managements of the World Bank Group institutions would like to thank the Independent Evaluation Group (IEG) for its informative report, *Two to Tango: An Evaluation of World Bank Group Support to Fostering Regional Integration*. The World Bank Group's contributions to fostering regional integration are multidimensional and multifaceted, involving multiple instruments, regional institutions, and sectoral approaches. We appreciate the overall positive findings in the report and the constructive feedback for future work.

World Bank Management Response

The evaluation provides useful inputs on how to strengthen the World Bank's work on regional integration. Management is pleased to note that the performance of the regional project portfolio is not significantly lower than that of the national project portfolio, especially as the regional projects are more complex in design and implementation compared to many single-country projects. Particularly in the longstanding Africa portfolio, the World Bank's largest for regional integration, most of the closed and evaluated regional integration projects (70 percent) have been successful.

Regional integration is of high strategic importance for the World Bank and for many of our client countries, and Management is committed to help advance the agenda and seize opportunities as they arise. The institution's high-level commitment to regional integration is clearly expressed in such corporate-level documents as the Forward Look. The recent IBRD capital increase document also reflects this commitment, including regional integration as one of the five global issues on which the Bank Group will enhance its effort and leadership role. For IDA, a separate resource allocation to regional operations was established under IDA13, and the amount has increased significantly since then. At the Regional level, the format for presenting strategic directions may vary, since regional integration has different roles and focus across Regions and themes. For Africa, the Regional Integration Strategy sets out the strategic vision and priorities for the continent and guides operational work. The Bank Group's annual Regional Updates to the Board also present strategic direction for regional integration in each Region.

Management welcomes IEG's recognition of the Bank Group's comparative advantages in fostering regional integration. The report discusses the different manifestations of this comparative advantage: the Bank Group's global coverage; broad range of financial instruments; ability to catalyze finance and draw on synergies among its institutions; convening power resulting from its apolitical approach; and mobilization of global

expertise. It is important for the Bank Group to seize opportunities to support regional integration using these comparative advantages. However, this does not mean that the Bank Group should always lead; working closely with regional institutions and other development partners is very important. Depending on the particular context, the best approach may be for other institutions to lead, with the Bank Group as a collaborating partner.

The World Bank Group's support to regional integration is subject to client demand and the enabling environment, and it is heavily influenced by contexts and political economy factors. To foster regional integration, political will by the country authorities (and in some cases regional institutions) and client demand for Bank Group support are critical. It is important to acknowledge not only the opportunities for, but also the complexities of, this work, especially as multiple governments are involved. In collaboration with other development partners and regional institutions, Management will continue its effort to proactively engage and explore opportunities for regional integration, especially in regions or subregions with high untapped potential. However, rebalancing the regional integration portfolio will depend on client demand as well as on the political and economic dynamics of each region.

Management acknowledges that, although there is clear and adequate managerial accountability in the institutional set-up and processes that are in place for regional integration interventions, there is room to strengthen systems and incentives related to regional integration operations. Leadership for regional approaches remains with the Regional Vice Presidents, and country directors are responsible for monitoring the regional integration portfolio. Several Regions also have Regional focal points. The variation in institutional set-up across Regions reflects the different contexts. The World Bank's budget methodology includes consideration of upward flexibility for regional projects. Work is under way to make it more efficient for operational teams to process regional projects in World Bank systems. This will make possible more accurate tracking and monitoring of regionally integrated projects in corporate reporting systems.

The methodology of the Composite Regional Integration (CRI) index used in the evaluation has several limitations, and the index should be interpreted with caution. The evaluation argues that the Bank Group should focus its regional integration engagement on subregions with high untapped potential based on the CRI index and the associated frontier analysis. Management agrees that the least integrated regions and subregions require particular efforts. However, applying the index only to the IDA Regional Window (RW), rather than to the World Bank's entire regional portfolio (including IBRD and IDA), could lead to a misleading conclusion. The subregions that are deemed to have untapped integration potential but that received limited amounts of IDA RW resources are those that have a small number of IDA-eligible countries (for example,

Central Asia and Northern Africa) or have small IDA allocations because of their size (such as Pacific and Oceania). Moreover, analyzing the IDA RW on the basis of the CRI does not fully take into account the demand-driven nature of this work. As was stated earlier, political dynamics and client demand for regional integration should not be underestimated.

Contrary to the report's claim (see "The IEG Regional Window Program," fifth paragraph), the allocation of the IDA RW is a result of a deliberate effort to reflect IDA's strategic priorities and avoid fragmentation. IDA regional resources are scarce, and client demand for regional integration projects has been far beyond the resources available under both IDA17 and IDA18, even for Africa. The IDA RW's focus on Africa is deliberate, given the Region's development stage and limited integration into global markets, and given the demands for regional integration from African countries, many of which are small and landlocked. The allocation of funds to other Regions is based on their relative share of IDA's Performance-Based Allocation to their IDA countries. The selection of specific projects within the allocation to each Region is based on strategic prioritization in each Region and on client demand, underpinned by the political dynamics in the different contexts. Management will continue to review the performance of the IDA RW and will work to improve its design and processes for higher development impact, drawing on experience and on lessons learned, including this evaluation. However, the resource allocation and targeting of the IDA RW will continue to be based on IDA's strategic priorities and criteria as agreed with the shareholders, reflecting the demand-driven nature of the IDA's business model.

Management agrees that for the projects supported under the IDA RW there is a need to strengthen the measurement and monitoring of regional impact to demonstrate spillover effects. Management is working to strengthen the monitoring and evaluation of projects and generate evidence based on clearly articulated results frameworks and robust indicators. However, measuring spillover effects, and especially attributing them to particular interventions, is a challenge. Spillover effects often have a time lag and may not be observable at project completion. The latest Africa Regional Integration Strategy provides a useful example of how regional integration impact is captured at the regional level through the results framework of the regional-level strategy. More work will be needed to strengthen guidance on "spillover effects" and develop practical and appropriate indicators for projects' monitoring and evaluation frameworks, while finding ways to monitor the impact of the overall regional initiatives beyond individual projects. This will need to be done in such a way as to keep the design of regional projects simple, with realistic expectations for monitorable regional impact.

IFC Management Response

IFC Management welcomes the full report on the Bank Group's Support to Fostering Regional Integration, and it appreciates IEG's efforts in producing a thorough and engaging report. In partnership with the World Bank and MIGA, IFC is playing a leading role in enabling/fostering regional integration, increasing its contributions all along the regional integration reforms and investment "value chain."

New generation of World Bank Group diagnostics. IFC is leading in developing and rolling out a new generation of diagnostics that inform the regional integration agenda at a very granular country/sector level. One such diagnostic is InfraSAP (Infrastructure Sector Assessment Program), which spells out the reforms and investments required to improve connectivity (by road, rail, sea, and air) at the national, regional, and global levels. Additionally, Country Private Sector Diagnostics (CPSDs) will leverage and complement the InfraSAPs by identifying growth opportunities in the downstream sectors, with a particular focus on export-related opportunities in mining, agribusiness, manufacturing, tourism, and ICT services. Together, the InfraSAPs and CPSDs will help identify, prioritize, specify, and initiate the policy reforms and public/private investments necessary to foster improved regional and global integration.

Complementarity of diagnostics. The new generation of coordinated Bank Group operations, which are already under way to help our clients with the necessary policy reforms and investments, will require improved Bank Group coordination if they are to achieve their full benefits. The new Bank Group diagnostics are directly informing and triggering Bank Group operations through both the Strategic Country Diagnostics and Country Partnership Frameworks. For example, the Angola CPSD's deep dive on the transport sector is informing how the Bank Group is re-engaging in this critical sector. And as highlighted by the Ghana CPSD, IFC is making transformative investments that will fuel regional/global integration—such as the expansion of the Tema port—while leading agribusiness players like Vegpro from Kenya are also creating new export markets. Going forward, IFC's leading role will be further enhanced by its creation of Sector Venture Units, which, in partnership with MIGA and the World Bank, will develop and deploy operational packages to unleash export-related opportunities in downstream sectors and tackle related infrastructure constraints. The Sector Venture Units will include, in particular, IFC advisory interventions to help governments make the necessary reforms and investments (supported by World Bank policy and investment lending) to help the private sector take advantage of the newly enabled opportunities. For example, public-private partnership infrastructure outreach to potential investors in regional/global agribusiness value chains such as the Ghana Agribusiness Advisory Project have been informed/triggered by the agribusiness deep dive of the Ghana CPSD.

Regarding the recommendations emerging from the report, IFC is in broad agreement with them; however, we concur with World Bank Management in agreeing only partially with Recommendations 2 and 3. We would point out that operationally the recommendations are directed at the Bank Group, and it is difficult to derive from them specific priorities for IFC. IFC Management will see how it can support IBRD/IDA and MIGA in helping countries/Regions realize the potential benefits from regional integration.

Specifically, on Recommendation 2, IFC Management believes that there are sufficient incentives in IFC's business model to engage in projects that help strengthen regional integration. IFC routinely seeks out and supports regionally oriented projects, including, for example, regional financial institutions that achieve economies of scale through regional expansion, regional infrastructure projects (including regional information and communications technology networks and regional maritime ports), regional agribusiness trading platforms, and regional manufacturing projects. IFC can engage directly with companies that operate on a regional basis without needing to present allocations of funding by country. Some of IFC's most impactful projects have been on a regional scale, involving several sectors. In many of these cases, IFC client companies have expanded on a regional basis in response to regulatory and other changes enabled by upstream World Bank engagement.

MIGA Management Response

MIGA welcomes the IEG evaluation report, finding it useful and important. The evaluation assesses the Bank Group's contributions for fostering regional integration and draws lessons that can influence future regional integration operations. During the evaluation period MIGA supported 14 regional integration guarantee projects for US\$1.767 billion in gross exposure.

MIGA supported regional integration through single-country operations. As the evaluation noted, the Bank Group has used three approaches for supporting regional integration: (a) regional projects covering multiple countries under a single operation, (b) regional programs containing multiple-phase operations involving several countries simultaneously or in sequence, and (c) single-country operations. The 14 guarantee projects through which MIGA supported regional integration were single-country operations; 89 percent of them were in the infrastructure sector, particularly transport, helping to improve regional infrastructure and meet client needs.

MIGA has mobilized industry partners, donors, and multilateral banks in its regional integration projects. As the evaluation noted, the Bank Group enjoys a comparative advantage in several areas for supporting regional integration projects: global

Management Response

knowledge, range of financing instruments, synergies of the three Bank Group institutions (World Bank, IFC, MIGA) engaging in regional integration support, and ability to convene key stakeholders. MIGA guarantee projects fall under the rubric of synergies from the strength of the Bank Group institutions. MIGA guarantees for regional integration projects have mitigated the risks for cross-border connectivity initiatives. A good example is the Southern Africa Regional Gas Project that MIGA supported; it could not have been implemented without the synergies derived from the World Bank Group institutions working together. MIGA has also successfully mobilized industry partners (reinsurers), donors, and multilateral banks for supporting regional integration projects.

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IEG Findings and Conclusions	IEG Recommendations	Acceptance by Management	Management Response
<p>Except for the Africa Regional Integration Assistance Strategy (2008, 2018), the Bank Group currently lacks a corporate view (highlevel commitment or strategic priorities) on regional integration issues. A sense of direction in the Africa Regional Integration Strategy has guided their operational teams, but this has not been replicated in other regions.</p> <p>With regards to results the Bank Group's efforts to foster regional integration have led to mostly positive development outcomes in the Sub-Saharan Africa Region but integration efforts in other regions have been sporadic and not prioritized according to regional needs or client demand.</p>	<p>1. Initiate high-level, strategic commitments to regional integration in all operational regions, in addition to the Sub-Saharan Africa region, with tailored approaches. The Bank Group should strengthen its strategic approach to regional integration, starting with an assessment of the potential for Regional Integration Strategies for its operational regions, and diagnostics at the subregional level. Such potential mainstreaming efforts can provide impetus and direction to operations.</p>	<p>Partially Agree</p>	<p>Regional integration is of high strategic importance for the Bank and for many of our client countries, and Management is committed to help advance the agenda and seize opportunities as they arise. The institution's high-level commitment to regional integration is clearly expressed in such corporate-level documents as the Forward Look. The recent IBRD capital increase document also reflects this commitment, including regional integration as one of the five global issues on which the WBG will enhance its effort and leadership role. For IDA, a separate resource allocation to regional operations was established under IDA13, and the amount has increased significantly since then. At the Regional level, the format for presenting strategic direction may vary, since regional integration has different roles and focus across Regions and themes. For Africa, the Regional Integration Strategy sets out the strategic vision and priorities for the continent and guides operational work. The WBG's annual Regional Updates to the Board also present strategic directions for regional integration in each Region.</p>
<p>The Bank Group's current accountability mechanisms for developing or implementing new regional operations and regional approaches are unclear, except in the Africa regional Vice Presidency. Even though regional integration operations require more time and</p>	<p>2. Realign the Bank Group's business model to achieve managerial accountability, both at country management unit and Global Practice levels, and create incentives for project teams. The Bank Group should review its institutional setup to make it more conducive for regional</p>	<p>Partially Agree</p>	<p>World Bank Management acknowledges that, although there is clear and adequate managerial accountability in the institutional set-up and processes that are in place for regional integration interventions, there is room to strengthen systems and incentives related to regional integration operations. Leadership for regional approaches remains with the Regional Vice Presidents, and</p>

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IEG Findings and Conclusions	IEG Recommendations	Acceptance by Management	Management Response
<p>resources to design and implement than nonregional integration operations, teams managing regional integration operations are neither more experienced, well-resourced, nor more stable than those managing non-regional integration operations, and managing the former does not add weight to performance assessment or incentives. Hence, task teams are generally reluctant to pursue regional integration operations.</p>	<p>integration interventions, and better clarify managerial accountability and incentives for the project teams. The Bank Group should mainstream regional integration issues into institutional setup such as Bank Group systems, accountability, and staff incentives.</p>		<p>country directors are responsible for monitoring the regional integration portfolio. Several Regions also have Regional focal points. The variation in institutional set-up across Regions reflects the different contexts. The World Bank's budget methodology includes consideration of upward flexibility for regional projects. Work is under way to make it more efficient for operational teams to process regional projects in Bank systems. This will make possible more accurate tracking and monitoring of regionally integrated projects in corporate reporting systems.</p> <p>IFC Management believes that there are sufficient incentives in IFC's business model to engage in projects that help strengthen regional integration. IFC routinely seeks out and supports regionally oriented projects, including, for example, regional financial institutions that achieve economies of scale through regional expansion, regional infrastructure projects (including regional ICT networks and regional maritime ports), regional agribusiness trading platforms, and regional manufacturing projects. IFC can engage directly with companies operating on a regional basis without needing to present allocations of funding by country. Some of IFC's most impactful projects have been on a regional scale, involving several sectors. In many of these cases, IFC client companies have expanded on a regional basis in response to regulatory and other changes enabled by upstream WB engagement.</p>
<p>The Bank Group's support for regional integration has concentrated in the Africa region, a</p>	<p>3. Rebalance the Bank Group regional integration projects emphasizing regions with high integration</p>	<p>Partially Agree</p>	<p>The World Bank Group's support to regional integration is subject to client demand and the enabling environment, and it is heavily influenced</p>

IEG Findings and Conclusions	IEG Recommendations	Acceptance by Management	Management Response
<p>strategic priority and a response to the strong demand from the region. On the other hand, the Bank Group's support in some regions other than Africa has not met client needs or matched its own stated priorities. While the Bank Group's efforts to foster regional integration have led to mostly positive development outcomes in infrastructure sectors, such efforts in the realm of leading on public goods remain as an unfinished business. The demand for strengthening public goods has increased but the project pipeline for such efforts is relatively weak due to internal constraints.</p>	<p>potential, and regional public goods. The Bank Group's comparative advantage should be pursued to put a stronger emphasis on regions with untapped potential, and selective interventions in regional public goods to generate robust pipeline of regional integration projects and to rehabilitate clusters with low- levels of integration. Such efforts may have long gestational periods and require "patient capital," yet they can make meaningful impacts in reducing conflicts among neighbors and increasing the probability of achieving wider economic benefits and spillover effects.</p>		<p>by contexts and political economy factors. To foster regional integration, political will by the country authorities (and in some cases regional institutions) and client demand for WBG support are critical. It is important to acknowledge not only the opportunities for, but also the complexities of, this work, especially as multiple governments are involved. In collaboration with other development partners and regional institutions, Management will continue its effort to proactively engage and explore opportunities for regional integration, especially in regions or subregions with high untapped potential. However, rebalancing the regional integration portfolio will depend on client demand as well as on the political and economic dynamics of each region.</p>
<p>The Bank Group has the convening power resulting from apolitical approach and neutral position during difficult conversations with clients on regional integration issues. Such convening power promotes collective action by relevant development partners to address regional development challenges and works in tandem with its enabling and financing roles. However, coordination among donors is insufficient, with all development agencies ultimately bound by their own</p>	<p>4. Intensify partnerships with traditional and non-traditional regional stakeholders to promote collective action, knowledge sharing within and across regions to foster regional integration. Crowd-in new partners for regional integration, most notably the private sector, industry associations and regional institutions. At the institution or agency level, capacity building and strengthening efforts generate positive results when regional economic communities are involved from the start. Deepen and</p>	<p>Agree</p>	<p>Management agrees that it is important to intensify partnerships with traditional and nontraditional regional stakeholders for collective action and knowledge-sharing, and to seize opportunities to support regional integration using the Bank Group's comparative advantages. However, this does not mean that the Bank Group should always lead; working closely with regional institutions and other development partners is very important. Depending on the particular context, the best approach may be for other institutions to lead, with the WBG as a collaborating partner.</p>

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IEG Findings and Conclusions	IEG Recommendations	Acceptance by Management	Management Response
<p>institutional mandates across regions. The Bank Group's convening power and leadership potential over the evaluation period were underutilized given the extent and nature of its engagement with the regional economic communities, the private sector and other development partners.</p>	<p>promulgate collaboration with development partners, regional economic communities, and state actors by streamlining institutional procedures among development partners. This requires playing a greater role as enabler and convener through Advisory Services and Analytics and IFC Advisory Services that can lead to co-financing and de-risking market integration efforts, potentially allowing the Bank Group to scale up regional integration efforts, and to achieve its 'cascade' objectives as stated in the <i>Forward Look</i>.</p>		
<p>While the IDA Regional Window Program offers opportunity for leverage in terms of co-financing, there are no significant differences in outcome performance between RW and non-RW interventions. Further, both ex-ante and ex-post assessments on the wider economic benefits and spill-over effects from RW co-financed interventions are neither clear nor can they be evidenced, in part due to lack of robust indicators.</p>	<p>5. Strengthen the design of IDA Regional Window supported projects to improve the assessment of spillover effects and to generate evidence based on robust indicators. One of the key conditions for leveraging IDA Regional Window resources is that the Bank Group project should generate spillover effects region-wide. Over the course of the five cycles, there is no evidence that such spillover effects were achieved, in part because there are no robust indicators in place to be able to track and report such results. The Bank Group should strengthen the design of projects that qualify for IDA Regional Window support and provide evidence on results achieved.</p>	<p>Agree</p>	<p>Management agrees that for the projects supported under the IDA Regional Window (RW), there is a need to strengthen the measurement and monitoring of regional impact to demonstrate spillover effects. Management is working to strengthen the monitoring and evaluation (M&E) of projects and generate evidence based on clearly articulated results frameworks and robust indicators. However, measuring spillover effects, and especially attributing them to particular interventions, is a challenge. Spillover effects often have a time lag and may not be observable at project completion. The latest Africa Regional Integration Strategy provides a useful example of how regional integration impact is captured at the regional level through the results framework of the regional-level strategy.</p>

IEG Findings and Conclusions	IEG Recommendations	Acceptance by Management	Management Response
			<p>More work will be needed to strengthen guidance on “spillover effects” and develop practical and appropriate indicators for projects’ M&E frameworks, while finding ways to monitor the impact of the overall regional initiatives beyond individual projects. This will need to be done in such a way as to keep the design of regional projects simple, with realistic expectations for monitorable regional impact.</p>
<p>IDA Regional Window has been a critical source of co-financing for countries affected by fragility, conflict, and violence, landlocked states, and small states; yet challenges remain in expanding the Regional Window–financed portfolio to regions with high potential for integration, especially outside of the Sub-Saharan Africa region, partly attributed to the resource “envelopes” available for other regions and partly due to lack of sufficient project pipeline.</p>	<p>6. Recalibrate the IDA Regional Window’s resource allocation to expand support for subregions with high untapped potential.</p> <p>Although the Regional Window offers opportunity to leverage co-financing, and has been useful in addressing regional integration needs for IDA countries, countries afflicted with fragility, conflict, and violence, landlocked countries and small states, challenges remain in expanding this portfolio to regions and subregions with high potential. The Bank Group should revisit and recalibrate the allocation of IDA Regional Window resources, to expand “envelopes” for subregions with high potential for regional integration.</p>	<p>Disagree</p>	<p>The allocation of the IDA RW is a result of the deliberate effort to reflect IDA’s strategic priorities and avoid fragmentation. Regional IDA resources are scarce, and client demand for regional integration projects has been far beyond the resources available under both IDA17 and IDA18, even for Africa. The IDA RW’s focus on Africa is deliberate, given the Region’s development stage and limited integration into global markets, and given the demands for regional integration from African countries, many of which are small and landlocked. The allocation of funds to other regions is based on their relative share of IDA’s Performance-Based Allocation to their IDA countries. The selection of specific projects within the allocation to each Region is based on strategic prioritization in each Region and on client demand, underpinned by the political dynamics in the different contexts.</p> <p>Management will continue to review the performance of the IDA RW and will work to improve its design and processes for higher development impact, on the basis of experience and lessons learned, including this evaluation. However,</p>

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IEG Findings and Conclusions	IEG Recommendations	Acceptance by Management	Management Response
			the resource allocation and targeting of the IDA RW will continue to be based on IDA’s strategic priorities and criteria as agreed with the shareholders, reflecting the demand-driven nature of IDA’s business model.

Chairperson's Summary: Committee on Development Effectiveness

The Committee on Development Effectiveness (CODE) (“the Committee”) met to consider the reports entitled *Two to Tango: An Evaluation of World Bank Group Support to Fostering Regional Integration*; and *An Independent Evaluation of World Bank Group Support to Facilitating Trade 2006–17: Grow with the Flow*; and, their respective Management Responses.

Noting complementarity between the two topics, the Committee agreed to discuss the reports jointly. Members welcomed the evaluations as valuable learning tools and timely inputs to inform further the World Bank Group’s Board and International Development Association (IDA) Deputies discussions. They commended the Bank Group’s Management for their achievements and encouraged it to continue advancing efforts to strengthen partnerships with Regional Development Banks, private sector and non-traditional stakeholders. Members highlighted the relevance of Trade and Regional Integration to achieve the Sustainable Development Goals (SDGs), some of them suggesting reinforcing alignment with the capital package commitments on growth, development of local business opportunities and job creation.

Members were encouraged to hear Management’s commitment to enhance their efforts to embed more systematically trade and other regional integration issues in Regional and Practice Group updates, as well as Country Partnership Frameworks (CPFs). While praising Management for the positive development outcomes in the Sub-Saharan Africa Region, some Members suggested that other Regions with high integration potential, such as Latin America and the Caribbean, would benefit from a more explicit regional integration approach. They noted that the World Bank could strengthen its role as an advocate for regional integration through analytical work. The Committee welcomed Management’s commitment to strengthen the design of regional projects under the IDA Regional Window and improve the assessment of spillover effects. They highlighted that issues on the use of Development Policy Financing (DPF), reallocation of resources, recalibration and structure of the IDA Regional Window should be put for consideration of IDA Deputies during their IDA19 Replenishment discussions.

Members also noted the desirability of greater consistency across the Doing Business and the Logistics Performance indexes. Members encouraged the World Bank more actively to attempt to stimulate broader demand for regional integration at the country level; and noted that a more regional approach to trade, with stronger accountability and clearer incentives for staff, would be helpful at the regional level.

1. Background and Context

Highlights

- **Motives for regional integration.** Promotion of economic growth and reduction of conflicts among neighboring countries are the main motives for fostering regional integration. Regional Integration brings benefits of economies of scale, improved market efficiency, and reduced market failure; yet, it also has risks and challenges in implementation and sustainability.
 - **Dimensions and complexity.** Regional integration, in its de facto form, can refer to an economic and monetary union of countries subordinated to a supranational entity, for example, the European Union. In the institutional context regional integration can span several dimensions such as cooperation, coordination, harmonization, economic and monetary union. Its complexity extends from spatial and geographical issues at the border, to financial and digital forms of integration across neighboring countries.
 - **Client initiatives and demands.** Most regions have been pursuing some form of regional integration over the years with the support of regional economic communities, as evidenced in the form of trade agreements and customs unions in the pursuit of a single market. Within most regions, countries that are landlocked, small states, and those classified as low-income or low-to-middle income tend to demand regional integration more over the years.
 - **Role of multilateral development banks.** All multilateral institutions and regional development banks can play an important role in fostering regional integration through collective action, given the large sets of Sustainable Development Goal targets and indicators directly and indirectly linked to it.
 - **Leading on global and regional issues.** The World Bank Group's commitments to leadership on global and regional issues, IDA18 commitments, and the Africa Regional Integration Assistance Strategy suggest the need to both understand regional integration imperatives and reflect a greater sense of urgency in its related operations.
 - **Evaluation objectives.** This evaluation assesses the effectiveness of the World Bank Group's regional integration operations and its roles in fostering regional integration. It identifies lessons of experience and a set of recommendations to improve the Bank Group's future involvement.
-

Motives for Regional Integration

Faced with clear challenges of protectionism, conflicts, and market failures beyond the scope of national boundaries, the World Bank Group and many of its clients have been increasingly focused on regional integration as a pathway toward faster economic development and peace.

Protectionism has risen in recent years. Despite strong evidence of the benefits of trade to economic growth and poverty reduction,¹ an increase in within-country income

inequality during the period of rapid globalization has fueled an intense debate about the distributional benefits of globalization in many advanced economies. The year 2016 was the fifth consecutive year with merchandise trade growth below 3 percent, much lower than the average of 7 percent before the global financial crisis. The post-crisis period also saw an increase in the number of newly introduced protectionist measures. The World Trade Organization (WTO) highlighted that the rate of new trade-restrictive measures introduced by G20 countries in 2016 reached the highest monthly average since 2009 (21 new measures a month), outnumbering measures for facilitating trade (WTO 2016). Unilateral preferential schemes, coupled with an increase in the cost of traded services, would result in worldwide welfare (real income) losses that amount to 0.3 percent or US\$211 billion relative to the baseline by 2020.²

Violent conflict has spiked dramatically since 2010, and conflicts drive 80 percent of all humanitarian needs in the post-Cold War era.³ The share of the extreme poor living in conflict-affected situations is expected to rise to more than 60 percent by 2030. The costs associated with the economic losses caused by conflict put a severe strain on state capacity. For example, Afghanistan's per capita income has remained at its 1970s level because of the continued war, and Somalia's per capita income has dropped by more than 40 percent since the 1970s (Mueller and Tobias 2016). Such effects can spread to surrounding countries within a region and will have greater and disproportionate impact on low-income countries.

The overarching conclusion of the existing literature⁴ is that protectionism, as opposed to globalism and regionalism, is costly, and so are conflicts. Both lead to severe distortions in international markets and have important consequences at both the macro- and microeconomic levels,⁵ ultimately increasing poverty and reducing shared prosperity.

Regional integration is a way to address these challenges. Though there is no globally agreed definition of regional integration, and although what is meant by breadth, and depth of regional integration can vary, the development community broadly agrees that it is a mechanism to overcome divisions between countries and to help them manage shared resources. The Bank Group defines regional integration as "economic interactions across at least two sovereign jurisdictions that are geographically close and result in integration of factors and goods, and coordination of policy."⁶

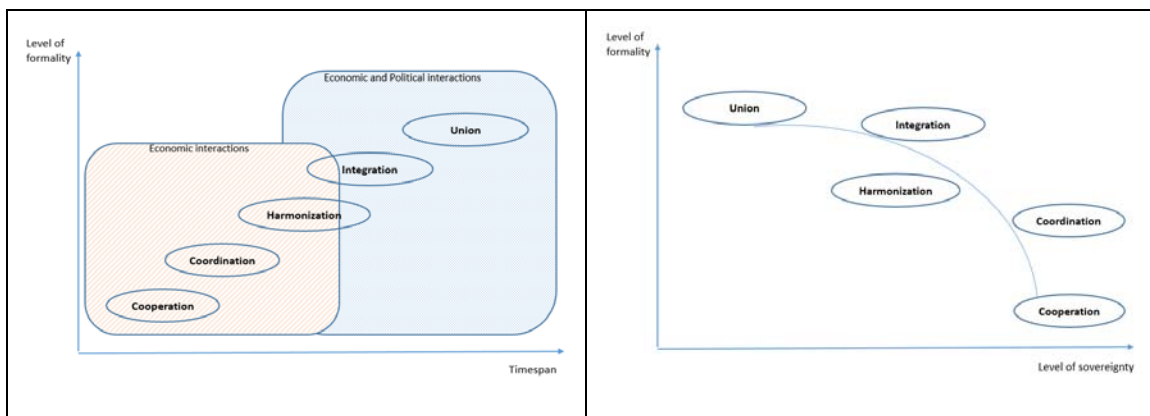
Regional integration can be viewed as a stepping stone toward an integrated global economy with international policy coordination. It may allow a regional bloc accelerated access to global markets, because of its enhanced bargaining position and pooled resources. By expanding the size of the local market, some forms of regional integration

may make foreign investment more attractive, especially when regional agreements are designed with credible commitment mechanisms to limit backsliding on domestic reforms. It can complement or precede global integration. Countries that struggle to cooperate and trade with their neighbors may also find it difficult to join global value chains.

Notwithstanding concrete evidence of the benefits of regional integration, its pursuit has costs and risks. Domestically, most notable are political risk concerning national security and sovereignty; immediate loss of fiscal resources (from abolishing tariffs on intraregional trade and resultant deepening of budgetary deficits); and increased volatility in growth and capital flows. In addition, there could be uneven distribution or lack of mutual benefits between nations and different entities involved in regional integration arrangements. These arrangements can also potentially increase transaction costs of coordinating among participants in regional organizations and the costs of dealings between member and nonmember countries. Reaching agreements, then administering and monitoring such agreements that cross national boundaries and potentially involve multiple national actors in multiple countries, may involve substantial costs that must be weighed against the potential gains. In theory, regional integration should be pursued where the risk-weighted *net* benefits are positive.

Regional integration can be a multifaceted, multidimensional agenda spanning economic, monetary, political, and security aspects. The IEG literature review suggests that two out of the five types of economic interactions among countries are purely economic, and three types of regional integration are both economic and political (figure 1.1). Further, the loss of sovereignty varies by the type of engagement; as the scope of regional integration increases, there is a loss of sovereignty (figure 1.1).

Figure 1.1. Types of Economic Interactions among Neighboring Countries



Source: IEG construction based on literature review.

Client demand and regional initiatives

Strong demand exists for regional integration across regions,⁷ particularly initiated by landlocked or small states, and low-income countries. Sub-Saharan Africa has pursued regional integration more aggressively than the other regions, given its number of landlocked countries.

In the Africa region, The African Union (AU) sets out five “African aspirations” Vision 2063, to which regional integration is fundamental. In addition, several regional economic communities (RECs), including ECOWAS, SADC, COMESA, IGAD, ECCAS, are making progress leading regional integration initiatives. The East African Community (EAC), for example, was reestablished in 1999 with the signing of the EAC Treaty (and its ratification the following year) by Kenya, Tanzania, and Uganda. Rwanda and Burundi acceded to the Treaty and became full Members of the Community in 2007. Sudan acceded and became a full Member in 2016. The regional economy in EAC has grown significantly: total GDP of its member States grew from US\$30 billion in 2002 to US\$75 billion in 2009 and to US\$163 billion in 2016.

In Central Asia, various initiatives were created to promote regional integration. In addition to the Central Asia Regional Economic Cooperation Program (CAREC) and the United Nations Special Program for the Economies of Central Asia (SPECA) which focus on cooperation on regional infrastructure, the Eurasian Economic Community (EurAsEC) was formed in 2000 to prepare the groundwork for the implementation of a customs union and, subsequently, a single market. Several other regional organizations with overlapping memberships and mandates were created in the region. The recent political transition in Uzbekistan has opened a new space for regional integration initiatives. The new leader has signaled his willingness to break with past isolation, taking the lead in promoting regional cooperation to foster economic growth. The March 2018 meeting in Astana, Kazakhstan, brought together the leaders of Kazakhstan, Uzbekistan, Tajikistan, and the Kyrgyz Republic, and Turkmenistan’s Parliament Chairman. This development has likely opened a new era for Central Asian regional integration.

In South Asia, though overall the climate for regional integration is weak, given the region’s geopolitics, the South Asian Association for Regional Cooperation (SAARC) was established in Dhaka, Bangladesh, on December 8, 1985⁸ to promote the development of economic and regional integration by seven countries; but it made limited progress. Nevertheless, the demand for regional integration at the subregional level remains strong: in the west, there is the effort to promote cooperation between Afghanistan and Pakistan; in the east, it is between Bangladesh, Bhutan, India, and

Nepal (BBIN). There is also interregional integration; for example, between countries of the South Asia and Central Asia Regions.

In the East Asia, Southeast Asia, and the Pacific Region, The Association of South East Asian Nations (ASEAN) is playing a lead role in promoting Asia-wide integration, because it is around ASEAN that major groups such as ASEAN+3 and the East Asia Summit revolve.

In Latin America and the Caribbean, regional integration has moved to the forefront of the policy debate as a viable intermediate solution to the slow growth rate experienced after the boom period in the 2000s. The goal of leveraging formal trade arrangements to accelerate growth is evident in many of the trade agreements that are in place in the region. For example, an objective of the Pacific Alliance—the 2012 integration agreement between Chile, Colombia, Mexico, and Peru—is “driving further growth, development, and competitiveness of the economies of its members.” Similarly, the Dominican Republic–Central America Free Trade Agreement (CAFTA-DR) lists the creation of “new opportunities for economic and social development” and “new employment opportunities and improved working conditions and living standards in their respective territories” as some of its resolutions.

In the Middle East and North Africa, significant progress has been made in reducing barriers to trade in goods within the region and, to some extent, between the region and the rest of the world. During the past decade, reductions in most-favored-nation tariffs complemented preferential liberalization under the Pan Arab Free Trade Area (PAFTA) and other preferential trade agreements (PTAs). Indeed, the Middle East and North Africa was the region in which tariffs, especially those on manufactured goods, decreased the most during the global financial crisis.

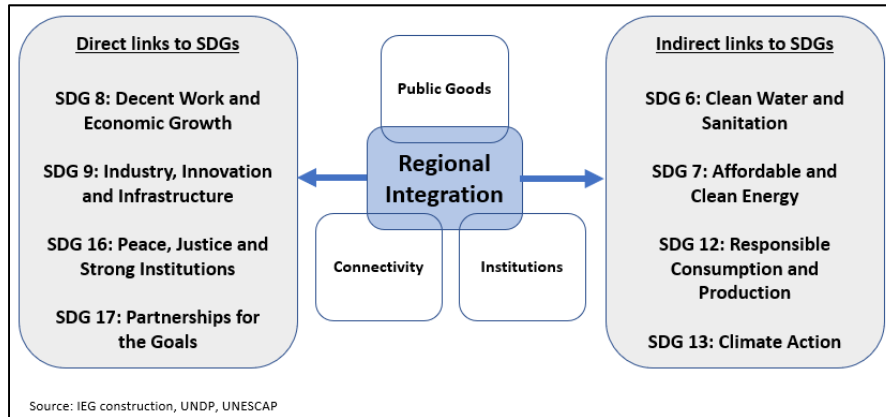
Sustainable Development Goal targets, multilateral development banks, and the role of regional development banks

Many countries focus on improving their domestic development to achieve national priorities and to contribute to the Sustainable Development Goals (SDGs); such achievements also depend on how closely regions, subregions, countries, institutions, and their partners work with one another. In this context, SDGs and regional integration are linked.

IEG’s literature review suggests that the direction and effectiveness of intergovernmental and intra-governmental policy coherence can determine the level of achievements across all 17 goals and 169 targets of the SDGs.⁹ Based on an analysis that maps the SDG framework to the regional integration conceptual framework, this

evaluation identified both “core” direct links and indirect links to the SDGs.¹⁰ Figure 1.2 presents a stylized view of how regional integration can be mapped to the SDGs:

Figure 1.2. Regional Integration Agenda’s Direct and Indirect links to SDGs



Sources: IEG construction, UNDP, UNESCAP. Note: see appendix A for the mapping approach.

Ultimately, national governments need to take the lead in forging regional integration, by both making necessary changes in their policies and actively participating in regional initiatives. On the other hand, multilateral institutions, including the Bank Group and regional development banks, along with their partners, have been playing a critical role in promoting regional integration as an instrument for economic growth and reduction of conflicts (see appendix C).

The World Bank Group’s Approaches to Regional Integration

The Bank Group’s institutional mandate¹¹ allows it to facilitate the global integration of its clients using regional integration as a “stepping stone.” At the corporate and global levels, the Bank Group was late to embrace regional integration. Before the early 2000s, the Bank Group was skeptical about regional integration based on two premises.¹² The first was that a global agreement like the WTO that led to progressive reductions in tariffs and non-tariff barriers to trade would improve welfare more than a patchwork of regional trade agreements, because these agreements would almost by design give their members preferential terms. The second was that regional agreements were more likely to be among neighbors (“north-north” and “south-south”) with similar geographical endowments and income levels, so that trade between them would be less beneficial than trade between dissimilar economies (“north-south”) made possible by global agreements.

The balance at the Bank Group tilted toward regional integration in the mid-2000s for two reasons. The first was a fundamental change in the economic geography of trade,

owing to falling transport costs and the growing importance of intra-industry trade. This was especially important in Western Europe and North America, but it was rapidly increasing in East Asia too. Intra-industry trade is especially sensitive to transport costs and trade barriers, so its growth both reflects and creates a demand for regional integration. The second reason was the lack of progress in concluding a global trade agreement. It made sense for smaller groups of countries—usually clustered by region—to move ahead on their own and make trade and other exchanges easier. The 2008 *World Development Report: Reshaping Economic Geography* proposed that when designed and implemented well, regional and global integration could be complements. By the end of the 2000s, the Bank Group supported regional integration initiatives.

The Bank Group, at the time of this evaluation, does not have a corporate strategy on regional integration, but it does have a dedicated Regional Integration Assistance Strategy for Africa. The two guiding documents from 2008 and 2018 reflect the opportunities and challenges, while offering guidance on Bank Group approaches in this region. For other regions, the support to regional integration activities is discussed sporadically in regional strategy documents. A preliminary review of Bank Group regional strategies suggests a focus on areas where there is political will (demand) to advance integration efforts and related themes. The themes cover both regional and global issues to which the Bank Group is dedicating resources (for example, growth and inclusion, shared prosperity, climate change, refugees, renewable energy, disaster response and relief). The Bank Group strategy for the 11-country Pacific Island Community (PIC) has a highly selective focus on industries and sectors (for example, tourism, the services sector) instead of a comprehensive approach to regional integration. Three successive OECS strategies¹³ blend a mix of cross-cutting themes (disaster risk management, climate change, etc.) and the role of regional integration. The new Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) is expected to deliver an innovative and competitive insurance against cyclones and earthquakes.

Recent Bank Group strategy documents, including the *Forward Look*, reiterated the importance of the Bank Group's leadership role in dealing with global challenges, and positioned the organization's ability to work at the nexus of local and global issues such as climate change, gender, and pandemics as a core part of its value proposition (World Bank, 2013 and 2016). Yet they do not explicitly embrace regional integration as the means.

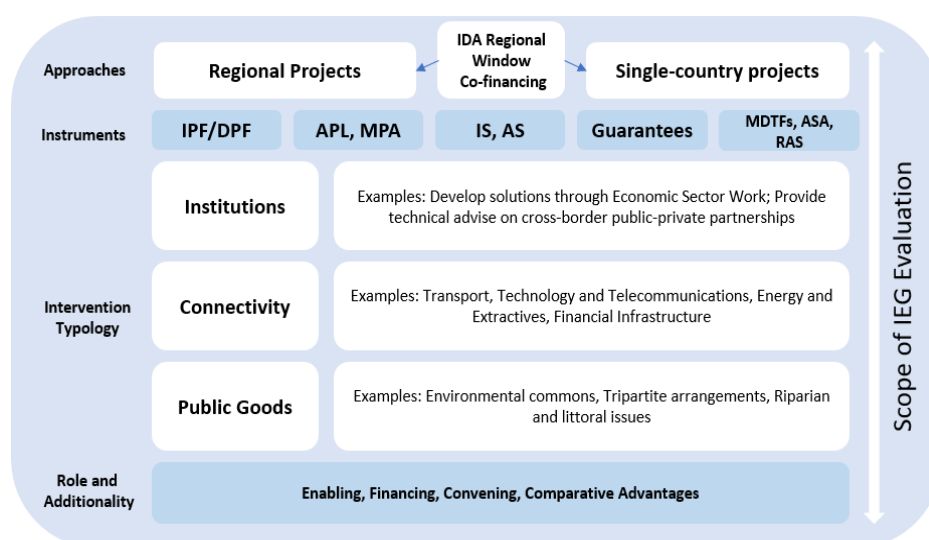
The Bank Group's support to fostering regional integration takes place through a combination of approaches, interventions, and instruments (figure 1.2). The Bank Group fosters regional integration efforts by providing a neutral platform for identifying and

implementing solutions through enabling, financing, and convening related institutions and stakeholders.

Using the World Bank's definition of regional integration, IEG identified a portfolio of 867 World Bank Group projects – 528 in the World Bank, 325 in IFC, and 14 in MIGA. Approaches include (i) regional projects covering multiple countries under one single operation, (ii) regional programs containing multiple-phase operations involving several countries simultaneously or in sequence, and (iii) single-country operations. An example of a regional *project* is the Gambia River Basin Development Organization Project in West Africa, where Gambia, Guinea, Guinea-Bissau, and Senegal were financed by the World Bank for a power pool transmission network extension under one single operation. An example of a regional *program* is the Energy Community of South East Europe Program in Europe and Central Asia, under which the World Bank supported development of a market for regional energy trade between Albania, North Macedonia, Montenegro, Serbia, and Turkey through a series of single-country operations. Finally, an example of a single-country operation is the Road Corridor Africa Catalytic Growth Fund Project, which was implemented in Mauritania to reduce the physical barriers along the Mali-Mauritania border. About 71 percent of the World Bank's regional integration lending portfolio are regional projects, 15 percent are regional programs, and 14 percent are single-country operations. In the IFC Investment Services (IS) regional integration portfolio, about 37 percent are regional projects, and 63 percent are single-country operations. In MIGA's regional integration portfolio, all 14 are single-country operations.

Bank Group instruments to foster regional integration include loans, guarantees, and advisory services (figure 1.3). The effectiveness and influence of the Bank Group in regional integration depends on its comparative advantage and ability to exercise its three roles as enabler, financier and convener (refer to Chapter 2 on detailed analysis of the Bank Group role).

Figure 1.3. Stylized View of Bank Group Approaches and Interventions in Regional Integration



Source: IEG.

The Bank Group also provides additional financial resources for regional integration through the IDA Regional Window Program which was launched in 2003 under IDA 13; and is highly relevant to the world's poorest countries. In the past 15 years, it has expanded in size, sector, and geographic coverage. During the IDA 13 cycle, the program financing was less than US\$500 million, and was used to support seven projects in two World Bank Group regions. Today, the program provides more than US\$5 billion in financing support to the Bank Group's regional integration engagement in all six regions (appendix H).

Evaluation objectives, theory of change, and methods

The objectives of this evaluation are to assess the effectiveness and comparative advantage of the World Bank Group in fostering regional integration and influencing future operations. A theory of change based on the Bank Group's regional integration portfolio and its roles is based on IEG's literature review, the Bank Group Management's stated objectives in IDA regional program documents, strategy documents, Management updates to the Board (May 2015, September 2017, and June 2018), and Bank Group portfolio review and analysis (figure 1.4).

The theory of change acknowledges the conceptual challenges underlying the theme of regional integration. Although this theory of change envisions a linear path toward results, the evaluation recognizes the multidimensional, multisectoral nature of regional integration interventions and the multifaceted role of the Bank Group. It also

acknowledges a myriad of contributing and mitigating factors that help to explain observed results.

The overarching question this evaluation seeks to answer is: To what extent, and how effectively, has the World Bank Group contributed to the regional integration of its client countries? This overarching question includes a series of sub-questions:

Question 1: To what extent has the World Bank Group achieved its intended outcomes in fostering regional integration?

- How effective have the three types of interventions (upstream enabling environment on institutional capacity building, downstream investment focusing on regional infrastructure, and convening power with a main platform being regional public goods) been in achieving the intended results at the project and sector levels?
- What types of approaches and interventions reflect good practices and can serve as examples to replicate or scale up support to regional integration?
- To what extent has the Bank Group engaged with the private sector to foster regional integration?

Question 2: What is the Bank Group's role in fostering regional integration, and to what extent is it grounded in its comparative advantages and demand from clients?

- To what extent has the Bank Group's convening power supported regional integration interventions?
- To what extent has the Bank Group's business model (organization, policies, and resources) supported regional integration interventions?
- To what extent are client needs or demands translated into World Bank Group support?

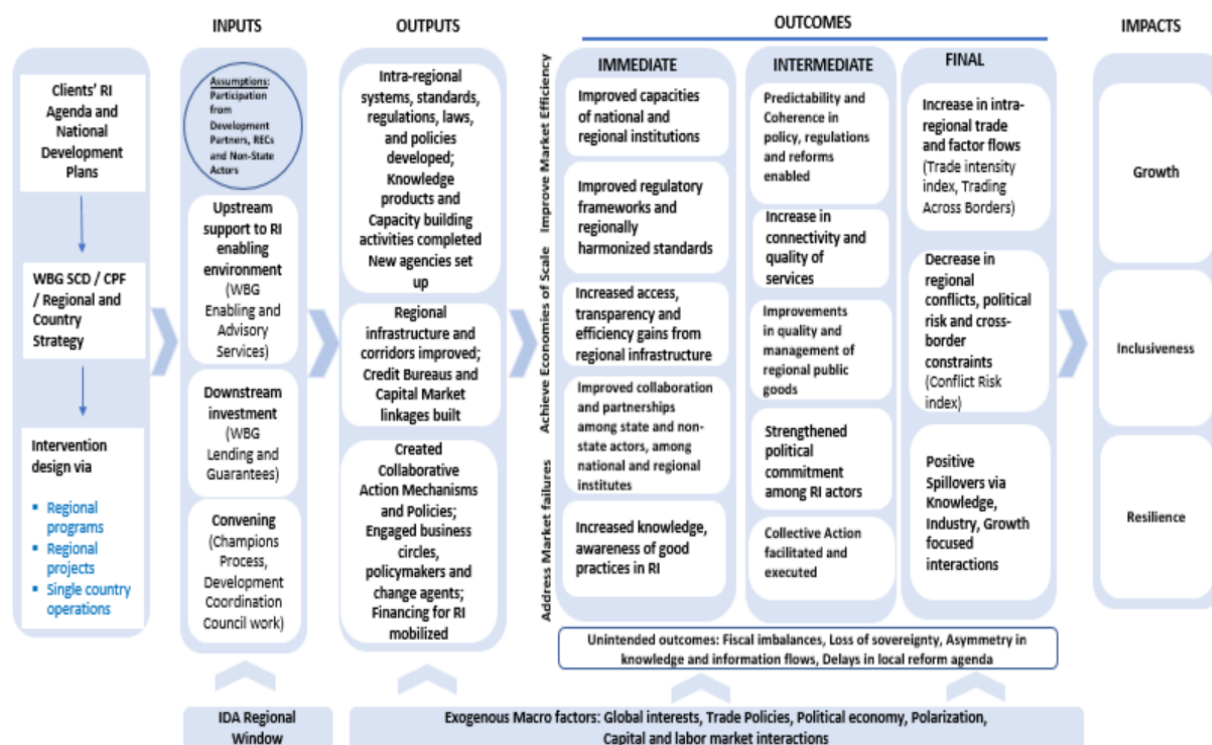
Question 3: What do the lessons of experience (from Question 1 and 2) mean for future Bank Group strategies and regional integration interventions?

This evaluation covers Bank Group support to regional integration from FY2003 to FY2017, to align the evaluation exercise with the start of the IDA13 Regional Program Pilot and to assess regional integration activities in IDA countries supported by successive IDA regional programs. The evaluation focuses on the early and intermediate outcomes, and considers macroeconomic indicators to assess the Bank Group's contribution to final outcomes at the regional level.

The evaluation applies three sets of evaluation methods¹⁴ to arrive at the evidence related to the Bank Group's effectiveness: (i) portfolio review and analysis of a stratified sample of interventions, (ii) regional case studies in East Africa, Central Asia, and South Asia (selected based on the intensity of Bank Group activities), and (iii) econometrics-based analysis. The portfolio review and analysis included reviews of a) existing

thematic evaluations, b) Systematic Country Diagnostics (SCD), Country Partnership Frameworks (CPFs), and Country Assistance Strategies, c) the Regional Integration Assistance Strategy (Africa region), d) Projects supported by the IDA Regional Window, e) IDA retrospectives, f) IEG project-level validations, and g) a literature review focused on the net benefits of regional integration, spillover effects, and the linkages to growth and poverty reduction.

Figure 1.4. Regional Integration Theory of Change



Source: IEG, based on literature review, portfolio analysis, and stakeholder consultations.

Regional case studies include desk reviews, field-based structured interviews of Bank Group staff, client government officials, staff of regional development institutions, and workshops with development partners, complemented by deep-dive analyses of the Bank Group's business model and memoranda of understanding at the Global Practice (GP), country, and regional levels. The case study methods are supported by an analytical framework using four techniques, namely: (i) Social Network Analysis (East Africa), (ii) Political Economy Analysis (Central Asia), (iii) Policy Coherence Analysis (South Asia), and (iv) Consensus Analysis (using structured interviews and development partner workshops).

The econometrics-based analyses are clustered around (i) a difference-in-difference analysis of Bank Group interventions in a region for effects on intraregional trade flows, using intraregional trade intensity as an independent variable; (ii) construction of a regional integration index; and (iii) a data-envelopment analysis to identify frontier regions and subregions with the most potential for integration (appendix B). Some of the evaluation approaches are addressing the multi-dimensional and multisectoral nature of regional integration interventions. For example, the case-based approach that takes the region as unit of analysis deals with certain aspects of boundary complexity, while the multisectoral portfolio review addresses the complexity associated with the nature of the evaluand.

The evaluation is structured around two conceptual building blocks, namely (i) the effectiveness of Bank Group support to regional integration and (ii) the Bank Group's role and comparative advantage. The two building blocks are aligned with evaluation Questions 1 and 2 respectively. Chapter 2 is dedicated to the first building block (effectiveness) and chapter 3 provides insights into the second building block (role and comparative advantage). Chapter 4 summarizes the findings of the evaluation and identifies recommendations for the way forward.

Expected value added and limitations of this evaluation

This evaluation is the first comprehensive assessment by IEG of the Bank Group's support to regional integration efforts, and it complements three recent IEG evaluations: on Trade Facilitation, Forced Displacement, and Convening Power. This evaluation is intended to influence change internally in a timely manner. It provides timely inputs to the IDA18 midterm review and the next IDA replenishment cycle (IDA19). Further, the Bank Group's *Forward Look*¹⁵ emphasizes leading on global and regional issues, leveraging its convening power among other, newer approaches, such as Creating Markets (or Cascade), "to allow policy reforms and institutional-building support to be complemented by private sector investments." Such ambitions need to be matched with the Bank Group's business model and operational effectiveness.

In addition, this evaluation is intended to inform an external audience. Several sovereign initiatives with a focus on regional economic integration and backed by multilateral development banks back the call for a Bank Group-wide analysis of efforts. These initiatives (such as the People's Republic of China's Belt Road Initiative and Silk Road Fund, the United States' New Silk Road, Korea's Eurasia Initiative, and Japan's Quality Infrastructure) are in the early stages of design, implementation, and financing of activities through their own approaches and instruments. Teams managing such initiatives would thus be important audiences.

This evaluation has identified lessons for future engagement and for addressing evaluation gaps. Fostering regional integration requires longer-term resource commitments and partnerships with diverse set of actors; this evaluation identifies the opportunities, challenges, and lessons from the experience of fostering regional integration to inform the Bank Group's Executive Directors and Management and provide insights toward execution of the IDA18 Regional Window and potential refinements. To date, no systematic assessment or independent evaluation has been conducted on the development effectiveness of the Bank Group's support to regional integration, a US\$37 billion portfolio (FY2003–17). Likewise, no formal evaluation has been conducted to date on the evolution of the IDA Regional Window. This evaluation provides an in-depth analysis of the Regional Window.

Although regional integration is primarily a government-led or bilaterally led effort and multilateral development banks play a secondary role in fostering regional integration, several limitations affect this evaluation. There is no standard, globally agreed definition of regional integration; and there are no globally agreed performance indicators to measure the level of regional integration, which influences the choice, breadth and depth of analytical methods. Third, economic integration spans a wide spectrum of activities and approaches, from coordination of policies within a subregion (such as East Africa) to a political union (like the European Union) adding to the complexity of the evaluation. Finally, lack of specific indicators in Bank Group projects and a paucity of project-level data across all intervention types make the assessment of final outcomes and impacts challenging. To study this topic empirically, this evaluation further referenced the literature review, existing IEG evaluations and validations, the 2009 *World Development Report: Reshaping Economic Geography*, and internal Bank Group documents to identify the Bank Group's -specific roles, interventions, and approaches to fostering regional integration. Any reference to Bank Group effectiveness and outcomes to foster regional integration means achievement of intermediate outcomes only, as outlined in the Theory of Change.

1 Bartley Johns, Marcus; Brenton, Paul; Cali, Massimiliano; Hoppe, Mombert; Piermartini, Roberta. 2015. *The role of trade in ending poverty* (English). World Trade Organization and World Bank: Geneva.

<http://documents.worldbank.org/curated/en/726971467989468997/The-role-of-trade-in-ending-poverty>

²Kutlina-Dimitrova and Lakatos, 2017

³ Data from Uppsala Conflict Database and definitions of Peace Institute Oslo

⁴ Bouet and Laborde (2010), Evenett and Fritz (2015) and IMF (2016);

⁵ Bouet and Laborde (2010), Evenett and Fritz (2015) and IMF (2016)

⁶ (World Bank Group Technical Briefing, June 2015).

⁷ As defined by the Bank Group regional classification.

⁸ In 1978, the Committee for Studies on Cooperation in Development (CSCD), had previously conceptualized the idea of a South Asian Community.

⁹ UNDP, UNESCAP: Regional Cooperation and SDGs, 2016

¹⁰ Given that SDGs themselves are inter-linked to one another within the 17 goals, a network analysis of the SDGs has been conducted by UNDP and UNESCAP in 2016. This evaluation has synthesized and internalized the findings of the UNDP and UNESCAP studies to conduct the SDG-RI mapping.

¹¹ Articles of Agreement, 1944

¹² IEG interviews with Former and Current World Bank Chief Economists

¹³ CAS for OECS (FY06-09), Regional Partnership Strategies for OECS (FY10-14) and Regional Partnership Strategies for OECS (FY15-19).

¹⁴ Refer Table A2 in Appendix A for a tabular view of the methods deployed

¹⁵ Forward look – A vision for the World Bank Group in 2030, World Bank, March 2017

2. The World Bank Group's Regional Integration Engagement and Achievements

Highlights

- **Three roles.** The World Bank Group fosters regional integration playing three overlapping roles: (i) as enabler for upstream support to enabling environment for regional integration; (ii) as financier for downstream investment, focusing on regional infrastructure; and (iii) as convener, exercising its convening power primarily supporting regional connectivity and regional water resources management. All these roles are represented in the combined portfolio of 867 investment projects and 720 advisory service and lending; volume reached \$37 billion over the evaluation period.
 - **Strong Sub-Saharan Africa commitments, sporadic in other regions.** In its strategies and frameworks, both corporate and regional, the Bank Group doesn't have sufficient clarity and depth for regional integration efforts, except in the Sub-Saharan Africa region; the other five regions show uneven and disproportionate resource allocations over time, creating a misalignment with the growing client demand for regional integration.
 - **Success mostly with regional connectivity and in Sub-Saharan Africa.** Bank Group support for regional integration has been mostly successful in enhancing regional connectivity and in the Sub-Saharan Africa region. Seventy percent of regional transport sector projects were successful and, overall, contributed to intraregional trade intensity during the 15-year evaluation period. Results on support to regional public goods are mainly in regional water resource management, while the results on upstream efforts suggest positive contributions to client knowledge, policy dialogue, and institution strengthening efforts.
-

The World Bank Group's Overall Support for Regional Integration

The Bank Group supports regional integration by playing three roles: (i) enabler through upstream engagement; (ii) financier through downstream investments; and (iii) convener by mobilizing key stakeholders. Upstream, the Bank Group can strengthen policy and institutions through various knowledge- and capacity-building activities; for example, enhancing the institutional capacity of national governments and local agencies, and regional policy reform and harmonization. Downstream, the Bank Group provides financing and technical solutions that foster regional integration across (mainly) infrastructure sectors, such as financing cross-border power and transport projects. Using its convening power,¹ the Bank Group can enhance key stakeholders' understanding of, and involvement in, regional integration issues, such as engaging key stakeholders in dialogues and shared use of related studies, research, and data; or it can help define solutions alongside other multilateral development banks and the private

sector. The three roles often overlap; for example, in a regional infrastructure project that involves other development partners to support capacity building of regional institutions and infrastructure investment, the Bank Group is playing three roles simultaneously.

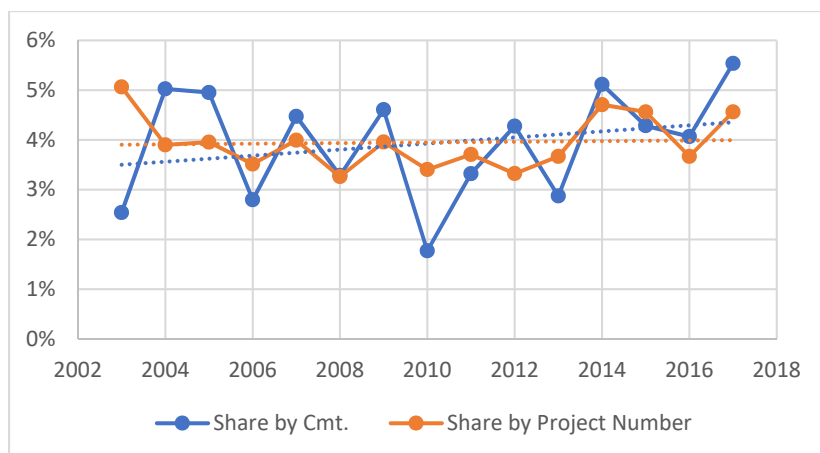
During the evaluation period (FY03–17), the Bank Group's RI support has been increasing in absolute terms but has remained unchanged as a percentage of the portfolio. IBRD/IDA lending, IFC investments, and MIGA guarantees totaled 867 by number and US\$37.4 billion by commitment amount. The Bank Group regional integration Knowledge portfolio (World Bank Economic and Sector Work, technical assistance, and IFC Advisory Services) reached 720 activities or projects and US\$318.14 million in value. By institution, the World Bank and IFC were leading the support for fostering regional integration (table 2.1). The Bank Group's support has registered a fourfold increase from US\$939.73 million in FY03 to US\$3.8 billion in FY17; however, compared with the entire Bank Group portfolio during the same period, lending for regional integration represents an average of 7 percent (by project number) and 4 percent (by commitment amount). These shares have varied within a narrow range of two percentage points throughout the evaluation period (figure 2.1). Bank Group commitment to RI in Africa region ranged between 15 percent and 20 percent during the evaluation period. By comparison, the African Development Bank's regional integration investment, for example, reached 22 percent of its entire portfolio in 2015 (commitment value), and its framework has a target of 30 percent regional integration projects in the portfolio by 2020.² About 2.7 percent of the World Bank's Advisory Services and Analytics focused on regional integration issues.

Table 2.1. World Bank Group Regional Integration Portfolio (2003–17)

Operation Type	Institution	Commitment Amount	N
		(US\$ million)	
Investment	WB Lending	26,291	530
	IFC Investment Services	9,052.8	325
	MIGA	1767	14
	Subtotal	37,112	869
Advisory	WB ASA	221	662
	IFC Advisory Services	97	58
	Subtotal	318	720
	Total	37,430	1,589

Source: IEG. Note: Total commitment amount includes rounding at line items.

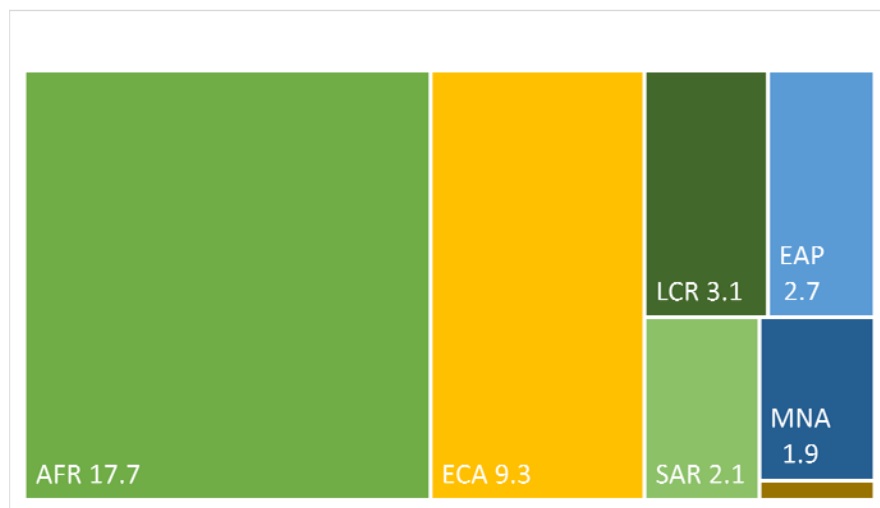
Figure 2.1. Share of Regional Integration in the Bank Group Portfolio



Source: IEG Portfolio Review and Analysis.

The Bank Group's support for regional integration has been concentrated in the Africa region, a strategic priority³ and a response to strong demand from the region. During the evaluation period, the Bank Group allocated about US\$17.7 billion of regional integration investments in Africa (or 43 percent of the total) (figure 2.2). The Africa region has 48 countries, 16 of which are landlocked and 39 are IDA countries⁴. The high share of regional integration support to this region could also be attributed to the Bank Group's dedicated regional integration strategy, and more resources for engagement. For example, 75 percent of the IDA Regional Window was allocated to Africa.

Figure 2.2. The Regional Integration Portfolio, by Region (Commitment \$billions)



Source: IEG Portfolio Review and Analysis.

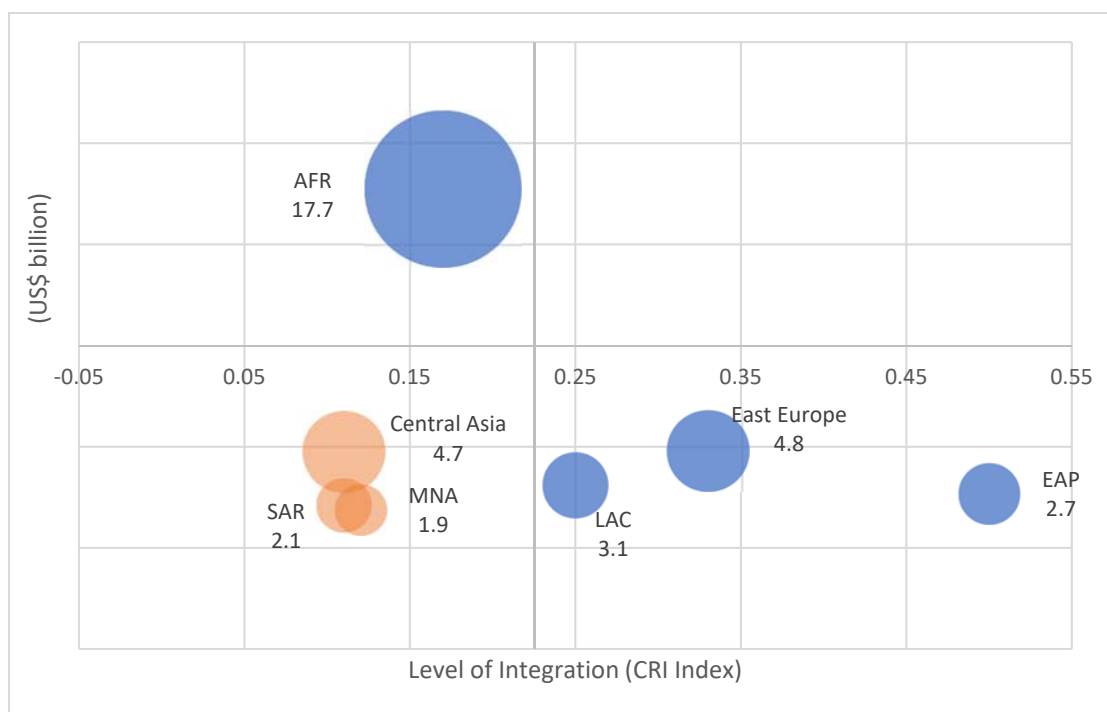
Chapter 2

The World Bank Group's Regional Integration Engagements and Achievements

Note: AFR = Sub-Saharan Africa; EAP = East Asia and the Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MNA = Middle East and North Africa; SAR = South Asia.

On the other hand, the Bank Group's support in some regions other than Africa has not met client needs or matched its own stated priorities. Central Asia, the Middle East and North Africa, and South Asia, are regions characterized by low levels of integration as measured by the Composite Regional Integration Index, based on four dimensions.⁵ They experienced low engagement on regional integration during the evaluation period at US\$4.7 billion, US\$1.9 billion, and US\$2.1 billion, respectively (figure 2.3). The Africa, South Asia, and Europe and Central Asia regions identified regional integration as a priority in their regional strategies. However, the Bank Group's regional integration portfolio in South Asia and in Europe and Central Asia was only 1 percent and 2 percent of the Bank Group's total investment in these two regions over the evaluation period, compared with 16 percent in Sub-Saharan Africa. In addition, IEG's focus group discussions and interviews with key stakeholders⁶ in Central Asia and South Asia revealed that the Bank Group's support has yet to meet the current and increasing demand from these regions.

Figure 2.3. Bank Group Regional Integration Investment by Regions⁷

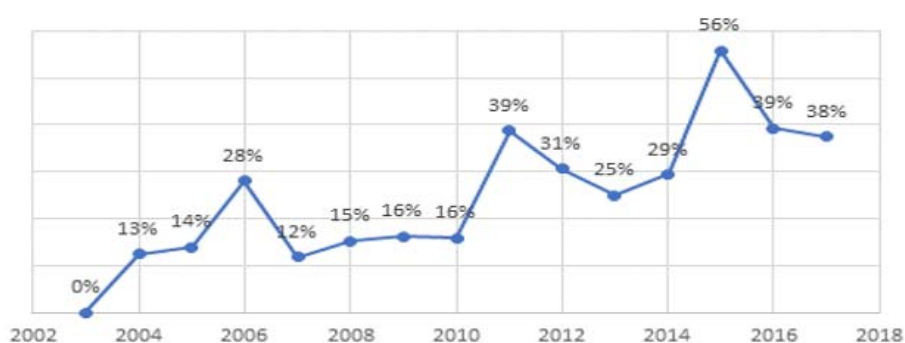


Source: IEG. Note: x-axis measures the regional integration level as per IEG Regional Integration Index (see Appendix B) and y-axis measures the World Bank Group commitment amount.

Note: AFR = Sub-Saharan Africa; EAP = East Asia and the Pacific; LAC = Latin America and the Caribbean; MNA = Middle East and North Africa; SAR = South Asia.

The IDA Regional Window has been playing an increasingly important role in facilitating Bank Group support to fostering regional integration. The Bank Group established the IDA Regional Window at IDA 13, and has expanded the program since then. The IDA Regional Window provides additional financial resources to promote regional integration through regional operations. During the evaluation period, the share of regional integration operations receiving support from the IDA Regional Window has increased from 13 percent in 2003 to 38 percent in 2017 by number of projects (figure 2.4), suggesting strong demand from IDA clients. A total of 140 projects⁸ in 67 countries, equivalent to 75 percent of all IDA and IDA/IBRD regional integration investment projects, received support from the IDA Regional Window.

Figure 2.4. Share of Regional Integration Operations with IDA Regional Window Support



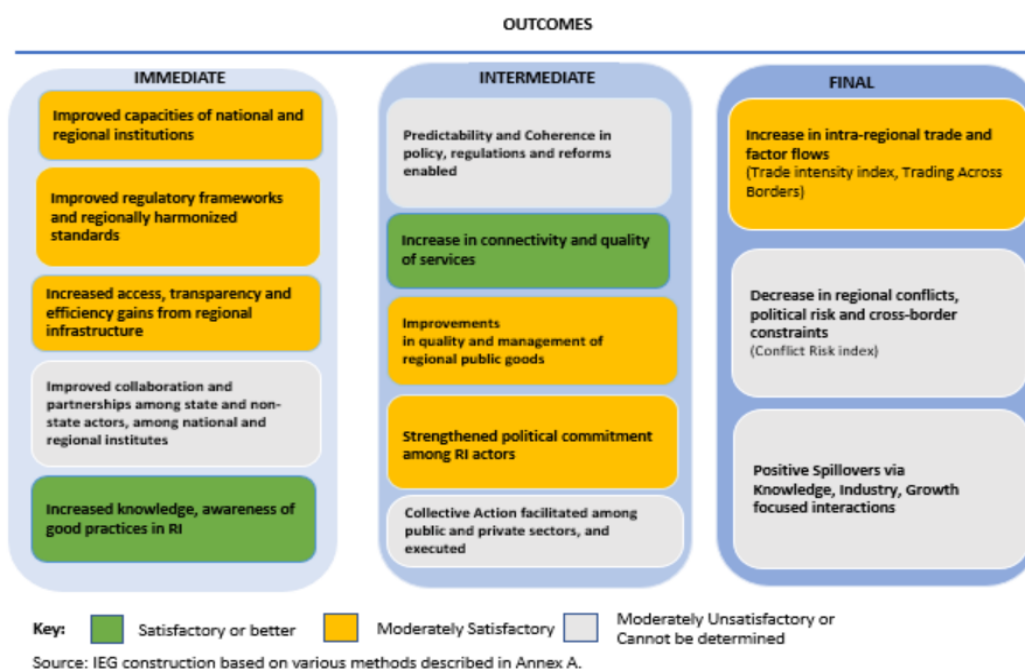
Source: IEG.

The scope of the Bank Group's support for regional integration, including the IDA Regional Window co-financing, suggests good coverage of IDA countries, landlocked countries, countries affected by fragility, conflict, and violence (FCV), and small states. All IDA countries, 94 percent of landlocked countries and FCV countries, and 84 percent of small states received Bank Group support for regional integration. The support to small states increased the fastest, while support to landlocked countries remained the largest among these three categories of countries. The focus of support for landlocked countries has been on improving their connectivity with coastal neighbors. In small states, the Bank Group's support has focused on connectivity improvement and environmental resilience and sustainability. The Bank Group supported the social and economic stability of FCV countries by enhancing access to services and markets through improved regional infrastructure and connectivity, and by promoting regional trade through institutional capacity development. Further, throughout the evaluation period, all IDA-only landlocked countries and IDA-only small states were covered by the IDA Regional Window, accounting for 27.4 percent and 7.3 percent of the total

window commitment, respectively. About 39.3 percent of IDA Regional Window resources were invested in FCVs.

In terms of performance, the Bank Group's regional integration portfolio was most successful in Africa. IEG rated about 70 percent of the closed and evaluated regional integration portfolio in Africa as moderately satisfactory or above, compared with 58 percent for the portfolio in Europe and Central Asia for IDA only projects. Figure 2.5 provides a summary of the relative performance of the portfolio across several dimensions of immediate, intermediate, and final outcomes. Few regional integration operations closed and were evaluated in the other four Bank Group regions—Latin America and the Caribbean (3), South Asia (1) and the Middle East and North Africa (1) (see appendix A, table A11)—because of the low levels of engagement.

Figure 2.5. Stylized View of Bank Group Regional Integration Portfolio Outcomes



Regional Integration Enabling Environment: Bank Group Support and Achievements

As enabler, the Bank Group supports regional integration policies and institutions through multiple instruments. These are investment lending and advisory services (Economic and Sector Work and technical assistance, IFC Advisory Services). About 92 percent of World Bank lending for regional integration and 83 percent of IFC investment services for regional integration are⁹ focused on institutional strengthening and capacity building. In particular, the Bank Group used the Institutional Development Fund (IDF)¹⁰

to support 72 regional integration operations to promote policy dialogue and institutional capacity building. During the evaluation period, 662 World Bank ASA and 58 IFC Advisory Services focused on regional integration (table 2.2).

Table 2.2. Summary of Bank Group Support to Regional Integration Enabling Environment

Instrument	Product	Total operations supporting regional integration enabling environment (#)		Closed and IEG Evaluated (#)
			Closed (#)	
Lending	World Bank Lending	486	293	94
	IFC Investment Services	270	117	30
WB ASA	TA	341	316	NA
	ESW	321	298	NA
IFC AS	NA	58	30	NA
Total		1476	1054	124

Source: IEG construction based on World Bank Group databases.

Note: AS = Advisory Services; ASA – Advisory Services and Analytics; ESW = Economic and Sector Work; TA = technical assistance.

The recipients of Bank Group enabling support were at various levels¹¹ (local, national, subregional, and regional), and across various sectors. Quite a few regional institutions, especially those in Africa, benefited from the IDA Regional Window, which provides up to 10 percent of the regional IDA envelope as grants for preparing or implementing regional operations and building the entities' capacity. There is engagement with strategic partners like the African Union Commission (AUC). At the *thematic* level, the Bank Group is assisting partners such as the Dar es Salaam Corridor Committee in the transport sector, the West Africa Power Pool Secretariat in the energy sector, and the Nile Basin Authority and India Ocean Commission in the water sector. At the *national* level, the Bank Group is facilitating the harmonization of standards, sharing best practices, to reduce administrative constraints and trade barriers with neighboring countries. IFC supported private institutions, 95 percent of these in the transport and financial sectors, with the purpose of improving the enabling environment regionally for small and medium-sized enterprises (SMEs). For example, in East African Community, IFC provided training to ministries of trade and industry, national competition authorities, civil society organizations (CSOs), regulatory groups, power utilities, and the private sector. The East Africa Shippers Council (EASC) noted that IFC has been providing training to shippers. IFC has also provided training and capacity-building support to national private sector associations, such as KEPSA in Kenya.

Chapter 2

The World Bank Group's Regional Integration Engagements and Achievements

The Bank Group's support for the enabling environment has been multifaceted and has achieved mixed results. Moderately satisfactory outcomes were observed in interventions focused on i) enhancing institutional capacity and knowledge, ii) harmonizing regional policies, regulations and standards, and iii) setting up new regional institutions and agencies; for example, the Eastern Caribbean Energy Regulatory Authority to support the Organization of Eastern Caribbean States (OECS) community.

Enhancing institutional capacity and knowledge

More than 70 percent of regional integration operations supported capacity building and knowledge enhancement. The Bank Group's interventions involved training, studies, assessments, evaluations, tech transfer assistance, and establishing operating, management, and financial systems to facilitate institutional decision making and information sharing. In Africa, for example, the World Bank conducted the West African Power Pool Action Plan to strengthen joint operations and management of the power system among West African Power Pool Zone B countries (Mali, Mauritania, and Senegal). Most of the relevant Economic and Sector Works and technical assistance focused on knowledge generation: an example is the World Bank's East African Community connectivity report that focused on understanding the role of multidimensional connectivity in Europe and Central Asia's growth and development process. Other examples include a) the study on Economic Corridors in South Asia, which developed a conceptual framework to assess economic corridors, including a holistic approach for the appraisal of large corridor projects, b) trust-fund supported ASA activities in East Asia that foster regional integration, for example Forestry law and governance (FLEG program), and road safety (Eastern partnership transport panel).

Throughout the evaluation period, the World Bank delivered about 300 relevant economic and sector works (ESWs) on regional integration, trained more than 25,000 people through related workshops and other platforms, and contributed to technology generation, adaptation, and regional collaboration (box 2.1).

Box 2.1. Main Achievements of Knowledge and Capacity Enhancement Support for Regional Integration

Out of more than 300 economic and sector works delivered, a few flagship studies include *Better Neighbors: Toward A Renewal of Economic Integration in Latin America*, *ASEAN Services Integration Report*, and *Wide Economic Benefits of Transport Corridors in South Asia*. Successful examples include the West Africa Stockpiles project, which created a detailed inventory and databases of publicly held obsolete pesticides in Ethiopia, Mali, and Morocco. Ethiopia had its own operation as well. The Livestock Waste Management project in East Asia and the Pacific promoted sound livestock waste management practices through public awareness campaigns. As a result of the Multi-Country Capacity-Building for Compliance with the Cartagena Protocol on Biosafety project for Latin America, nine databases for tracking and monitoring gene flow, and for mapping distribution of crop and landrace populations in project countries for targeted crops, were established in project countries for targeted crops. Though 90 percent of knowledge activities successfully produced knowledge products, information on the use of these knowledge products was sporadic. For example, 31 percent of regional integration economic and sector work was labeled as informing lending, and about 80 percent of them self-assessed as achieving the targets of informing new loans under preparation or implementation, or as being a potential new component in existing loan but IEG had difficulty finding clear documented messages about the results.

The more than 25,000 trainees included stakeholders from regional entities, government, the private sector, and research institutions. The content of the workshops focused on exchanging best practices on regional integration in the health, environment, agriculture, and transport sectors. Regional training centers with institutionalized training programs were established in the health and transport sectors in Europe and Central Asia and in Sub-Saharan Africa. A common problem is the lack of evidence on whether the training led to enhanced capacity.

The Bank Group's support for research projects and programs contributed to technology generation and transfer. Under the Lake Victoria Environmental Management projects (I and II) the Global Environment Facility and the World Bank focused initially on supporting local researchers and students to improve the knowledge base on the Lake. It resulted in over 400 scientific research papers, with important findings on the sources of nutrients going into the Lake and the overexploitation of fish stocks. The Program also developed physical and biological control of water hyacinth and piloted some wetland management and afforestation activities. The second project built on this knowledge to demonstrate interventions that both reduced pollution loading on the Lake and increased local welfare. The West Africa Agriculture Production Program (P117148 and P122065) supported subregional cooperation in the generation, dissemination, and adoption of more than 200 agricultural technologies and innovations; institutions including West and Central African Council for Agricultural Research and Development (CORAF), National Centers of Specialization (NCOS) received support. As a result, 66 technologies were generated or adapted and demonstrated by National Centers of Specialization.

Source: IEG analysis.

Regional policy, regulation, and standards harmonization

About 60 percent of lending operations in regional integration supported regional policy, regulation, and standards harmonization. The sectors which benefited from this type of support are the environment, transport, and trade (accounting for 79 percent, 78 percent, and 71 percent of regional integration operations for these sectors, respectively.) The Bank Group worked with agencies at both national and regional levels to facilitate policies, regulations, and standards harmonization. In the West Africa Agriculture Production Program, for example, the World Bank supported the establishment of regional regulations on genetic materials and agrochemicals, including support for developing harmonized regulations on fertilizers (under preparation by ECOWAS) and for project countries to align their national regulations with the ECOWAS regulations. Some World Bank Economic and Sector Work (ESW) and technical assistance also focused on regional policy and regulatory harmonization. The Caribbean Regional Communications Infrastructure Program, for example, supports the construction of regional connectivity infrastructure and ICT-led innovation, which includes leveraging and expanding the existing regional network of information technology (IT) and incubators, IT parks, and technology centers.

The Bank Group's regional policy, regulation, and standards harmonization achievements were mainly in the trade, health, and infrastructure sectors. About 52 percent of closed and evaluated projects ($N=85$) supported harmonization of policy, regulation, laws, and standards at both national and regional levels. About 87 percent of the development targets in those projects were achieved (box 2.2).

Regional agency and institution setup

The Bank Group committed a relatively small amount of support for setting up new regional integration agencies and institutions during the evaluation period: about 12 percent of regional integration operations. More than 50 percent of such interventions are in Sub-Saharan Africa, followed by Latin America and the Caribbean and Europe and Central Asia, which accounted for 19 percent and 16 percent respectively. The sectors for the interventions are transport, health, energy, water, finance, and agriculture. For example, to enable Arab Water Council countries more efficient regional water resource management, the World Bank facilitated the creation of the Arab Water Management Institute by providing institutional design and curriculum. Another example is the Sahel Malaria and Neglected Tropical Diseases Project (P149526), which is helping to establish the regional committee and cross-border committees to improve the prevention and treatment of selected tropical diseases in targeted cross-border areas in the Sahel region.

Box 2.2. The Bank Group's Contribution to Regional Policy, Regulation, and Standards Harmonization

In the **trade sector**, the Bank Group's interventions contributed to trade policy reform and tackling non-tariff barriers. By supporting policy formulation and implementation in logistics reform, the two-phases World Bank Development Policy Loan (DPL) projects in Indonesia improved efficiency for cross-border trade. The Logistics Performance Indicator for customs and border management reached 2.87 by 2014 from 2.53 in 2012; the monthly average dwell time decreased from 6.3 days to 5.2 days at the Jakarta International Container Terminal. Similarly, IFC is working with the Competition Authority of the East African Community Secretariat (EACCA) and through it the member states. Five EAC countries implemented 52 business forms between 2011 and 2015. Beyond these outputs, intangible outcomes such as the increasing level of trust and confidence among EAC countries are key for long-term success of regional integration in the subregion.

In the **health** sector, as a result of the Central America HIV/AIDS project, the Council of Ministers of Health from Central America and the Dominican Republic (COMISCA) adopted a Regional Action Plan and corresponding monitoring and evaluation plan, prepared by the National HIV/AIDS Programs and facilitated by the Regional Coordination Mechanism with project support. All six countries included in the project now assess the HIV epidemic based on a second-generation surveillance system with a regional framework. The Pan Caribbean Partnership Against HIV/AIDS project drafted and disseminated to 15 countries a Model Regional Policy on HIV-Related Stigma and Discrimination, together with the Caribbean Community (CARICOM) Model Anti-Discrimination Legislation. Fourteen countries report using a Regional Condom Model Policy and Model Workplace Policy finalized under the project.

In the **energy sector**, the World Bank introduced a regulatory and incentive framework for renewable energy resource-based power and heat production in Croatia. The World Bank also helped Kosovo establish an independent Transmission System Operator and a Grid Code. The World Bank supported market reforms in the energy sector in Ukraine through legal, institutional, regulatory, and technical harmonization with the European Union's internal energy market. In the information communications technology (ICT) sector, universal service guidelines and policy were prepared and implemented in Organization of Eastern Caribbean States (OECS) member countries through the OECS-Telecom & ICT Development project (P100635); an e-government regionally harmonized legislation bill was facilitated by the World Bank in project OECS E-governance for Regional Integration. In the Central African Republic, the government published the Interconnection Decree that set the legal basis introducing competition in the telecommunications sector. In the transport sector, East African Community Customs Management Law was implemented; harmonized aviation safety and security regulations have been achieved in member countries; policy and regulation harmonization along the Northern Corridor was achieved through support from the East Africa Trade and Transport Facilitation Project.

Source: IEG analysis.

Box 2.3. The Bank Group's Support to New Institutions Set Up to Foster Regional Integration

In the **transport sector**, new institutions were set up at the regional and national levels. The Kenyan government noted that the Bank Group had been involved in the transport sector since the early 1990s, had deep knowledge of the issues, and understood the client's needs. Several Bank Group projects (such as the Northern Corridor Transport Improvement Project) included capacity building and institutional reforms and establishment of transport agencies (for example, Kenya National Highway Authority)—which have collectively increased the effectiveness of the implementation of transport projects. In the energy sector, the Bank Group supported the creation of the West African Gas Pipeline Authority, a new regional gas regulatory authority, through the West Africa Gas Pipeline project (P082502).

In the **finance sector**, the World Bank established the Caribbean Catastrophe Risk Insurance Facility through the project Caribbean Catastrophe Risk Insurance (P108058) to provide a better mechanism for the Caribbean region dealing with catastrophic risks. In Africa, a regional insurance agency, the African Trade Insurance Agency (ATI), was established to promote the business environment. The ATI made such significant progress that investment flow jumped to \$2016 million in 2012 and trade flow increased to \$767 million in 2014. In addition, World Bank is supporting efforts to build capacity within the Eurasian Fund for Stabilization and Development (formerly known as EURASEC Anti-Crisis Fund). is a regional financial arrangement in the amount of USD 8.513 billion established by Armenia, Belarus, Kazakhstan, Kyrgyz Republic, Russia, and Tajikistan to overcome negative crisis consequences, to provide long-run sustainability and to foster economic integration of EFSD member countries.

In the **water sector**, Bank Group through project Global Environment Facility Groundwater & Drought Management TAL (P070547) supported the setup of regional institutions: The Groundwater Management Institute of Southern Africa (GMISA) and the Groundwater Monitoring Fund, to lead regional groundwater drought management.

Source: IEG analysis

Though limited, the Bank Group's support helped set up new institutions to foster regional integration. These new institutions contributed to regional coordination among subregional and regional actors. Among 17 closed and evaluated projects (that is, 10 percent of the closed and evaluated regional integration projects), an estimated 18 new institutions were established in Sub-Saharan Africa, Europe and Central Asia, East Asia and the Pacific, and the Caribbean, covering the transport, finance, agriculture, energy, water, health, and environment sectors, with large shares of the new institutions in the transport sector (39 percent) in Africa (61 percent) (box 2.3).

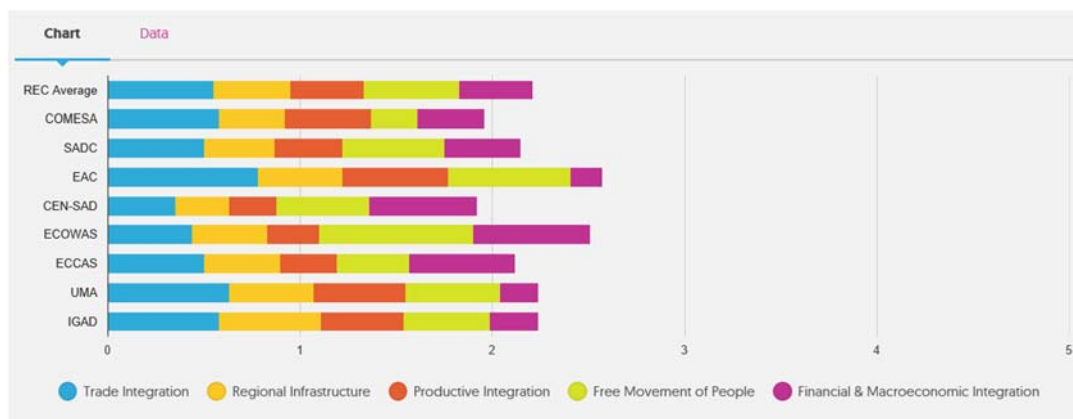
Downstream investment: Bank Group support and achievements

Improving regional infrastructure has been the predominant downstream intervention the Bank Group carried out in line with clients' priorities. On regional integration, 69

percent of World Bank lending, 51 percent of IFC investment, and 89 percent of MIGA guarantees, by commitment volume, were in infrastructure, namely the energy, transport, and ICT sectors. Regional connectivity remains low in many Bank Group client countries, which explains why developing regional infrastructure is high on the client governments' agenda. The Africa Region illustrates the situation. In April 2016, the African Development Bank (AfDB), African Union Commission (AUC) and EAC published the Africa Regional Integration Index.¹² The Index

measures each country's degree of integration with 16 indicators across five dimensions: (i) trade integration; (ii) productive integration; (iii) regional infrastructure; (iv) free movement of people; and (v) financial integration. The regional infrastructure indicator is ranked as the low performer in most of Africa's RECs (figure 2.6). Thus, the Bank Group's financing of regional infrastructure in the Africa region dovetails with the priority regional integration needs in that region.

Figure 2.6. Performance of African Regional Economic Communities on Regional Integration



*Bar length measures performance on each dimension, the longer the bar, the better the performance.

Source: African Development Bank.

Note:

Across all regions, the Bank Group's support for regional infrastructure has focused on the transport sector; all three World Bank Group institutions financed regional transport integration projects more than any other regional infrastructure. In East Africa, for example, the Bank Group invested US\$ 5.7 billion to support regional transport development. About 70 percent of those regional transport projects focused on capacity and efficiency enhancement of the Northern Corridor, the Central Corridor, and their connection with the South Corridor. IFC's regional transport projects invested in railways, airlines, and logistics service companies designed to facilitate regional integration. For example, IFC invested in Magerwa, a logistics company, which has

Chapter 2

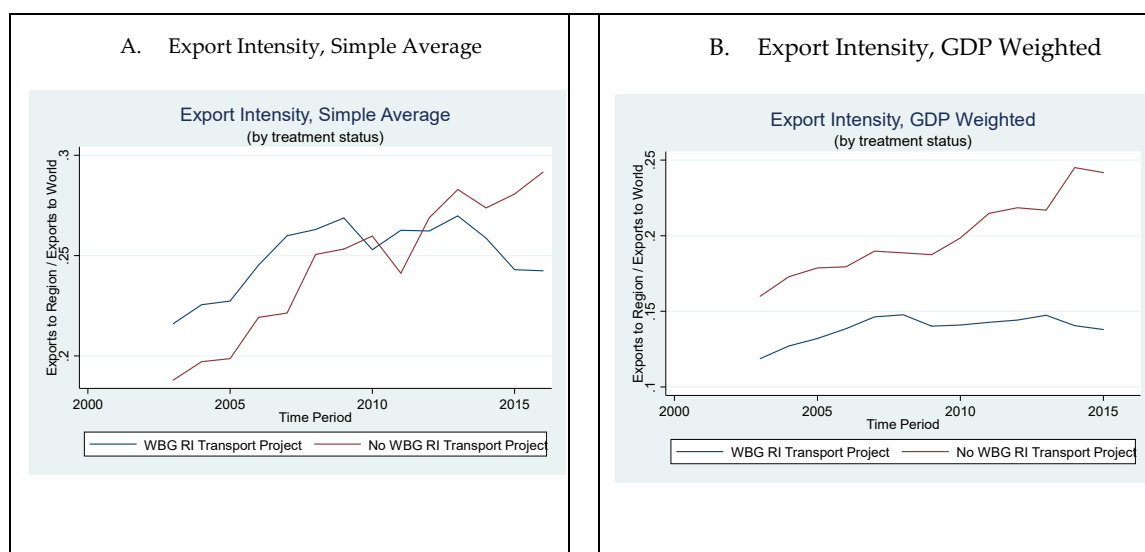
The World Bank Group's Regional Integration Engagements and Achievements

developed a business plan for logistics activities with infrastructure in the key East African ports of Mombasa and Dar-es-Salaam. On the other hand, IFC support to regional integration in the Middle East and North Africa has been primarily through loans to finance airports and seaports.

IEG validated the performance of 79 regional integration infrastructure projects in the evaluation period, with a commitment of US\$4.30 billion (48 World Bank loans and 31 IFC investment projects). Most of the validated results for infrastructure financing relate to transport projects (US\$2.57 billion), followed by energy & extractives (US\$1.53 billion), and a small share of ICT financing (US\$0.19 billion).

Seventy percent of 37 closed and evaluated transport operations succeeded in improving regional transport infrastructure, leading to reduced transit time and those user costs subject to monitoring. However, all three IFC investments in railway infrastructure in Africa were not successful in achieving project development outcomes, owing to management effectiveness management or corruption issues¹³. The Bank Group was most successful in the South Asia and Europe and Central Asia regions (100 percent and 83 percent success rates, respectively). Out of 14 transport projects tracking transit time outcomes, all were successful across all regions except for Africa, where three projects were unable to achieve their transit time reduction targets.

At the project level, the Bank Group had mixed results in achieving trade and traffic volume increases. On aggregate, support for regional transport and trade facilitation had a weak but positive association with intraregional trade. Twenty-seven projects had evaluative evidence on traffic volume outcomes, which were successful in 62 percent of cases. IEG constructed a macro-level difference-in-differences model of regional integration in the trade and transport sectors.¹⁴ The econometric analysis found a weak but positive relationship (one percentage point) between increased intraregional trade (a proxy for regional integration) and Bank Group regional integration project-level interventions in the trade and transport sector (figure 2.7, see appendix J for additional details).

Figure 2.7. Export Intensity Effects of Bank Group Transport Sector Interventions

Source: IEG econometric analysis; see appendix A for the model.

The Bank Group was more successful in improving regional energy infrastructure and service reliability and efficiency than in developing regional energy markets. Two of those large energy projects are (i) the Central Asia and South Asia electricity transmission and trade project (CASA 1000) (US\$526 million); and (ii) the Trans-Anatolian Natural Gas Pipeline project (US\$800 million); both are under implementation. The Bank Group's contribution to the development of regional electricity markets has been less successful,¹⁵ meeting only 58 percent of the project development outcome targets in 18 projects. Project results were available for 23 projects in the energy and extractives sector (21 World Bank loans; 2 IFC projects). Most of the evaluated portfolio was in the Europe and Central Asia region ($N=16$, 67 percent), followed by Africa ($N=4$, 17 percent). Results in the East Asia and the Pacific region are available for two World Bank projects. Latin America and the Caribbean had only one validated project, where IFC helped to finance one of Chile's largest and most important electricity transmission projects, including construction of 446 km of a single-circuit 500 kV line. Of the 18 projects that invested in energy infrastructure, 86 percent successfully delivered energy infrastructure. The success of regional energy projects varied widely by region, ranging from 100 percent of project development outcome targets met in met in Latin America and the Caribbean and Sub-Saharan Africa to a 67 percent share in East Asia and the Pacific.

Energy and extractives regional infrastructure development and reforms had positive development outcomes in improved systems capacity, reliability, and efficiency (91 percent of targets were achieved in 19 projects). In East Asia and the Pacific, a Bank Group project substantially increased the reliability of Cambodia's transmission system,

both in terms of temporary system faults and longer-term faults. In Europe and Central Asia, World Bank lending to Albania helped reduce the number of outages in the rehabilitated substations from 50 per year to 20 per year. In Latin America and the Caribbean, the US\$360 million IFC investment helped increase the transmission system coverage from 7,289 km² to 8,279 km² over two years.

The Bank Group has been successful in developing regional ICT infrastructure and increasing the regions' access to information communications technology (ICT) services. In the ICT sector, both World Bank and IFC investments focused on Sub-Saharan Africa, followed by Latin America and the Caribbean and East Asia and the Pacific. In East Africa, during the evaluation period, the Bank Group delivered seven ICT projects. Four of those were implemented through the Regional Communications Infrastructure Program (RCIP), and two other projects are under the East Africa Regional Transport, Trade and Development Facilitation Program. The investment scope included broadband, internet, telephone, mobile phones, and sector liberalization, and legal and regulatory reforms. Six out of 11 closed and evaluated regional ICT projects invested in regional ICT infrastructure, and all achieved targets. In Eastern and Southern Africa, for example, an IFC and World Bank joint initiative helped establish a submarine fiber optic cable system to improve connectivity for eight coastal countries and island nations. Also in Africa, the Bank Group provided financing for building two fiber optic links and extending the national backbone for interconnection with Cameroon and Sudan. IFC investments helped to finance six booster towers to improve service quality in Malawi and 27 new base stations for 3.5G network in Sierra Leone. In the OECS countries, on the other hand, the World Bank helped with procurement of equipment and software to help the National Telecommunication Regulatory Commission strengthen its capacity for universal service, and to implement programs for connectivity for persons with disabilities.

Eighty-eight percent of closed and evaluated regional ICT projects successfully improved ICT service quality and reliability. In São Tomé and Príncipe, for example, a Bank Group project increased the International Internet bandwidth and access to Internet services, telephone services, and cellular phones services. In the OECS countries, the downloading speed for St. Kitts and Nevis and St. Vincent and the Grenadines more than doubled at project close; the internet penetration and usage of broadband services also increased. In Malawi, IFC invested in a mobile telephone company. The total number of subscribers was above 2.5 million by project close, exceeding IFC appraisal estimates.

Exercising Bank Group Convening Power to Foster Regional Integration

The Bank Group's convening power promoted collective action by relevant actors to address regional development challenges. It primarily materialized in the regional infrastructure space. In South Asia, the Bank Group's Championing process as an input to fostering regional integration is successful in eliciting a reform agenda and promoting private sector participation. The Championing process is a method of facilitating and convening a high-profile forum for dialogue and thought leadership on topical issues related to regional integration. Policy making, corporate, and academic participants meet regularly to identify common areas of interest, gaps, and potential solutions for the region or subregion. In South Asia, the Bank Group played a positive role in convening industry experts and "champions" to inform and strengthen clients' efforts to implement cross-border electricity trade between India and Nepal. The process led by the Bank Group brought together a network of influential economic policy practitioners and private sector representatives from the region as part of a regular forum. The process includes deepening this champions network by crowding-in country and subregional groups of champions with expertise in various sectors essential to promoting regional integration. In some cases, such convening has led to the establishment of advisory councils within the client's line ministries. Though the current champions network's emphasis is the energy and trade sector, the champions' consensus has facilitated discussions for natural resource management and forestry.

An important manifestation of the Bank Group's convening power is its support for strengthening regional public goods; strong client demand exists for more Bank Group efforts in other sectors than regional infrastructure. A regional public good is a service or resources whose benefits are shared by neighboring countries (the countries within the region): regional natural resources, public health (in pandemics, for example), and the regional environment are all regional public goods. The coordination and collaboration of countries on managing regional public goods can potentially enhance the dialogue and trust building among the nations involved and hence contribute to regional cooperation and integration. In the identified regional integration portfolio, support to regional public goods comprised only a small part. About 14 percent of regional integration projects supported regional public goods management. The 57 regional public goods projects randomly sampled committed approximately US\$709 million for interventions. The analyses also found that the Bank Group has, over time, decreased its engagement in regional public goods. The share of the portfolio approved in 2003–07 was 33 percent, increasing to 40 percent between 2008 and 2012, and declining to 26 percent in 2013–17. Strong client demand was revealed in IEG regional case reviews, for example in Central Asia regional air connectivity and tourism, South Asia inland

waterways, and strengthening and supporting the work of the Indian Ocean Commission.

Most regional public goods–focused interventions targeted regional water resources management in the Africa region. About 60 percent of regional public goods projects supported regional water resources management, while 29 percent addressed environment and natural resources management (such as protection and climate change adaptation in regional coastal zones, forests, and fisheries) and the remainder addressed health and infectious diseases. The Bank Group provided some support for managing pandemics through a -three-phase project (Regional Disease Surveillance Systems Enhancement project) to strengthen national and regional cross-sectoral capacity for collaborative disease surveillance and epidemic preparedness in West Africa, for example. The Africa region received 67 percent of Bank Group regional public goods operations, followed by Latin America and the Caribbean with about 12 percent. The rest of the Bank Group support to regional public goods was distributed across the other regions. In some cases, the Bank Group successfully supported regional water resource management, contributing to increased coordination among the client countries involved. Especially in situations where acute political and territorial differences and tensions are present, the influence of the World Bank, with its ability to mobilize expertise and financing, has been successful in advancing regional initiatives.

The Bank Group has strengthened regional institutions by facilitating membership for new entrants. The Senegal River Basin Multi-Purpose Water Resources Development Project is one such example. Because of the project, Guinea became a full member of the Senegal River Basin Development Organization (OMVS) and was part of the joint agreement for the financing of several hydropower projects. Guinea has benefited from the lifting of financial constraints to developing its significant hydropower potential and positioned itself in the West Africa Power Pool market. Guinea's contributions to the joint development and protection of the headwaters of the Senegal River will benefit the other riparian countries.

In the Europe and Central Asia region, the World Bank's regional convening role was significant in the water sector. For example, the World Bank was the first to provide support to water resource management in Kazakhstan and has remained the main partner in this sector to date. In addition, under the Northern Aral Sea project (completed in 2005), involving repairs to structures along the Syr Darya river, a part of the sea was recovered. However, because of the sensitivity of water management in the region, World Bank projects sometimes had to be suspended. Owing to lack of agreement between Uzbekistan and Kazakhstan a new Aral Sea project was halted. Nevertheless, the World Bank's contribution, according to Kazakhstan's Water Resource

Committee, was to ensure the continuation of negotiations. Kazakhstan government stakeholders have identified saving the Aral Sea as a main opportunity offered by regional cooperation suggesting more opportunities for the World Bank in the future.

Conclusion

The Bank Group's support to fostering regional integration has been increasing over the evaluation period in absolute terms but remains flat as a share of overall World Bank Group portfolio commitments. Support for regional integration was concentrated in Sub-Saharan Africa, because of strong demand from the clients in that region. However, the Bank Group's support in other regions has yet to meet needs and is mismatched with its stated regional integration ambitions. Through its three overlapping roles of enabler, financier, and convener, the Bank Group enhanced regional integration policies and institutions and mobilized key stakeholders for regional solutions. The most tangible results have been observed in the infrastructure sector and the Africa region, as evidenced by improved regional connectivity and moderately satisfactory performance of the Bank Group's regional integration portfolio in Sub-Saharan Africa.

¹ A detailed review of Bank Group's convening power is presented in Chapter 4.

² Operational Plan for Regional Cooperation and Integration, 2016-2020. Asian Development Bank (November 2016)

³ Directions from Africa Regional Integration Assistance Strategy (2008, 2018)

⁴ Including inactive and blend countries

⁵ The four parameters of regional integration are trade integration, regional connectivity, free movement of people and financial and economic integration

⁶ Refer Consensus Analysis

⁷ Low integrated region is assessed based on Intra-Regional Trade flows

⁸ IDA regional window funded project list was provided by DFI, additional financing projects were not counted as an individual project.

⁹ The RI ICD lending portfolio estimated through sampled project review result, the share of ICD relevant for IFC and WB lending portfolio are 83 percent and 92 percent accordingly. The same estimation applied to closed RI ICD lending project number.

¹⁰ is a World Bank grant facility designed to finance quick, action-oriented, discrete, generally innovative, upstream (1) capacity-building activities that are identified during (and closely linked to) the Bank's (2) policy dialogue and economic and sector work.

11 AFR recently provided guidance on engagement with (and managerial responsibilities for) regional institutions in Africa to strengthen its Regional Integration program. It has classified the 60+ regional institutions the continent into three groups of partners: Strategic -- with whom the Bank has strong overlap with the RIAs, Thematic -- which have important geographic roles and where the strategic overlap can be strengthened over time and Collaborating -- which have specific mandates and with whom the Bank interfaces on specific RI programs.

12 <https://www.integrate-africa.org/>

13 Two out of the three IFC rail transport projects were linked to the same underlying railway infrastructure

14 See Appendix I for Econometric Analysis and Methods.

15 An example is the Ethiopia-Sudan Interconnector Project where the physical infrastructure was completed in 2012 and had the capacity and load dispatch controls to export 100 MW of firm power but by 2014 was just about 58 percent of the projected annually average 55.60 GWh/month. Another example is the Power Transmission Project in Ukraine, which did not achieve the goal of gradual power market opening because there was a delay in declaring effective the law allowing full market opening. Further, the construction of the Stip-Serbian Border interconnection line also contributed to the regional integration of SEE countries' power systems. In Serbia, Bosnia and Herzegovina, and Ukraine, on the other hand, several Bank Group projects failed to meet objectives on privatization and competitiveness in energy markets.

3. Comparative Advantage and Challenges

Highlights

- **Revealed Comparative Advantage.** Stakeholder consensus analysis, and effectiveness analysis of its support to fostering regional integration reveal the Bank Group's comparative advantage in global knowledge, breadth of financial instruments, synergies derived from the strength of three Bank Group institutions (IBRD/IDA, IFC and MIGA), and convening power. Yet, these advantages have not been fully utilized because of internal and external challenges.
 - **Challenges Remain.** The main internal challenges include: (i) The confluence of the Bank Group's single-country business model, lack of strategic prioritization of, accountability and incentive for pursuing regional integration interventions, and (ii) Sub-optimal collaboration and partnership efforts with key stakeholders such as the Regional Economic Communities, the private sector, regional development banks, and other development partners. If the Bank Group would like to fully use its comparative advantages, then it needs to address these challenges.
 - **IDA Regional Window's complementarity and challenges.** The IDA Regional Window has been a key source of co-financing, complementing the Bank Group's comparative advantage in fostering regional integration, but its additionality beyond co-financing is not evident. The portfolio review and frontier analysis indicate that projects supported by the IDA Regional Window did not perform significantly better than those without this support. Further, Regional Window efforts suggest that there are challenges in targeting those regions and subregions with the most needs and demands. Finally, there is a lack of evidence that projects supported by the IDA Regional Window generated positive spillover effects, an important criterion for its use.
-

The Bank Group has revealed comparative advantage for fostering regional integration. IEG consultations with key stakeholders and effectiveness analysis of the Bank Group's regional integration engagement revealed comparative advantage in several areas: global knowledge, range of financing instruments, synergies of three institutions engaging in regional integration support, and the ability to convene key stakeholders. However, several internal and external constraints are preventing the Bank Group from using these advantages to build support for regional integration.

The Bank Group's efforts to foster regional integration face internal and external constraints. The World Bank operates under the single-country business model, and there is a lack of strategic priorities, accountability, and incentives for regional engagement. Externally, there has been suboptimal coordination with regional organizations, the private sector, and other development partners. The following sections discuss the Bank Group's comparative advantage for fostering regional integration, and the challenges to its full use of its advantages.

Comparative Advantage

Global Knowledge

The Bank Group's global knowledge and related high-quality analytical work are a revealed comparative advantage acknowledged by stakeholders. The Bank Group's global coverage facilitates knowledge exchange and the transfer of good practices and lessons from one region to another. Stakeholders interviewed by IEG view the Bank Group's ability to provide global perspective and multisectoral regional integration solutions as an advantage compared with other development banks who can provide primarily regional perspectives or single-sector knowledge. For example, in its support to the development of financial sector in the Central African Economic and Monetary Community (CEMAC), the Bank Group team designed the supporting activities, drawing on lessons from experience with financial sector and regional projects, including the findings of the 2007 assessment of regional programs prepared by IEG, and the 2008 evaluation of the Payments System Project for the West African Central Bank.

Another manifestation of the Bank Group's global knowledge is its ability to mobilize global expertise and promote south-south learning. Stakeholder interviews and IEG Consensus Analysis¹ confirm that countries want to learn from the practical experiences of others who have gone through or are going through similar challenges in regional integration. Country clients view international consultants working with the World Bank, the Bank Group's country staff, and its experts as valuable resources who help with successful upstream engagement and downstream project design and implementation. For example, the governments of both India and Nepal viewed the energy sector as very important for development and growth, and evidence from IEG regional case studies suggest that the Bank Group's international consultants and energy experts have helped both governments in project preparation and analytical work, especially in the Nepal-India cross-border energy trade project.

However, as revealed in the regional integration portfolio, the Bank Group's multisector knowledge support was sporadic across sectors during the evaluation period. Nearly 28 percent of World Bank regional integration lending projects are identified as multisector projects. The distribution varies greatly across GPs. The Health, Nutrition, and Population sector regional integration engagement, though with a relatively small number of projects, has the largest share (67 percent) of multisector operations in regional integration, while Energy and Extractives has the smallest share (2 percent). Two examples of multisector regional integration projects providing comprehensive solutions are (i) the Senegal River Basin Multi-Purpose Water Resources Development Project, which addressed fisheries, water resource management, and disease prevention

simultaneously; and (ii) the Integrated Ecosystem Management in Indigenous Communities Project, which aimed at biodiversity conservation with a focus on promoting eco trade and tourism.

Stakeholders respected the depth and quality of the Bank Group's knowledge of regional integration. Several examples across regions support this finding. In South Asia, the Bank Group's biggest comparative advantage is perceived to be its solid analytical and capacity-building support to regional institutions. In East Africa, together with the East African Community, the World Bank produced a report on Integrated Corridor Development, *Building a Reform Consensus for Integrated Corridor Development in the East African Community*. Trade Mark East Africa (TMEA), an East African not-for profit company supporting the growth of trade in East Africa acknowledged the high quality of this report. TMEA further noted that it used the World Bank's diagnostic study on the Northern Corridor to inform its interventions along the corridor, and it also used the World Bank's geospatial planning model for its own projects. In Central Asia, government stakeholders interviewed in Tajikistan and the Kyrgyz Republic for this evaluation mentioned the importance of the Bank Group's institutional capacity development and sharing of best practices about integration from other regions, specifically in the energy, water, and tourism sectors. The Bank Group has been working with various administrative units in Nepal, including ministries of Finance, Trade, Energy, and Infrastructure, to enhance the capacity of staff engaged with regional integration projects.

Another World Bank group advantage is its ability to transmit upstream knowledge outputs into downstream investments. The clients interviewed indicated that the Bank Group is more consistent in basing its project design on robust analytical work than other stakeholders. In South Asia, for instance, various stakeholders, including other development partners, have sought Bank Group support to help with project preparation and design, especially in the energy sector. The joint EAC/Bank Group reports on Integrated Corridor Development helped catalyze development partners including TMEA financing, catalyzed non-World Bank resources, and informed downstream investment. The Tanzania Intermodal and Rail Development Project was built on a Bank Group study on open access infrastructure for the Dar es Salaam-Isaka rail segment. The Lake Victoria Transport Program also builds on such analytical work, as the first investment in a regional, multisectoral, and multiphase program in the East African Community.

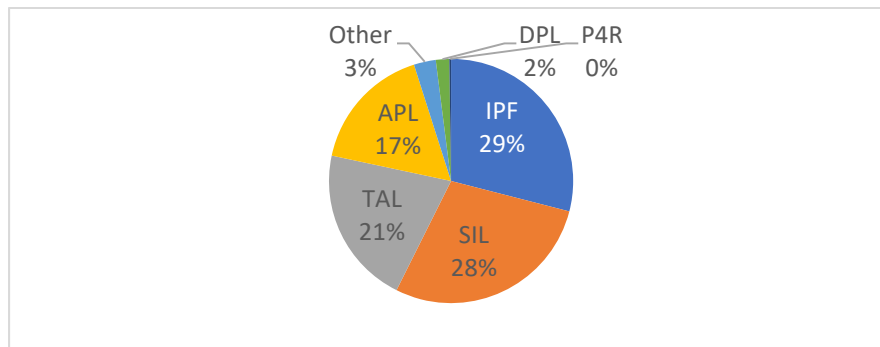
Breadth of financing instruments

The Bank Group has the comparative advantage of deploying a broad range of financial instruments to support regional integration solutions. Over the evaluation period, the

Bank Group used multiple financial instruments for RI engagement (figure 12). The Adaptable Program Loan (APL) was broadly used until the Bank Group introduced Investment Project Financing (IPF) instrument to consolidate the APL and the Specific Investment Loan in FY13. The APL was designed to provide phased support for long-term projects, incorporating learning from previous loans along the way. The review of the World Bank's regional integration portfolio found the performance ratings of APLs in the RI portfolio were better than those of non-APLs, suggesting the benefits of supporting regional integration using APL type of instrument to address long-term, cross-border engagement. Development Policy Loans focusing on policy and institutional actions are also potentially useful tools to prompt regional policy coordination and harmonization, which is usually the most difficult part of regional integration. However, DPLs are not broadly used in regional operations.

Following IEG's review of learning² within the Bank Group and identification of constraints on task teams, a new "wholesale" instrument called the Multiphase Programmatic Approach (MPA) was introduced in 2017. In West Africa, for example, the Transport GP delivered an Identity for Development (ID4D) regional and cross-sectoral operation using MPA, the first MPA operation by the Transport GP. Given that all the MPA operations are still active, it is too early to judge the effectiveness of this instrument in a systematic way. Yet, the MPA instrument is highly relevant to regional integration. MPA has borrowed the best design features of the Asian Development Bank's Multiphase Financing Facility (MFF),³ and avoids the constraints of trigger mechanisms in Adaptable Program Loans. MPA is not without risks: countries may graduate in subsequent phases of the project, or grant terms may not be available at a later stage.

Figure 3.1. Lending Instruments in the Bank Group's Regional Integration Portfolio



Source: IEG.

Note: APL=Adaptable Program Loan; IPF= Investment Project Financing; SIL = Special Investment Loan; TAL = Technical Assistance Loan.

Synergies from the strength of the Bank Group institutions

All three World Bank Group institutions have brought their relative strengths to fostering regional integration, another revealed comparative advantage of the Bank Group. IDA countries need and benefit more from regional integration; its strengths⁴ allow it to play a pivotal role in addressing development challenges that transcend national boundaries, including prevention and control of HIV/AIDS, environmental preservation, regional trade, and financial integration. Regional integration needs active participation of the private sector. IFC, as the private arm of the Bank Group, has leveraged the private sector as project sponsors, investors, and syndicate participants, and uses its Advisory Services business line as a catalyst. Regional initiatives and operations are naturally riskier; MIGA guarantees help mitigate risks and are relevant for cross-border connectivity initiatives.

In FY04, the three Bank Group institutions jointly supported a public-private-partnership project (The Southern Africa Regional Gas Project) to initiate the development and export of Mozambique's natural gas reserves. The project was structured with two MIGA guarantees, an IFC equity investment and two IBRD partial risk guarantees. It was completed on time, began exports in 2004, and has since achieved its volume of gas exports and government revenue targets. Ex-post analysis indicates that this project, with cross-border linkages between Mozambique and South Africa, couldn't have been implemented without the synergies derived from the three institutions working together.

In East Africa, IFC is also supporting EAC companies (primarily Kenyan, including the Kenya Private Sector Alliance) that are interested in expanding to the other EAC countries. In West Africa, IFC worked with *Organization pour l'harmonisation en Afrique du droit des affaires* (OHADA) secretariat, an initiative to provide a uniform legal and regulatory framework for accounting standards, arbitration, commercial law, company and insolvency law, and transactions secured by collateral. Between 2011 and 2015, the OHADA Uniform Act on Secured Transactions 2011 led to additional domestic credit to the private sector in Burkina Faso, Cameroon, Central African Republic, Comoros, Mali, Senegal, and Togo.⁵

MIGA has proven its ability to mobilize industry partners (such as reinsurers), donors, and multilateral banks (for example, CAFEF and ISMED) in support of regional integration projects. In regional programs, MIGA also approved a new facility for conflict-affected and fragile economies. In support of its commitment to the Bank Group's priority area of supporting FCV regions and countries, MIGA set up that facility for long-term lending to achieve development impact in target areas. An important project under this facility is a US\$12 million solar project in Gaza, the first privately

financed energy project in Gaza in more than a decade that benefitted from cross-border foreign direct investment in 2013. The joint investment will help PRICO, part of the PADICO Holding, construct, operate, and maintain a 7-megawatt rooftop solar photovoltaic power plant in Gaza.⁶ This project has attracted a consortium of international, Arab, and Jordanian firms in public-private partnership efforts and contributed to trust and confidence within the region.

Convening Power

The Bank Group's strong convening power in regional issues, another comparative advantage, results from its apolitical approach and neutral position during difficult conversations with clients on regional integration issues, and from its combined strengths in regional knowledge and regional investment.⁷

Stakeholders from the EAC, for example, noted that the Bank Group took an assertive apolitical position on regional issues, which makes it a trusted partner even when member states have divergent political priorities among themselves. The World Bank's approach of staying above the political fray, and being an honest broker, has strengthened its stature, which translates into readier client acceptance of its guidance on the development of regional integration projects. For example, in the case of the Standard Gauge Rail (SGR) adoption project currently being implemented in the EAC subregion, the Bank Group clearly indicated that it was not in favor of SGR based on rigorous economic analysis, an unpopular suggestion with the EAC governments. (In contrast, the African Development Bank (AfDB) has not disagreed on the SGR but is not providing financial support either.) In East Africa's transport sector, regional stakeholders viewed the Bank Group as an influential partner and ranked it the first among multilateral development banks and third among all development institutions and agencies actively involved in fostering regional integration (box 3.1).

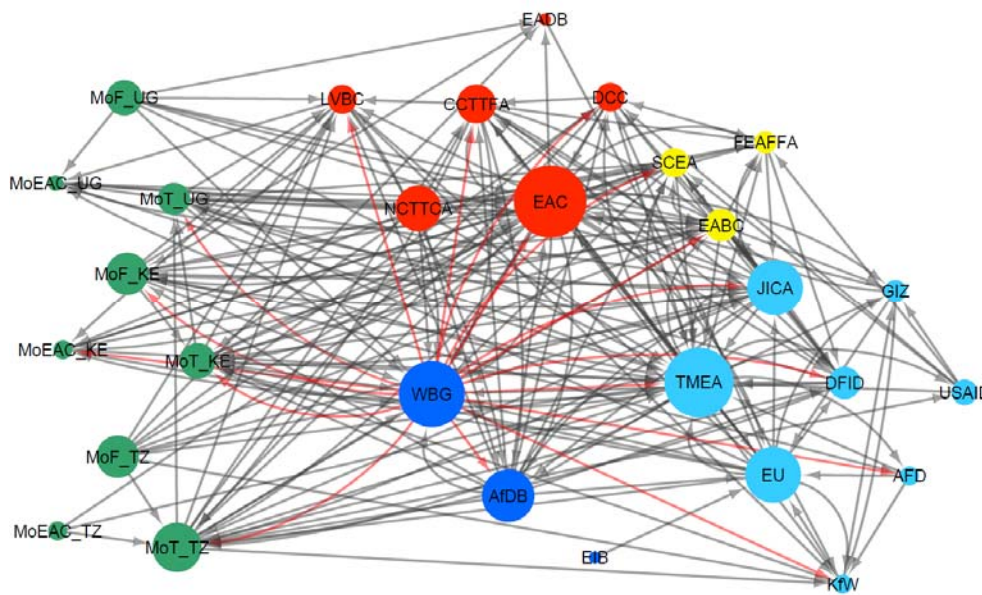
Convening power was also evidenced by the Bank Group's ability to catalyze finance for regional initiatives that cannot be entirely supported through its own balance sheet. In the Africa region, IEG found that the Bank Group has partnered with other multilateral banks, donors, and regional organizations to finance regional public goods and regional infrastructure projects in about 25 percent of its regional integration operations. The AfDB is the most consistent co-financing partner, participating in 28 percent of co-financed projects. Other partners who have participated in several projects are SIDA, NORAD, AFD, the NDF, and GTZ. In the Bank Group engagement in EAC, the private sector participated in 60 percent of the World Bank's regional infrastructure lending projects, focusing on transport (62 percent) and ICT (14 percent). The most common form of private sector participation was Operation & Maintenance arrangements.

Leveraging its global presence, the Bank Group is better positioned than regional development partners to convene key stakeholders in addressing development issues and challenges that increasingly transcend borders. In Central Asia, for example, the Bank Group advisory service not only focused on intraregional cooperation but also tried to build links with the South Asia region by connecting four countries to foster interregional cooperation in the energy sector. CASA-1000, a multiyear, multi-institutional effort co-financed with other development partners, was designed to supply surplus summer hydroelectricity from Central Asia to South Asia. The project is implemented as a contractual joint venture of the Kyrgyz Republic, Tajikistan, Afghanistan, and Pakistan. The project has demonstrated potential to provide much-needed revenue to the Kyrgyz Republic and Tajikistan while building trust and cooperation among its South Asian counterparts. When political interest waned, and the project stalled in 2014, several financing partners withdrew, including regional institutions. Yet, the Bank Group stayed engaged in the policy dialogue with the client countries, convened a series of round-table conversations with key stakeholders in a neutral zone, and displayed its “patience capital.” In mid-2018, the project has achieved financial closure. Stakeholders highly commended IFC’s public-private partnership advisory effort in helping the Inter-Governmental Council attract and process tender bids for procurement activities related to the construction of transmission lines and convertor stations, thereby facilitating private sector participation downstream—another instance of Bank Group synergies and convening power.

Box 3.1. Social Network Analysis in the East Africa Region to Assess the World Bank Group's Convening Power

To assess the Bank Group's convening power role more closely in a specific sector, the evaluation examined the perception of the World Bank Group's influence in the transport sector among a group of stakeholders who were interviewed. An Influence Network Map was developed based on the responses obtained and is represented in Figure 13. Each node on the map represents a stakeholder in the regional integration space in East Africa, and the nodes are color coded according to their classification. Regional organizations are represented by red nodes, national governmental organizations by green, multilateral development banks by dark blue, other development agencies by light blue, and private sector associations by yellow. The lines denote links between the stakeholders, and the arrowheads the direction of influence (who influences whom). The size of each node is based on the number of arrows that emanate from it and hence is a proxy for its span of influence. Arrows of the World Bank Group are represented in red for easy identification.

Map of Bank Group Influence



Source: IEG analysis

The Bank Group's instrumental role in establishing the Nile Basin Trust Fund is another example of its convening power across borders. The Nile Basin Initiative (NBI) is a water resources management program in Eastern Africa; established in 1999 as a forum for consultation and coordination among 10 Nile Basin countries for the sustainable management and development of the shared Nile Basin water and related resources. In

2001, the Bank Group, along with nine development partners, established the Nile Basin Trust Fund (NBTF) to support pursuit of the shared vision of the NBI. Canada, Denmark, the European Union, France, Finland, Netherlands, Norway, Sweden, the United Kingdom, and the World Bank contributed \$203 million to the fund. The NBTF was administered by the World Bank. With this impetus, the NBI countries have moved from limited dialogue and collaboration on water resources into an environment with active information sharing, strong regional institutions, and joint prioritization, planning, and implementation of investments. The NBI Secretariat noted that the cooperation and preparatory work has resulted in \$6 billion in regionally significant development projects currently being advanced by the Nile countries through NBI processes, with \$1.5 billion of the portfolio already under implementation. However, the NBTF came to an end in 2015, superseded by Cooperation in International Waters in Africa, a broader fund supporting riparian countries throughout the continent, a development that has considerably reduced the scope of the Bank Group's support to the Nile Basin countries. The Bank Group's convening efforts, leading on regional public goods, remain its greatest comparative advantage and its unfinished business.

Challenges to foster regional integration

Though the Bank Group has comparative advantage for fostering regional integration, several challenges limited its full use of such advantage; opportunities were missed during the evaluation period. Such challenges include insufficient or lack of systematic engagement with the private sector and RECs, a clear division of labor among development partners engaged in the same sectors or in concurrent dialogues with clients, and lack of coordination with other multilateral development banks. Internally, a Bank Group business model based primarily on single-country engagement, the limitations of the Bank Group's accountability mechanisms, and incentive structures for regional integration have turned out to be formidable constraints.

Interviews with key regional stakeholders suggest that the Bank Group's engagement with the RECs, the private sector, and development partners were insufficient. RECs are key institutions that typically benefit from the Bank Group's activities but continue to be limited by their capacity. The Bank Group is yet to have a systematic engagement plan with RECs, including those in the Africa region. For example, though IFC's support to the EAC Secretariat was being helpful, the Secretariat observed that such support is somewhat ad hoc. Given these organizations' low capacity and their need for technical support, a long-term agreement with IFC would be very welcome and useful. The IEG team's mission to EAC received feedback from key stakeholders that RECs need systematic capacity building and financial support, and project designs need to include meaningful roles for RECs during implementation. More broadly, in the context of

regional integration, greater flexibility to provide grants would be very helpful to build capacity.

In some regions, the knowledge-based comparative advantage was limited to Bank Group-only activities and couldn't be transmitted through the efforts of other development finance institutions and multilateral development banks. In South Asia, stakeholders acknowledged that its robust analytical support and technical capacity is the biggest advantage of the Bank Group, and there was perception that such support mainly focused on projects that the Bank Group is involved with, while only limited support was extended to regional initiatives and organizations. Similarly, the World Bank's efforts to promote cross-border energy flows were overlapping with efforts from ADB and the US Agency for International Development (USAID). Such challenges were partly overcome by the World Bank's 2017 South Asia communications strategy (*Shaping the Narrative*⁸) and, since 2018, its donor partnership efforts with DFID and DFAT, and observer status with ADB-administered regional platforms such as CAREC and SASEC.

Structured interviews with nonstate stakeholders strongly suggest that the voice of the private sector is not reflected adequately in development partners' regional integration interventions. The private sector associations interviewed in Central Asia (Kazakhstan and the Kyrgyz Republic) felt that IFC and the World Bank did not sufficiently engage with them. The associations participated in World Bank-conducted surveys and helped with data collection (for example, on Doing Business), but would like to receive more tangible support, such as participation in World Bank-sponsored projects, lending, and capacity building. Similar findings apply to other regions. In South Asia, for example, private sector players struggle to navigate through the strong regulatory regimes in India and Nepal, and suggested to the IEG team that the Bank Group's policy support is much needed if a more enabling environment for private sector development is to be needed. In EAC, IEG's Social Network Analysis indicates that the World Bank Group has limited influence in East Africa's private sector in terms of supporting and advocating for regional commercial activities. EAC, TMEA, and Japan International Cooperation Agency (JICA) have influence on all three private sector associations at the regional level, while the Bank Group's influence appears to be limited.

Multilateral development banks, especially regional development banks, are key partners in regional integration activities; yet the coordination between the Bank Group and other multilaterals did not reach its full potential,⁹ which in turn hindered the Bank Group from exercising its comparative advantage and fully supporting its partners. In East Africa, for example, some development partners noted that the World Bank was an important player with strong linkages to the national government but not as focused on participation in the donor coordination groups as it could be. Development partners felt that they were not always aware of issues in World Bank regional integration

engagement. Despite being co-financing partners, development partners saw coordination between them and the Bank Group on the broader regional integration agenda as weak.

In South Asia, the Bank Group does not have a leading role in coordination. Different working groups exist, but the Bank Group is not playing a strong enough role to lead coordination, especially in bringing all development partners and private sector associations together. The on-grid energy working group in Nepal is led by ADB, and currently an inter-ministerial coordination group also lacks cross-border regional integration initiatives, an area where the Bank Group can potentially take the lead.

In Central Asia, the World Bank's convening power and leadership potential remain underused, and coordination among donors was insufficient: all development agencies ultimately bound by their own mandates across the three countries IEG visited: Kazakhstan, the Kyrgyz Republic, and Tajikistan. The Europe and Central Asia region is crowded with development institutions and a wide array of efforts by regional development banks (ADB, Islamic Development Bank (IsDB), EuDB, European Bank for Reconstruction and Development (EBRD)), sovereign efforts (BRI), and donors (DFID, USAID, EU). In addition, Russia's Official Development Assistance steadily increased from about \$100 million in 2004 to \$1.1 billion in 2016 and is largely focused on the five Central Asian Countries. The latter amount combines both bilateral and multilateral ODA, including contributions through the World Bank-managed TFs. Although the Bank Group has maintained cordial engagements with most players especially for CAS and CPF feedback, development partner workshops, conducted by IEG mission teams in three Central Asian countries, indicated that the Bank Group's existing coordination mechanisms and discussions didn't provide sufficient clarity to partners on division of labor, or to the clients on Bank Group approaches, and didn't sufficiently strengthen the regional integration project pipeline. These issues are exacerbated by the lack of proximity with the clients and partners. Finally, within Europe and Central Asia, the Bank Group's approaches lacked deeper engagements with regional platforms and initiatives supported by other multilateral banks, most notably CAREC and SASEC, led by the ADB.

Core features of the Bank Group's business model limit its support to regional integration. Despite mentioning regional integration in the *Forward Look*, IFC 3.0 and the FY18 Capital Increase proposal, the Bank Group does not have strategic priorities codified or an action plan on regional integration outside of the Sub-Saharan Africa region. Three Bank Group regions, South Asia, Europe and Central Asia, and Sub-Saharan Africa discuss the importance of integration in the annual regional updates, but only Africa has a dedicated regional integration strategy. The review of the regional updates (FY2013–17) of all six Bank Group regions found that regional integration was

most frequently discussed by Africa and South Asia, followed by East Asia and Pacific and the Middle East and North Africa. The Europe and Central Asia region discussed regional integration the least frequently (table 3.1). Further, IEG's review of the Africa RIAS-2018 suggests that the incorporation or mainstreaming the Africa regional integration goals into SCDs or CPFs, or tradeoffs between regional and subregional approaches is not clarified.

Table 3.1. Review of Regional Updates (FY13–FY17)

	2013	2014	2015	2016	2017
AFR					
EAP					
ECA					
LAC					
MENA					
SAR					

Source: IEG analysis of Annual Regional Updates to the EDs

***Strong:** Regional integration is discussed explicitly as a theme, pillar, approach with either strategy or targets.

Medium: Regional integration priorities or achievements discussed at subregion, Global Practice, or sector level.

Weak/No Mention: Regional integration priorities or achievements to date not discussed.

Note: AFR = Sub-Saharan Africa; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; SAR = South Asia.

The absence of strategic priorities on regional integration is reflected in the variation among the Bank Group's institutional arrangements on regional engagement. The business processes for regional engagement still mirror the processes for single-country projects, and they differ across individual regional VPUs. In Sub-Saharan Africa, three regional country directors (based in Nigeria, Cameroon, and South Africa), divided regional engagement responsibilities among them on a regional basis following several iterations of management arrangements during the evaluation period. In South Asia, there is no regional country director; a regional director based in Washington, DC plays an advisory role on forming the regional program, overseas regional trust funds but does not have a budget allocation for directly supporting regional operations which reside with the Country Directors in the region. The Europe and Central Asia region has a similar structure to Sub-Saharan Africa. In the three remaining Bank Group regions, there is no specific institutional arrangement for regional integration engagement. The benefits of such a setup, in which different regions and subregions have different arrangements, are not clear. IEG interviews of stakeholders suggest that there is a risk to

the client engagement process when there is such a high degree of variation between regions and subregions.

Lack of high-level commitment, resource allocation, and managerial accountability, e.g., management performance assessment with indicators and targets on regional integration engagement, at the country or GP level¹⁰, except in Sub-Saharan Africa, limits the Bank Group's potential to foster regional integration. World Bank Country Directors do not have a strategic mandate to oversee regional projects and are not directly accountable for their performance. Portfolio managers in country directors' offices cannot readily retrieve information pertaining to their countries on regional projects, and thus are given less attention in country portfolio reports. At the same time, the regional director or regional country director generally does not have a client counterpart at the national level but engages at the regional level (for example, with RECs) for high-level dialogue. There is no clear indication that country directors are held accountable for developing new regional operations or implementation of regional operations, except in Africa, where the country directors have responsibilities to contribute to the smooth functioning of the region, including active participation in the review of regional products, and for delivering their part of regional programs and facilitating the preparation and implementation of regional activities in their CMUs. The MOU between the Africa regional vice president and the country directors also includes indicators on country directors' deliverables of regional operations. In South Asia, the team was informed that in the MOUs between the South Asia vice-president and the country directors of the region, there is a section on regional integration deliverables, covering both actual lending delivered and Project Concept Notes delivered for pipeline lending. IEG's review of the available MOUs between GP vice-presidents and GPs (FY15–18)¹¹ found that regional integration, cooperation, or coordination was discussed only once in the FY16 MOU of the Energy and Extractives GP. This observation was further confirmed by the Sustainable Development Practice Group: the regional integration theme and any associated indicators are not part of the MOUs between Sustainable Development Global Practice Vice Presidency (SDGPVP) and the Sustainable Development Directors.

The current incentive structure and policies on staff performance reviews do not consider the complexity of managing multi-country and regional operations required for fostering regional integration. Several aspects support this finding:

- i. *Regional integration operations are more complex and more difficult to manage because their strong need for resources, capacity, and coordination.* These projects have innate complexity because their focus is on the region, targeting several countries instead of a single one, as well as their composition of clients, implementing partners, and decision-making bodies, which consist mostly of IDA countries with varying degrees

of institutional capacity. The complexity of these projects is confirmed by higher risk. The Bank Group used the Systematic Operations Risk-Rating Tool (SORT) to measure the risk level of the projects. The SORT rates overall risk on a 4-point scale, with 1 equaling low and 4 equaling high. The analysis found that regional integration projects have an average SORT rating of 2.2 compared to 2.1 received by non-regional integration projects. The SORT ratings for the regional integration operations in the six GPs with the most intensive engagement increased to 2.3, and were statistically significant different at the 95 percent level from the SORT ratings of the non-regional integration portfolio.

- ii. *The complexity of regional integration projects is exacerbated by their longer duration and larger implementation cost.* The team's analysis found a statistically significant difference between regional integration and non-regional integration projects in preparation time, implementation time, and project expenditure.¹² In preparation time, regional integration projects took a median of 24 days per million commitments and an average of 69 days per million, while non-regional integration projects had a median of 13 days and an average of 46 days. Similarly, there is a gap in the weighted implementation time: the median and average implementation days per million for regional integration projects are 99 and 194 compared to 77 and 158 for non-regional integration projects. These projects are also more expensive to operate. A regression analysis found that they cost an additional \$76 per day when project volume is held the same.
- iii. *Institutional arrangements and staffing mechanisms on projects do not distinguish between single-country operations and regional integration operations.* IEG analysis did not find teams managing regional integration operations more experienced than teams managing non-regional integration operations. In terms of the number of lending projects that task team leads previously worked on as team leaders, regional integration task team leads, and non-regional integration task team leads both have an average of two projects. As for agreement type, regional integration project task team leads do not demonstrate any advantages in depth and coverage. On average, task team leads of both types of projects had previously worked as team leaders on one project of the same agreement type, and 21 percent of regional integration and 23 percent of non-regional integration project task team leads had team leader experience with more than one agreement type. In experience of regions, regional integration project task team leads do show somewhat more prior experience working as team leaders in the same region, with an average of 1.3 projects compared to 1.0 projects for non-regional integration task team leads, though the difference is only significant at the 10 percent level. As for the breadth of regional experience, the analysis did not find any difference between the number of regions that task team leads previously

worked on as team leaders. The shares of task team leaders who worked in more than one region are 16 percent for regional integration projects and 13 percent non-regional integration projects, and the difference is not statistically significant¹³.

- iv. *No staff incentives for managing regional integration projects*, such as adding weight to performance assessment for managing regional operations; consequently, the teams managing these projects were neither better nor more stable. The turnover of task team leads on regional integration projects was not lower than on non-regional integration projects, and it was evident that team leader turnover could disrupt and weaken project performance. On average, there are 2.7 task team leads per regional integration project and 2.8 task team leads per non-regional integration project; the difference is not statistically significant. When weighted by project length, both types of projects have an average of one task team lead every two years.

By contrast, regional development banks active in the regional integration space have a more systematic approach for providing support, including corporate strategy, a substantial presence in regional development programs, and corporate business models aligned with regional integration ambitions and the client engagement process (table 3.2).

Table 3.2. Benchmarking on Multilateral Banks' Alignment and Execution on Regional Integration

RI Specifics	ADB	IDB	Bank Group	AfDB	EBRD	AIIB	IsDB
RI as a Corporate Strategy and/or Key Pillar (Explicit references)	Yes	Yes	No	Yes	No	Yes	Yes
Subregional Programmatic Approach (e.g. CAREC, SASEC)	Yes	Yes	No	Yes	No	No	No
Leadership on RI Issues in Development Coordination Council (e.g. Active Donor Management)	Yes	Yes	Yes	Yes	Yes	No	No
Leadership in Developing RI Frameworks	Yes	Yes	No	Yes	No	No	No
Business Model Alignment for RI (Distinct Department/Country Director accountability)	Yes	No	No	Yes	No	No	No

Chapter 3

Comparative Advantage and Challenges

Source: IEG analysis.

Note: RI = Regional Integration; CAREC = Central Asia Regional Economic Community; SASEC = South Asia Subregional Economic Cooperation.

Regional integration stakeholders believe that the convening power of the Bank Group is still underutilized in addressing complex cross-border challenges, especially in policy coherence and harmonization of standards within regions. For example, the private sector associations believed that the Bank Group is not doing enough to convene financial sector actors across borders to come together and work on financial integration that is a much-needed step to enhance intraregional foreign direct investment flow. Financial sector integration is also essential to build on SAARC members' agreement to promote greater flow of financial capital and long-term investment in the region, as agreed in 2011 SAARC summit. Another area that the Bank Group is expected to address is policy harmonization within and across a subregion. For example, in most South Asia countries, domestic electricity prices are constrained by the national pricing policies so not market-orientated, grid harmonization is yet to happen, and there are stringent verifications and certifications on power trade, all these often disincentivizing the private sector or any foreign direct investor from getting involved in the energy sector. The World Bank is leading the championing process in the energy sector, but very little was done on harmonizing energy policies across these countries to facilitate intraregional exports.

The IDA Regional Window Program

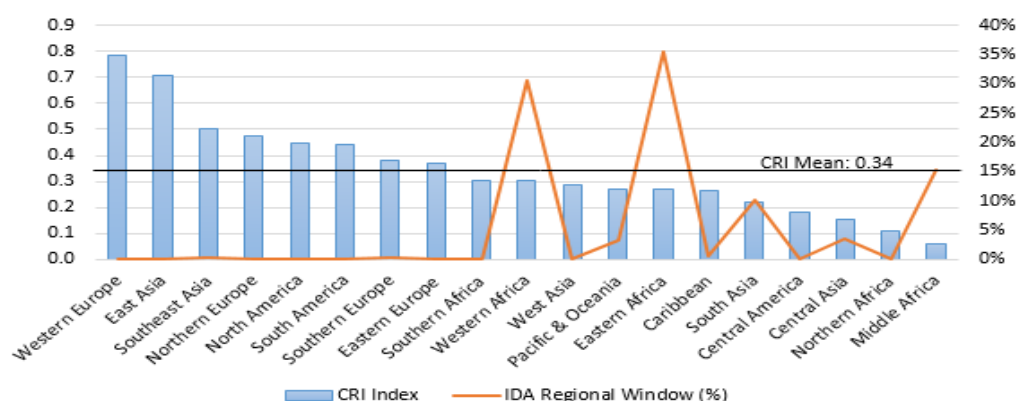
The IDA Regional Window has complemented the Bank Group's comparative advantage in fostering regional integration, and the Regional Window's Africa focus is justified; regions and subregions within and outside of Africa, with low regional integration or with untapped potential for it, received limited support from the Regional Window, even as demand increased. Over the evaluation period, the IDA Regional Window has allocated about 75 percent of the resources to the Africa region, given the fragmentation of this region and the strong desire of African leaders for regional integration. The remaining Regional Window resources could barely meet the needs and increasing demand for IDA support from other subregions with the most potential for integration.

A Composite Regional Integration Index–based gap analysis suggests that challenges exist with the current resource allocation process and implementation. To assess the needs for regional integration, IEG constructed a Composite Regional Integration (CRI) Index to measure the status of regions and 19 subregions¹⁴ classified by the United Nations (2017).¹⁵ This index, developed only for the purposes of this evaluation, is composed of 11 individual sub-indicators measuring different aspects of regional integration along five dimensions: (i) trade integration, (ii) financial integration, (iii)

regional investment and production networks, (iv) movement of people, and (v) peace and security¹⁶ (see appendix B for CRI specifics). At the lower end of the IEG CRI Index composite ranking are Central America (0.14), Central Asia (0.16), Northern Africa (0.11), and Middle Africa (0.06). At the same time, the IDA Regional Window had low engagement with these subregions except Middle Africa (Central Africa); Central Asia and Central America received only 1.8 percent and 0.33 percent of total Regional Window resources between FY03 and FY17, and Northern Africa did not receive any IDA Regional Window support. During the same period, nearly 80 percent of the IDA Regional Window's resources went to the Africa region; for example, Western African and Eastern Africa had higher CRI indexes than several non-Sub-Saharan Africa subregions, but received much larger shares of IDA Regional Window resources, about 30 percent and 34 percent respectively.

IEG carried out a regional integration frontier analysis that uses the CRI Index in combination with additional data to assess the degree of untapped *regional integration potential* in each of the 19 subregions. This is accomplished by first estimating regional integration potential for given levels of enabling factors, and then calculating the extent to which this potential is currently being reached by individual subregions (figure 3.2). The analysis found that all geographical regions include subregions with considerable untapped potential for integration. Globally, average regional integration levels across all subregions were found to be at 60 percent of the estimated potential, with Central America and Northern Africa having the most untapped potential.

Figure 3.2. Composite Regional Integration Index and IDA Regional Window Commitments¹⁷

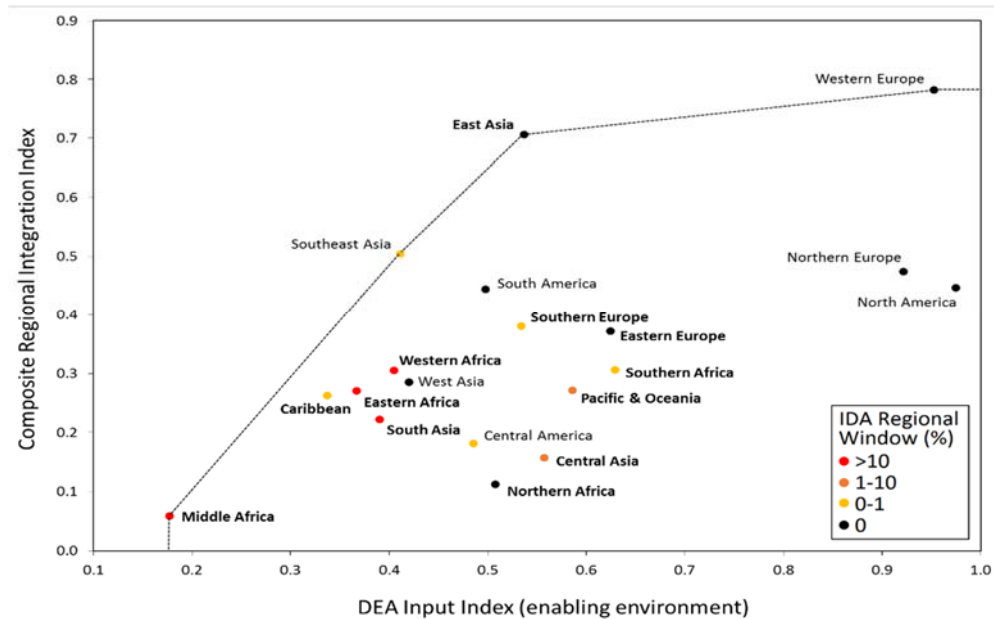


Source: IEG.

Subregions with the most untapped integration potential received low-level support from the IDA Regional Window (figure 3.3; see also appendix B and appendix H for more details on the assumptions and potential limitations). Northern Africa, Central Asia, and Pacific & Oceania are far away from the regional integration frontier, and

collectively received only about 5 percent of IDA Regional Window resources during the evaluation period. Eastern Africa, Western Africa close to their regional integration frontier, and Middle Africa on the borderline, were the main recipients of IDA Regional Window resources.

Figure 3.3. IEG's Regional Integration Frontier Analysis



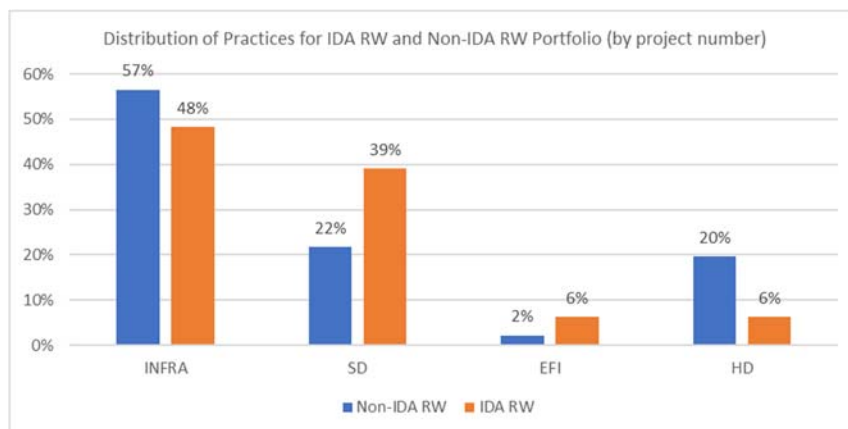
Source: IEG.

The IDA Regional Window implementation, and its contributions to fostering regional integration, are characterized by a fragmented approach to resource allocation and by a lack of strategic prioritization. Consequently, the additionality of the Regional Window is not very clear beyond its co-financing feature. Once the resources are allocated to regional VPUs, the regional VPUs and the IDA Resource Mobilization Department (DFIRM) worked together to assess the projects' eligibility for Regional Window resources on a rolling basis. The criteria used are the ones set out in the IDA guidelines,¹⁸ and in some cases, additional considerations such as sectoral and subregional balance, set by the regional VPUs. Because the assessment of eligibility is on a rolling basis, typically the projects submitted first were assessed and approved for the IDA Regional Window. Such a process has inadvertently created a fragmented portfolio.

The comparison between the regional integration portfolio using the IDA Regional Window (Regional Window portfolio) and the regional integration portfolio not using the IDA Regional Window (non-Regional Window portfolio) found that there is no significant difference between these two sets in terms of sectoral distribution or outcomes achieved. Both portfolios have been concentrating on the infrastructure sectors. However, the comparison does find that the IDA Regional Window provided

more support to the management of regional public goods like environment and regional water resources, revealing the potential of the Regional Window (figure 3.4).

Figure 3.4. Distribution of IDA Regional Window–Supported and non-Regional Window–Supported Projects, by Global Practice



Source: IEG Portfolio Analysis.

Note: INFRA = infrastructure; SD = Sustainable Development

IDA Regional Window eligibility criteria and indicators for spillover effects are neither clear nor well measured. Consequently, there was no evidence that the Regional Window portfolio has generated spillover effects within a region or performed better than those initiatives without its support. The Regional Window guidelines require that projects tapping its resources should generate benefits spilling over country boundaries; yet, what constitutes spill-over effects and how to measure such effects are not clearly defined or followed through during the project implementation. IDA guidelines characterized spill-over effects as those “generating positive externalities or mitigate negative ones across countries” or “additional impact on growth and poverty reduction in the region.”¹⁹ IEG analysis of the Regional Window portfolio over the recent five cycles (IDA13-18), found little to no evidence on spillover effects. No significant difference was evident when the definitions and scope of spillover effects were expanded from simply growth spillover, as listed in the guidelines, to including industry and knowledge spillover effects.

Specifically, a review of 63 (39 active, 24 closed) IDA Regional Window–co-financed projects indicates that despite the claim that a significant number (59 out of 63) of such projects generated spillover effects, especially knowledge, specific indicators to monitor such effects or achieve such outcomes were not evident. Only about 30 percent (8 out of 24) of closed projects provided evidence on spillover effects, again mostly on knowledge spillovers with a few on industry spillovers, and one on growth spillovers.

In overall outcome achievements, this evaluation did not find a significant difference in performance between the IDA Regional Window portfolio and non-IDA Regional Window portfolio. Both had about 73 percent of the project outcomes rated moderately satisfactory or above. A more detailed account of the IDA Regional Window Program and spillover effects is presented in appendix H.

Conclusion

The Bank Group's comparative advantages are under-used because of internal constraints and external challenges. Addressing internal challenges with a sense of urgency can eliminate barriers to fostering regional integration and meeting client expectations. IEG Consensus Analysis suggests that clients and stakeholders agreed on the Bank Group's global knowledge and institution strengthening efforts as critical enablers to fostering regional integration. Further, clients and partners believe such efforts should be mainstreamed in its regional integration lending portfolio. The Bank Group's convening power is also acknowledged and effective in fostering regional integration in many areas. However, its comparative advantages were under-used because of i) insufficient engagement with key stakeholders including the RECs, the development partners, and the private sector; ii) the Bank Group's business model is not conducive to regional integration engagement and to scaling it up. The IDA Regional Window's high degree of focus on one region has reduced the resource envelope available for subregions with low integration or untapped potential for it. Such tradeoff decisions need to be revisited, considering client demands and strategic prioritization. Furthermore, the spillover effects from IDA Regional Window-supported projects cannot be evidenced, posing a challenge to articulating its additionality beyond co-financing. The Bank Group needs to address these challenges with a sense of urgency, to reduce and eliminate the barriers to fostering regional integration.

1 Appendix F.

2 Learning and Results in World Bank Operations: Towards a New Learning Strategy, IEG, World Bank, 2015.

3 Real-Time Evaluation Study of the Multiphase Financing Facility, Independent Evaluation, ADB (PVR-348), 2012.

4 <http://siteresources.worldbank.org/IDA/Resources/Role-IDA-IV.pdf>

5 "An Impact Evaluation of the OHADA Uniform Act on Secured Transactions 2011". IFC (2016).

6 <https://www.miga.org/Lists/Press%20Releases/CustomDisp.aspx?ID=548>

7 Refer to Chapter 4 for the deep dive analysis of Bank's Convening Power in Africa region

8 Shaping the Narrative efforts build on social media efforts such as a) Website: One South Asia Project, b) #OneSouthAsia Blog Series and c) Policy Notes: SAR Connect, and d) Op-eds, Interviews and Videos

9 IEG Donor and Development Partner workshops

10 This evaluation recognizes the choice of MTI Global Practice as the lead coordination practice for Regional Integration with a focus on Trade. Yet, RI spans issues far beyond trade integration as recognized by the Bank Group's own definitions.

11 <http://globalpractices.worldbank.org>.

12 The comparison was made among only six regional integration (RI)-relevant Global Practices (GPs). The analysis found statistical significance of the difference between RI and non-RI projects when RI projects were compared with all non-RI projects, as well as a randomized sample of non-RI projects.

13 See Appendix A, figure A6 for details

14 As per UN Geoscheme.

15 The only exception is Azerbaijan, which we include in Central Asia to be more in line with World Bank classifications.

16 These categories are broadly in line with other studies on regional economic integration, e.g., African Union Commission, African Development Bank, and UNECA (2016), Huh and Park (2018), and Naeher (2015).

17 Bank Group support to European Union member countries: Not being mindful of changes outside Europe risks the loss of European competitiveness and influence, and the World Bank's global mandate makes it a useful partner for European organizations. Firstly, during discussions with the European Commission and Poland's Presidency of the European Council in 2011, the Bank was repeatedly asked to provide a global perspective on European policy debates. Second, the World Bank has helped is through analytical work to inform members of the European Community on how they can best respond to economic developments in other parts of the world—especially in North America and East Asia—so that regional integration in Europe continues to deliver prosperity and peace in the neighborhood and around the world. The most widely cited examples of such engagements are ECA regional reports, especially *Golden Growth*, a detailed assessment of the strengths and weaknesses of regional integration in Europe published in 2012.

The report and related work have helped to bolster confidence in European integration, and provide guidance on how to make it stronger. In March 2018, the ECA Region published *Growing United: Upgrading Europe's Convergence Machine*, which began with this message from the World Bank's chief executive officer: "In 2012, even as the European Union was still struggling with the after-effects of the crisis, the World Bank's *Golden Growth* report reminded readers that "Europe has achieved economic growth and convergence that is unprecedented ... by fostering a regional economic integration unique in both depth and scope, Europe has become a 'convergence machine.' By engineering entrepreneurial dynamism

while balancing market forces with social responsibility, it has made 'brand Europe' globally recognized and valued. And by striking a balance between life and work, it has made Europe the world's 'lifestyle superpower.'" During the crisis, as a member of the European Commission I would often use this quotation — and quote more widely from the Golden Growth report itself as I sought to remind colleagues that Europe's strength rests in its unity "(page 10). Perhaps the main contribution of WBG engagement is to keep the discussions in Europe from becoming insulated from developments in other parts of the world. The risks to open regionalism are greater in a region where integration extends beyond trade and investment to include social policy and political institutions. An example: Chancellor Angela Merkel has used the analysis in Golden Growth frequently in her speeches, repeatedly warning that "Europe has 7 percent of the world's population, 25 percent of its economic output, and 50 percent of its social welfare spending, and we have to change this." Today, for example, the World Bank has active technical assistance programs in Greece and Cyprus, where it works jointly with the European Commission and other European institutions to upgrade institutions and policies related to social protection and the business environment. The IFC has invested in Greece's airports and financial sector. In the aftermath of the euro crisis, the World Bank also participated in technical assistance efforts in Italy, Portugal, and Spain."

18 IDA guidelines set out four eligibility criteria for Regional Window projects: i.) that involve three or more countries, all of which need to participate for the project's objectives to be achievable (at least one of which is an IDA country). The required minimum number of countries is reduced from three to two if at least one fragile country participates in the regional project; ii.) whose benefits spill over country boundaries (e.g., generate positive externalities or mitigate negative ones across countries);iii.) where there is clear evidence of country or regional ownership (e.g., by ECOWAS or SADC) which demonstrates commitment of most participating countries; and, iv.)that provides a platform for a high level of policy harmonization between countries and is part of a well-developed and broadly-supported regional strategy.

19 IDA18 guidelines.

4. Conclusions, Lessons, and Recommendations

The Bank Group has made important contributions to its clients' regional integration agenda in the period FY03–17, through its wide array of approaches, instruments, and interventions in the areas of connectivity, public goods, and institution strengthening.

The Bank Group's interventions to foster regional integration in the Sub-Saharan Africa region and in regional infrastructure sectors, over 15 years, have been mostly successful, as evidenced by the contributions of these interventions in the transport sector to increases in intraregional trade flows, increasing number of policy harmonization efforts in the financial sector in East Africa and West Africa, and collective actions in regional public goods initiatives. Comparatively, outcomes on the Bank Group's contributions to regional integration for other regions are either difficult to observe or have met with mixed results with no clear pathways for scaling up. The Bank Group has clear comparative advantages in fostering regional integration through its three roles as enabler, financier, and convener. The comparative advantages exist in the form of its instruments, global knowledge, and analytical work, the IDA Regional Window, convening power, and neutrality. However, the World Bank's comparative advantages are quickly waning in Central Asia and South Asia, where regional development banks are currently better positioned on the regional integration agenda.

Factors contributing to the observed success and failure of the Bank Group's support for regional integration are both external and internal (institutional and operational).

External factors include global crises, regional political economy, national interest, lack of coherence in policies within countries and within the region, limited to no role of non-state actors and the private sector, and lack of capacity and role for the RECs acting as intermediaries.

Internally, drivers of success have been the Bank Group's ability to exercise its comparative advantage. Yet, at the institutional and operational levels, factors that impede the Bank Group's role in fostering regional integration are the absence of strategic vision, prioritization, and diagnostics on regional integration for the six client regions that can be aligned with commensurate tailored approaches; misalignment of managerial accountability; insufficient resources and decentralization efforts at the region, subregion, or country level to promote regional integration, and lack of incentives for staff to work on multi-country or regional operations. In addition, a paucity of regional data and lack of specificity in results frameworks at approval (that go beyond the traditional sector indicators) are also responsible for poor observations on intraregional outcomes.

This evaluation summarizes three key lessons of experience based on cross-cutting issues. A detailed set of lessons specific to global practices and operational issues is presented in appendix G.

Global knowledge, analytical, and sector work are prerequisite to convincing stakeholders of the net benefits of regional integration but need to cascade from strategic commitments at the regional level. A clear assistance strategy at the region or subregion level provides much-needed direction for alignment of resources and actions. In the case of landlocked, small states and FCV countries, there is a positive correlation between emphasis on regional integration in country programs and the political will of clients. Mobilizing champions (former Ministers, thought leaders, and sector experts) can be effective for advocating the benefits of regional integration. Finally, global knowledge and a compendium of best practices are useful for replication and need to be anchored in local applicability and context.

A key requirement for reducing transaction costs for all parties involved in regional integration initiatives is streamlining institutional procedures among development partners. Streamlining institutional procedures to better engage with development partners and ensuring that responsibilities are shared through concise, time-bound, and budget-related terms of reference for all partners reduces transaction costs for all parties involved in regional integration actions, including the client countries. This lesson was already emphasized in projects in the infrastructure sector, but can be applied broadly to regional public goods supported by multidonor partnerships, for example, in the management of the environment and natural resources, and in regional water resource management.

Political economy and national interests are dominant external drivers of successful regional integration at the structural level, where the political will and incentives of governments to pursue economic integration are low and where the asymmetry in size of economy and related influence within a region or subregion is high. Within regions and subregions, the dynamics between neighboring countries are critical at the structural level; the intentions at the country and subregional levels need to be coherent for any progress in integration. At the institution or agency level, capacity building and strengthening efforts generate positive results when RECs are involved from the start.

In the long term, the benefits of regional integration outweigh the costs. The Bank Group's recognized strengths provide the impetus to foster and drive the regional integration agenda forward. If the Bank Group institutions want to prioritize their regional integration engagements, the evaluation offers the following six

recommendations to address key barriers and support clients' regional integration aspirations:

Initiate high-level, strategic commitments to regional integration in all operational regions in addition to the Sub-Saharan Africa region, with tailored approaches. The Bank Group has been sporadic in identifying pathways to fostering regional integration. A sense of direction in the Africa Regional Integration Strategy has guided their operational teams, but this has not been replicated in other regions. The Bank Group should strengthen its strategic approach to regional integration, starting with an assessment of the potential for Regional Integration Strategies for its operational regions, and diagnostics at the sub-regional level. Such potential mainstreaming efforts can provide impetus and direction to operations.

Realign the Bank Group's business model to achieve managerial accountability, both at CMU and GP levels, and create incentives for project teams. The Bank Group should review its institutional setup to make it more conducive for regional integration interventions, and better clarify managerial accountability and incentives for the project teams. The Bank Group should mainstream regional integration issues into institutional setup such as Bank Group systems, accountability, and staff incentives.

Rebalance the Bank Group's regional integration projects emphasizing regions with high integration potential, and regional public goods. The Bank Group's comparative advantage should be used with a stronger emphasis on regions with untapped potential, and selective interventions in regional public goods to generate robust pipeline of regional integration projects and to rehabilitate clusters with low integration. Such efforts may have long gestational periods and require "patient capital"; yet they can make meaningful impacts in reducing conflicts among neighbors and increasing the probability of achieving wider economic benefits and spillover effects.

Intensify partnerships with traditional and nontraditional regional stakeholders to promote collective action and knowledge sharing within and across regions. Create and promote universally accepted frameworks at the region and sector levels, and crowd-in new partners, most notably the private sector, international industry associations, and regional institutions. At the institution or agency level, capacity building and strengthening efforts generate positive results when RECs are involved from the start. Deepen and promulgate collaboration with development partners, RECs, and state actors by streamlining institutional procedures among development partners. This requires playing a greater role as enabler and convener through ASA and IFC Advisory Services that can lead to co-financing and de-risking market integration efforts,

potentially allowing the Bank Group to scale up regional integration efforts, and to achieve its Cascade objectives as stated in the *Forward Look*.

Strengthen the design of IDA Regional Window–supported projects to improve the assessment of spillover effects and to generate evidence based on robust indicators. One of the key conditions for leveraging IDA Regional Window resources is that the Bank Group project should generate spillover effects region-wide. There is little evidence that such spillover effects were achieved during the course of the five cycles, in part because there are no robust indicators in place to be able to track and report such results. The Bank Group should strengthen the design of projects that qualify for IDA Regional Window support and provide evidence on results achieved.

Recalibrate the IDA Regional Window’s resource allocation to expand support for subregions with high untapped potential. Although the Regional Window offers opportunity to leverage co-financing and has been useful in addressing regional integration needs for IDA countries, countries afflicted with fragility, conflict, and violence, landlocked countries and small states, challenges remain in expanding this portfolio to regions and subregions with high potential. The Bank Group should revisit and recalibrate the allocation of IDA Regional Window resources, to expand “envelopes” for subregions with high potential for regional integration.

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- — —IDA 18. Guidelines for Accessing Ida Regional Program Funding.
- — —The IDA18 Resource Allocation Framework: Implementation Guidelines for FY18; IDA Resource Mobilization Department (DFiRM) November 2017

Appendix A. Methodological Annex

Approach

Evaluation Questions:

The evaluation's objective was to assess the results of World Bank support to fostering Regional Integration and identify relevant lessons. The overarching question which the evaluation tries to answer is: *To what extent, and how effectively, has the Bank Group contributed to regional integration of its client countries?* This overarching question includes a series of sub-questions (Box A1):

Box A1. Sub-questions Included in Overarching Question

- **Question 1:** *To what extent has the Bank Group achieved its intended outcomes on fostering regional integration?*
 - a) How effective have the three types of regional integration interventions (infrastructure, public goods, and institutional capacity building) been in achieving the intended results at project and sector levels?
 - b) What types of approaches and interventions reflect good practices and can serve as examples to replicate or scale-up support to regional integration?
 - c) To what extent has the Bank Group engaged with the private sector to foster regional integration?
- **Question 2:** *What is the Bank Group's role in fostering regional integration, and to what extent is it grounded in the comparative advantages of Bank Group?*
 - a) To what extent has Bank Group convening power supported regional integration interventions?
 - b) To what extent has the Bank Group's business model (organization, policies, and resources) supported regional integration interventions?
- **Question 3:** *What do the lessons of experience (from Question 1 and 2) mean for the future Bank Group strategies, and regional integration interventions?*

Methodological design

The evaluation was conducted using a mixed-methods approach, through a combination of portfolio analysis, contribution analysis, social network analysis, semi-structured

interviews, stakeholder surveys, deep-dive regional case studies, and statistical analyses. The design was geared towards a triangulation of primary surveys, quantitative and qualitative data, and framed around two building blocks: (i) effectiveness of the Bank Group's contribution to regional integration, and (ii) the Bank Group's role and comparative advantage

Bank Group Contributions to Regional Integration: This block used quantitative and qualitative methods to assess the performance of projects, with the intent to analyze the IDA Regional Program Window in more depth, from IDA13 through IDA17. The rationale for this approach was twofold: (i) demand from operational teams and Board of Executive Directors to understand IDA Regional Window performance, and (ii) potential value-add to upcoming IDA windows (public sector and private sector windows) through lessons learned from past experiences. In addition to the Regional Window analyses, the evaluation conducted portfolio review, deep-dive cases, desk- and field-based reviews, on regions and sectors that were selected by IEG, through portfolio identification, as providing rich data to assess both the accountability and learning aspects, namely: (i) Sub-Saharan Africa, (ii) Central Asia, (iii) South Asia, and (iv) Island states (Pacific Islands, Organization of Eastern Caribbean States). In areas where trade-facilitation and customs-specific interventions are key components of the projects, this evaluation deferred to other upcoming evaluations on Trade Facilitation, Forced Displacement, and Renewable Energy conducted by IEG.

The Bank Group's role and comparative advantage: Because the Bank Group is small relative to the size of the development challenges, it must choose its own activities based on comparative advantages and development effectiveness, as discussed in recent IEG reports. The Bank Group and other international organizations could play a role in effective changes for regional integration through their convening role. The convening power of the Bank Group was assessed through network analysis supported by quantitative (CPIA scores, IICRR ratings, portfolio review) and qualitative data (enterprise surveys, client surveys on perception about the Bank Group, and stakeholder interviews). The evaluation reviewed the World Bank Group business model for regional integration to assess whether it model enhances or weakens the Bank Group's role and comparative advantage in regional integration. The evaluation interviewed country management units, Country Directors, Regional Directors and Advisors, and task team leads (TTLs) to ascertain whether the current Bank Group business model is fit for purpose to foster regional integration. In addition, the evaluation collected and assessed quantitative data from budget systems, HR systems, client systems, documents relating to Country Diagnostics and probe incentive structures. Within this building block, the priority focus was on generating lessons learnt and to propose ways for designing and implementing regional solutions better in the future. Lastly, lessons of

experience for future Bank Group strategies and regional integration interventions relied on the quantitative and qualitative methods supporting the first two building blocks and derived additional, generalizable lessons from stakeholder interviews and regional cases.

Detailed evaluation questions and design matrix: Table A1 outlines the detailed evaluation subquestions (see box A1) and how the methodological building blocks contributed to answering them.

Table A1. Design Matrix

Evaluation questions	Information required	Information sources	Data collection methods	Data analysis methods	Limitations
Overarching question: To what extent, and how effectively, has Bank Group contributed to regional integration of its client countries?					
Question 1: To what extent has Bank Group achieved its intended outcomes on fostering RI?	Bank Group Corporate Strategy, Regional Strategy and Country Strategy Project data on World Bank Group portfolio and IDA Regional Program Windows approved in the FY03 – FY17 period Bank strategy papers and Project level data on IFC investment and MIGA guarantee portfolio approved in FY03 – FY17 period ASA portfolio project data from FY03-FY12	Bank Group Policies and Procedures Bank Group portfolio data and project-level documents (e.g.: PAD, ICR, ICRR, ISRs, CLRRs) Country Assistance Strategies, Country Partnership Framework Documents Forward Look Bank Group staff and Investors (private capital providers) survey Annual Reports of regional development banks and multilateral agencies IMF, UN reports	Research and Data extraction from Bank Group databases, institutional databases, and Bank Group institutions' key project-level and institutional documents Data extraction from Regional Development Banks (e.g. AfRI) and UN Databases (e.g. UNECA) Structured interviews of relevant stakeholders and experts	Literature and Portfolio review Synthesis and analysis of interview qualitative data outputs Descriptive statistics of portfolio: benchmarking by specific instrument Content and IEG Survey Response Analysis Benchmarking performance against macro-scores and ratings Statistical and Econometric Analysis Political Economy and Policy Coherence Analysis within Case Studies Congruence Testing	Linking project level data to macro-economic performance data Data analysis may be limited due to missing, unavailable, incomplete, and/or mixed quality data Interviewee bias Lack of intra-regional trade, FDI, migration, remittances and private-sector relevant data

Evaluation questions	Information required	Information sources	Data collection methods	Data analysis methods	Limitations
<p>Question 2: What is the Bank Group role in fostering RI and to what extent is it grounded in the comparative advantages of Bank Group?</p>	<p>County and regional level activities and performance in key sectors</p> <p>Activities of multilateral agencies, regional development banks, national development banks, national agencies, key Ministries, National and Regional forums</p> <p>Bank Group's strategic goals, guidelines and strategies on utilizing non-financial instruments to supporting regional integration</p> <p>Bank Group strategic priority areas, country strategies, regional and sectoral strategies</p>	<p>Bank Group ASA portfolio data and project-level documents (e.g.: PAD, ICR, ICRR, ISRs)</p> <p>Benchmark data for Bank Group instruments and products and</p> <p>Internal or independent evaluations of regional integration carried out by other MDBs or other development agencies</p> <p>Survey of stakeholders</p> <p>RI research at the global level and in selected countries and regions.</p> <p>Bank Group internal databases and project documents, external databases where appropriate</p>	<p>Case study based review</p> <p>Literature review regarding comparative advantage in regional integration, historical trends in utilizing Bank Group instruments</p> <p>Synthesis from relevant literature and research reports on Role and Contribution indicators</p> <p>Data extraction from internal and external databases</p> <p>Structured interviews</p> <p>Gov-related data</p>	<p>Social Network Analysis</p> <p>Political Economy Analysis</p> <p>Policy Coherence Analysis</p> <p>Key informant interviews and stakeholder surveys – Consensus View</p> <p>Statistical analysis of data at portfolio and institutional level</p> <p>Synthesis and analysis of interview outputs</p> <p>Analysis of external databases and case studies</p> <p>Synthesis and analysis of interview outputs</p>	<p>Harmonization of data derived from external sources with Bank Group data</p> <p>Insufficient response to case interviews</p> <p>Data analysis may be limited due to missing, unavailable, incomplete, and/or mixed quality data</p> <p>Interviewee bias</p> <p>Availability of client and partner support to IEG engagements</p> <p>Proxy indicators and proxy data would be utilized in such situations.</p>

Appendix A
Methodological Annex

Evaluation questions	Information required	Information sources	Data collection methods	Data analysis methods	Limitations
Question 3: What do the lessons of experience (from Question 1 and 2) mean for the future Bank Group strategies, and RI interventions?	<p>HR, Budget Data on RI portfolio</p> <p>Innovations outside the Bank Group</p> <p>Bank Group project pipeline review (quantity, quality and design)</p> <p>Regional Integration activities by top players in both public and private sectors.</p> <p>Data from regional economic communities and statistical agencies of supra-national agencies</p>	<p>Bank Group HR, Budget and Financial systems</p> <p>Pre-approval, Appraisal and Risk assessment documents</p> <p>Literature review</p> <p>Annual reports of AUC, ASEAN, COMESA, MERCOSUR, SADC etc.</p> <p>Staff profiles and incentives related documents</p> <p>Reports from other DFIs</p>	<p>Internal and External Database Analysis</p> <p>Semi-Structured Interviews of existing and prospective Bank Group TTLs, Managers and RM staff</p> <p>Interviews of Bank Group leadership team members and Bank Group staff</p> <p>Interviews of key members from regional economic communities</p> <p>Interviews with senior leadership of other DFIs</p> <p>Key informant consultation and interviews</p>	<p>Regional Case studies obtain contextual information on the success and failures of efficiency measures</p> <p>TTL and Stakeholder Interview response analysis</p> <p>Quantitative Analysis of data pertaining to economic capital uses, staff time spent on RI activities vs. single country operations</p> <p>Qualitative Analysis of incentives and processes in place for RI design and implementation</p>	<p>Survey respondent bias</p> <p>Interviewee bias</p> <p>Implementation of efficiency measures, accounting measures and availability of decisions relating to pricing, fees, economic capital uses</p> <p>In such cases, analysis is limited to the context of field-visit based cases.</p>

Methodological Components

The evaluation questions can be mapped to the methodological components (figure A1). A detailed view of the methodological components is presented in Table A2.

Figure A1: Mapping Evaluation Questions with Components

<i>Building Blocks</i>	<i>Contributions to fostering Regional Integration</i>	<i>Role and Comparative Advantage</i>
<i>Evaluation Questions</i>	1. To what extent did WBG achieve its intended outcomes on fostering regional integration? 3. What do the lessons of experience mean for the future WBG strategies, and RI interventions?	2. What has been the WBG role and comparative advantage in fostering regional integration? 3. What do the lessons of experience mean for the future WBG strategies, and RI interventions?
<i>Methods</i>		
Portfolio Analysis	✓	
Social Network Analysis	✓	✓
Regional Cases	✓	✓
Client and Staff Surveys		✓
Statistical and Econometric Analysis	✓	

In the first building block, Bank Group contributions to fostering regional integration, the evaluation assessed the effectiveness of the three main types of interventions (regional infrastructure, regional public goods and capacity building) at the intermediate outcome level. The effectiveness assessment was based on portfolio review and analysis, semi-structured interviews of TTLs (of flagship regional integration projects) and clients, country and regional strategy reviews, regional/country case studies. Regarding portfolio review and analysis, the team analyzed the characteristic of the universe of regional integration portfolio, for example, their distribution by region, sector, types (regional infrastructure, regional public goods, and institutional capacity development), country income level, etc. In addition, the evaluation developed a portfolio review template for a more in-depth review of a set of sampled regional integration operations (refer to “sampling strategy” section for details) with the objective of analyzing in detail the Bank Group’s support for regional and its evolution, including the extent to which the results, at the levels of outputs and intermediate outcomes, have been achieved. For the Bank Group’s contribution to regional integration, this evaluation used indicators of regional economic flows (for example, data from the UN Economic Commission for Africa, Africa Development Bank Regional Integration Index), and applied statistical and econometric models to carry out contribution analyses, if relevant data were available.

The second building block is the Bank Group’s role and its comparative advantage in fostering regional integration. The World Bank Group is one of many development actors that foster regional integration; other active stakeholders include other multilateral development banks, national governments, and regional economic communities. The evaluation used key informant interviews, including client and stakeholder interviews, to understand how the Bank Group’s influence in enabling and/or fostering regional

cooperation and integration among its client countries is perceived. It also assessed the extent to which the Bank Group plays, or could play, a leadership role in mobilizing state and nonstate actors to work together on related solutions across the three intervention types (regional infrastructure, regional public goods, and institutional capacity development). In addition, the evaluation traced how the World Bank exercised its convening power in selected regional cases (including the option of a case study focused on regional partnerships) throughout the entire cycle of the program and projects.

The evaluation used Social Network Analysis (SNA) to map flows of knowledge and patterns of Bank Group contribution and collaboration with multilateral institutions, regional economic communities, existing supra-national institutions (see SNA methodology section below for details).

The evaluation also reviewed Bank Group organizational aspects, policies, and resource allocation that are specific to regional integration to assess the efficiency of support, including whether the Bank Group's relevant business model enhances or limits its role and comparative advantage. This evaluation built on, and triangulated findings from, the recent IEG major evaluations *World Bank Joint Projects* and *World Bank Group Country Engagement – An Early-stage Assessment*.¹ The quantitative assessment included the analysis of budget related to regional integration, HR data, and indicators of related corporate performance. Key staff (Regional Advisors, selected CMUs, selected TTLs, key corporate Vice-Presidential Units) interviews, and the examination of specific instances of collaboration constitute the qualitative part of the methodology. Specific areas relevant for this review were:

- *Integrated, cross-sectoral solutions at the regional level:* How are staff collaborating across GPs to identify issues, define, and execute “regional solutions” that require collaboration across Bank Group entities, Regions, or GPs at the country level? The interactions between sector/GPs with CMUs, between regional programs and country programs, the organizational setup and its evolution will provide additional data points.
- *Staff Incentives:* What are the motivations and obstacles to working inter-regionally or intraregionally?
- *Country engaging model:* How does the Bank Group articulate strategies and approaches to regional integration priorities of the client countries; how are these needs and priorities incorporated in Regional strategies and SCD/CPFs.

Finally, this evaluation derived key lessons of experience from the two building blocks intended to inform future Bank Group regional integrations strategies, activities, and Bank Group approaches and intervention types. The SNA and case study methods drew lessons that could be replicated regarding the Bank Group's role and comparative advantage.

Table A2. Description of Methodological Components

Evaluation components	Description
Literature reviews	<p>Structured review of the academic, evaluation, and literature on regional integration and how it promotes economic growth</p> <p>Literature review regarding comparative advantage in regional integration, historical trends in utilizing Bank Group instruments</p> <p>Benchmarking of World Bank Group's regional integration practice with other multilateral and bilateral development organizations.</p> <p>Review and mapping of regional integration concepts in World Bank Management's stated objectives in IDA regional program documents, Strategy documents, Management updates to the Board together with annual reports and strategy documents of other multilateral and bilateral development organizations.</p> <p>Strategy mapping of development partner priorities with national, World Bank and other stakeholder priorities on regional integration</p>
Portfolio reviews	<p>Systematic desk review and assessment of World Bank Investment Lending; Policy Lending; and IFC investments.</p> <p>Systematic desk review of CPF and CAS, SCD followed-up with in-depth interviews with their TTLs</p> <p>Structured review of World Bank's regional integration and related projects</p>
Assessment of Partnership	<p>Review of major Global Partnership on Regional integration, including synthesis of existing evaluative evidence</p> <p>Use of SNA to provide evidence on regional integration partnerships among various institutions and stakeholders</p>
Survey of World Bank staff and other stakeholders	Survey addressed to staff across the World Bank and other development partners and stakeholders whose role or function make them particularly instrumental to regional integration mainstreaming.
Interviews and Focus Group Discussion with World Bank Group staff	Semi-structured interviews with staff and focus group discussions with regional integration focal points
Econometric Analyses	Uses micro and macro level quantitative and econometric analyses to gather additional evidence on World Bank contribution to regional integration in its client countries.
Case studies of Regional integration at the regional level:	Case study of World Bank's support to interventions for regional integration at the regional level in three regions (SAR, AFR and ECA).
Political Economy Analysis	PEA in Central Asia to identify impediments and opportunities for regional integration
Policy Coherence Analysis	Policy coherence analysis of the Energy sector to review the regional power trade in the context of regional integration in SAR (India & Nepal)
Case studies of regional integration mechanisms within projects	Triangulation of RI-specific findings from a series of IEG-Project Performance Assessment Reports (PPARs) that are currently in progress,

based in subregions like Western Africa, Central Africa, Southern Africa and the Caribbean islands

Note: CPF = Country Partnership Framework; CAS = Country Assistance Strategy; SCD = Systematic Country Diagnostic; TTL = task team lead; SNA = Social Network Analysis; SAR = South Asia; AFR = Sub-Saharan Africa; ECA = Europe and Central Asia.

Literature Reviews

The literature review sought to provide evidence on regional integration based on relevant theoretical and empirical literature. The scope of the literature review, a structured review of the academic, evaluation, and literature on regional integration, assessed the extent to which Bank Group has contributed to regional integration in its client countries through review of project documents using relevant keywords. Themes included comparative advantage in regional integration; historical trends in use of Bank Group instruments; benchmarking of the World Bank Group's regional integration practice with other multilateral and bilateral development organizations; review and mapping of regional integration concepts in World Bank Management's stated objectives in IDA regional program documents, strategy documents, Management updates to the Board, together with annual reports and strategy documents of other multilateral and bilateral development organizations, Bank Group project documents, and academic literature. It also involved a strategy mapping exercise that tried to compare the regional integration priorities stipulated in development or assistance strategies of different RECs and donors against the development priorities of the client countries, to understand the relevance and strength of different stakeholders' strategies towards regional integration as well as their alignment with clients' national development trends. The keywords used for the literature review are presented in table A3.

Strategy Mapping

The strategy mapping study used a quasi-scoping review to gather evidence from the exercise. A scoping review is defined as a type of research synthesis that maps the literature on a particular topic or research area and identify key concepts; gaps in the research; and types and sources of evidence to inform practice, policymaking, and research. In this case study, the scoping review is adopted primarily to map regional integration priorities found in relevant policy documents, donor strategy papers, and national development plan documents within the timeframe of this evaluation for regional integration priorities. For both the East African Community (EAC) case study and the Europe and Central Asia case study, the first step in strategy mapping was to identify key organizations that support regional integration (categories: 1) development partners (Multi + Bi), 2) supranational regional organizations, 3) national governments, 4) regional initiatives and private sectors) and their specific policy documents on regional integration. Once the review system boundary was defined, the selected policy and strategy documents were reviewed with precise attention to "regional cooperation"

and “regional integration” discussions and elaborations. Text analysis was used in searching these regional integration priorities.

In the EAC case study, the concept of “five regional integration dimensions” was introduced thanks to the African Regional Integration Index. The literature review drew data from this Index to compare the performance of the EAC countries against the five regional integration dimensions. Keywords such as “regional cooperation” and “regional integration” were used to identify relevant strategies from policy documents of key multilateral donors including the Bank Group. Action plans, implementation status, challenges, and obstacles were extracted and summarized from those documents. Three EAC countries’ (Kenya, Tanzania, Uganda) national strategies against the integration dimensions were reviewed with their priorities and focused national intervention actions underlined and mapped toward different predefined relevant sectors. Likewise, the regional integration priorities in other (RECs such as EAC, COMESA, and IGAD as well as priorities in other multilateral donors such as AfDB, UNECA, USAID, and DFID were all identified and mapped to the predefined sectors. A matrix was then designed to color-code those valid strategic priorities of all selected stakeholders on various sectors.

Likewise, in the Europe and Central Asia case study, only Kazakhstan, Tajikistan, and Uzbekistan were selected for review of their national development plan and strategy to represent the national development priorities in different sectors. Six multilateral donors were selected for strategy mapping. For Bank Group, ADB, EBRD and UN, the review angle was focused on their respective country-level assistance documents during the evaluation phases, such as the Bank Group Country Assistance Strategies, ADB Country Partnership Strategies, EBRD Country Strategies, and UN Development Assistance Framework; the regional integration priorities of the Eurasian Development Bank and AIIB were identified and summarized based on their overarching policy documents. At the regional organization level, CAREC, SCO, EAEU, and CIS were selected and their regional integration priorities identified from their own Europe and Central Asia region documents. Given the significant influence and relevance of CAREC, three phases of the its strategies have been reviewed. Considering the geographical importance of the Europe and Central Asia region, other regional initiatives such as the Belt and Road Initiative, Transport Corridor Europe-Caucasus-Asia and US-Central Asia (C5+1) Joint Projects have also been included in the strategy mapping assignment. All priorities have been mapped against 26 selected sectors. Text summaries have been drafted to complement the color-coding in the priority comparison matrix to elaborate why the sectoral priorities have been identified and how important such priorities are to facilitating regional integration.

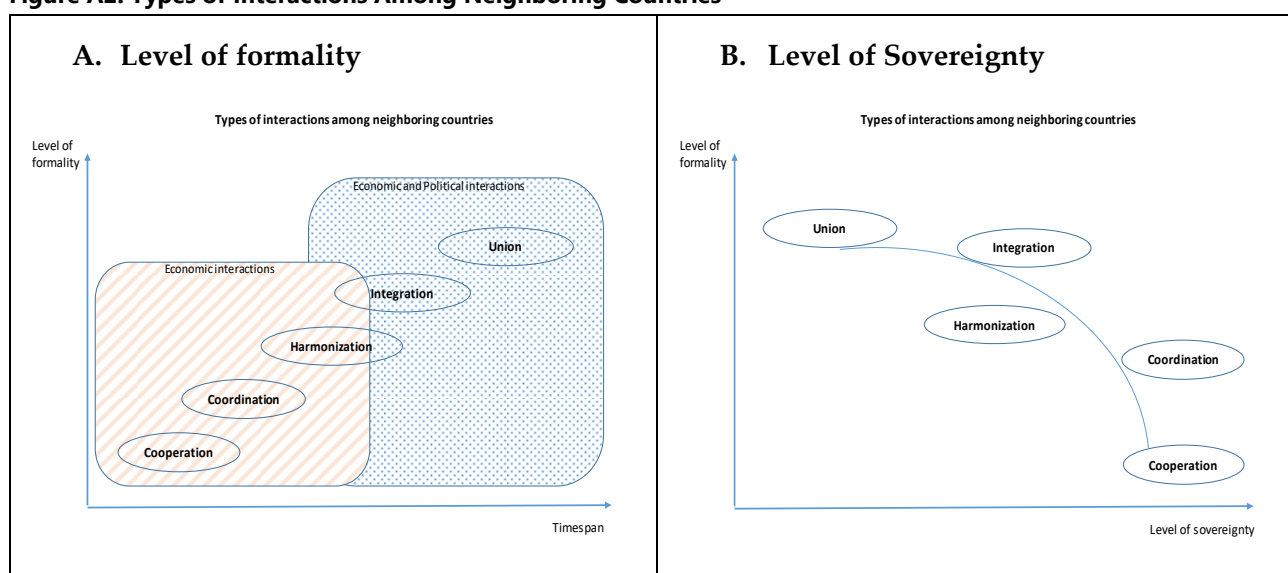
After the strategy priority mapping with the matrix, analysis was performed to interpret the alignment and discrepancy among all stakeholders' strategies. The Bank Group's contribution and inadequacies were analyzed and elaborated. Conclusions and recommendations were drawn and made on the strategy normative levels.

Table A3: Search Strategy Used to Identify Publications.

Keywords	Sources: databases, websites of institutions, books.
Regional cooperation, regional integration, Assemble, Congregate, Bring together, Leverage, Champion, Advocacy, Complementarity, Global experience, Global network, Global leadership, Global convening, Global call, Call for action, Collective action, Syndicate, Synergy, Withdrawal, Ministerial Forum, Joint statement, Integrated approach, Comparative advantage, Competitive advantage, Transform, Turnaround, Impartial, Autonomy, Immunity, Privilege, Legitimacy, Heads of State, Minister of Foreign Affairs, Ministry of Security, Minister of National Security, Minister of State Security, Minister of Internal Security, Minister of State, Convening, Advocacy, Mobilize, Asian Development Bank, African Development Bank, European Bank for Reconstruction and Development	<p>Regional Cooperation and Integration in Asia And the Pacific: Implementation of The Operational Plan for Regional Cooperation and Integration, ADB 2016–2020</p> <p>Breaking out of Enclaves: Leveraging Opportunities from Regional Integration in Africa to Promote Resource-Drive Diversification, World Bank, December 2015.</p> <p>Regional Integration Policy Papers, Supporting Macroeconomic Convergence in African Recs, AfDB 2012.</p> <p>Addressing the Challenges of Macro-Economic Policy Convergence in the SADC Region, UNECA, 2011</p> <p>The Potential of Regional Power Sector Integration, ECA, April 2010.</p> <p>The Africa Infrastructure Country Diagnostic (AICD): Five reports covering the state of regional integration of infrastructure networks for each of the Regional Economic Communities (RECs).</p> <p>IDA15 Mid- Term Review of the IDA Regional Program; IDA15 Mid- Term Review of the IDA Regional Program</p> <p>IDA14 Mid-Term Review of the IDA Pilot Program for Regional Projects," November 2006</p> <p>Managing crisis and building resilience: a retrospective review of IDA's fifteenth replenishment; IDA Resource Mobilization Department Concessional Finance and Global Partnerships, October 2012</p>

Findings from Literature Review: Regional Integration, by level of scope, interactions and timespan: IEG's literature review suggests that two out of the five types of interactions among countries are purely economic in nature, and three types of regional integration are both economic and political in nature (figure A2). Further, the loss of sovereignty varies by the type of engagement; as the scope of integration increases, there is a loss of sovereignty (figure A2).

Figure A2. Types of Interactions Among Neighboring Countries



Source: IEG literature review.

PORTFOLIO REVIEWS

This evaluation covered both regional and single-country operations supporting regional integration, but only those projects that fit specific criteria were screened and reviewed, that is, projects stating regional development objectives or listing regional integration as expected development impact, or single-country projects listing activities as part of a regional program (tables A4 and A5 list specific criteria).

Table A4: Criteria for Evaluation Portfolio Selection

Bank Group	Regional projects	Single-country projects	World projects
WB-Lend	All	With RI theme, meeting RI criteria	Excluded
IFC-IS		In most relevant sectors, meeting RI criteria	
MIGA		In 5 main sectors, meeting RI criteria	
WB-ASA		With RI theme	
IFC-AS		Linked to RI-relevant IFC-IS projects or with REC client*	

Source: IEG.

Table A5: Specific RI criteria

Screening Criteria	Decision
IFC regional funds or WB TA/DPL activities supporting the players involved in the regional development	Include
Projects listing RI as expected development impact or regional development objectives	Include
Single country projects activities as part of regional program	Include
Projects improving regional infrastructure (roads, ports, regional airports, ICT, power, extractives)	Include
Projects involving the management of natural resources or regional public goods (river basin, regional forest)	Include
Disaster risk preparedness/resilience with regional implications	Include
Small island/land locked countries where regional infrastructure and services are important	Include
Regional refugee, labor migration and peace	Include
Trade finance accessible to business in the region	Include
Development of regional capital markets	Include
Regional insurance/ real estate	Include
GHG and CO2 emissions reduction in a single country	Exclude
Don't require coordination/collaboration between the countries	Exclude
IFC or MIGA operations with no clear regional benefits	Exclude
IFC regional funds financed single country operation but without regional impact.	Exclude

Source: IEG elaboration based on theory of change of regional integration interventions.

The preliminary screening of all Bank Group projects approved during FY2003-17 resulted in a set of 1,617 regional integration operations accounting for \$36.9 billion, of which 870 are lending operations, 727 are ASA operations and 20 are Guarantee projects.

Portfolio Review Sampling Strategy

- A sampling strategy was used for three different population groups: 1) closed regional projects, 2) closed single-country projects, and 3) active projects.
- Each sample was statistically representative with a 90 percent confidence interval and 10 percent of margin of error that is, with 90 percent of confidence, population parameters are expected to fall within the interval of 10 percent up and above the point estimates calculated with the sample.
- For population group 1, the sample was statistically representative for each segment of the following individual criteria: i) region, ii) intervention, iii) fund. Individual means that we do not intend to produce statistically representative estimates of subgroups, e.g. the IFC's Europe and Central Asia regional public goods projects.
- The criterion "region" divides the population into a maximum of seven regions.

- The criterion “intervention” divides the population in regional infrastructure, regional public goods, and capacity building projects.
- The three interventions are not overlapping with each other at the conceptual level; however, it is well understood that at the Bank Group project level, a regional integration project design can have a combination of any or all three types of interventions but with a focus on one certain intervention type. The reference population of each intervention segment was estimated using the Bank Group practices and sectors of projects as follows:
 - a. Regional infrastructure: practices “Energy & Extractive Industries”, “Agriculture”, “Infrastructure & Natural Resources”, “Infrastructure”, “Transport & ICT”, “TMT, Venture Capital & Funds”, “Finance & Markets”, “Global Industry and Financial Markets”, “Global Industry, Manufacture, Agribusiness & Services”. Transport and non-assigned sectors in “Trade & Competitiveness”, non-assigned sectors in “Education”, “Social, Urban, Rural and Resilience”, “Poverty and Equity”, and “Social Protection & Labor”, and Energy and Mining sector.
 - b. Regional Public Goods: practices “Environment & Natural Resources” and “Water”, and sectors “Water” and “Environment”, “Health, Nutrition & Population”.
 - c. Capacity Building: practices “Governance”, “Macro Economics & Fiscal Management”, and sector Economic Policy”. Assigned sectors in “Social, Urban, Rural and Resilience”, “Education”, “Poverty and Equity”, “Social Protection & Labor”. Other assigned sectors in practice “Trade & Competitiveness”.
- The criterion “funds” divides the population in IBRD/IDA, IFC, MIGA, and other World Bank Funds (RETF, IDF, GEF, GEFM and CARB).
- The World Bank’s additional financing projects, as well as IFC’s ‘swaps’ and ‘rights issuances’ are excluded from the sample frame.
- Finally, there was a forced inclusion of regional African infrastructure projects (approved by the practices of Water, Transport, Infrastructure, and Energy).
- The sampled projects were subject to detailed review and coding, the project activities were classified into the three intervention types, for example, the infrastructure activities of a regional transport corridor project were classified as regional infrastructure interventions, and the capacity building activities of the same project were classified as institution and capacity building interventions.

What can we do with these samples?

- What kind of indicators do we want to use for our estimates?
 - Proportions, shares, and ratios.

- Can we compare the relative indicators between two or more segments according to one of the criteria used?
 - Yes
- Can we do estimates of an absolute indicator for the population of the segment?
 - Yes, applying factors (sample size)
- Can we do estimates of relative and absolute indicators for the whole population of reference?
 - Yes, applying factors (population distribution by segments and sample size). For total population estimations factors need to be applied to maintain the actual distribution of the portfolio in active and closed projects.
- Can we do estimates for subgroups within a segment?
 - Probably not.

Minimum sample size n

The sample size of each segment in which a statistically representative sample needs to be drawn can be determined using the following formula:

$$n = \frac{Z_{\alpha}^2 N p q}{e^2 (N - 1) + Z_{\alpha}^2 p q}$$

Where:

- N is the size of the population of reference;
- Z_{α} is the value of a $\alpha\%$ (significance level) probability of a type-I error in a normal standard distribution;
- e represents the margin of error (affecting the confidence interval of estimations); and
- p is the expected proportion of success. q is $1-p$.

Assumption about p

The estimator of a proportion is $p=X/N$, where X is the number of “positive” observations. When the observations are independent, this estimator has a (scaled) binomial distribution (and is also the sample mean of data from a Bernoulli distribution). The maximum variance of this distribution is $0.25/n$, which occurs when the true parameter is $p = 0.5$. In practice, since p is unknown, the maximum variance is often used for sample size assessments.

Stratified sample size

With more complicated sampling techniques, such as stratified sampling, the sample can often be split up into sub-samples. Typically, if there are H such sub-samples (from H different strata) then each of them will have a sample size n_h , $h = 1, 2, \dots, H$. These n_h must conform to the rule that $n_1 + n_2 + \dots + n_H = n$ (i.e. that the total sample size is given by the sum of the sub-sample sizes). Selecting these n_h optimally can be done in various ways, using (for example) Neyman's optimal allocation. Minimum sample size was selected to have a sample representative at the highest level and then increasing the number of observations to be sampled within each subsegment (subgroups resulting from the combination of segments from multiple criteria) in several iterations until meeting the restrictions for all the segments.

A sample was selected such that (1) X% are from the 7 regions, (2) Y% are classified as "connectivity," "public goods," and "institution building projects" intervention projects, and (3) Z% are supported by IBRD/IDA, IFC, MIGA, or other donor or trust funds. In other words, the team's sampling is to ensure (by handpicking) that a large proportion of the sample has the desired characteristics (region, intervention, and funds) (table A6).

Reference populations and sample size

Table A6. RI Portfolio Selection

Bank Group member	RI Evaluation Portfolio (narrower universe) *		
	Regional	Single country	World
WB-Lend	All	With RI theme, meeting RI criteria	None
IFC-IS	Meeting RI criteria	In most relevant sectors, meeting RI criteria	
MIGA		In 5 main sectors, meeting RI criteria	
WB-AAA	With RI theme		
IFC-AS	Linked to RI-relevant IFC-IS or with REC client		

Table A7. Total regional integration portfolio

Bank Group member	RI Evaluation Portfolio (narrower universe) *		
	Total	Regional	Single country
WB-Lend	530	408	122
IFC-IS	325	121	204
MIGA	14	0	14
WB-AAA	662	271	391
IFC-AS	58	17	41
Total	1589	817	772

Source: IEG construction based on World Bank Group databases.

Sample frame and sample sizes for the regional integration lending portfolio

According to the sampling strategy described, the minimum sample size for each segment is a restriction that needs to be satisfied by the drawn sample (table A7).

Table A8. Sample breakout by regions

Region	N	n
AFR	403	230
EAP	101	47
ECA	126	83
LCR	207	102
MNA	60	39
OTH	23	13
SAR	56	27
Total	976	541

Region Type	N	n
Regional	615	376
Single country	361	165
Total	976	541

Project Status	N	n
Active	426	182
Closed	550	353
Total	976	535

Funds	N	n
MIGA	14	8
IBRD/IDA	240	155
IFC-IS	378	178
WB Funds	344	194
Total	976	535

Intervention	N	n
CB	234	103
Infra	611	335
RPG	131	97
Total	976	535

Source: IEG construction.

Social Network Analyses

As part of the overall evaluation, IEG conducted an illustrative case study in EAC of the Bank Group's positioning in the transport sector in regional integration using social network analyses. The purpose of the exercise was twofold: (i) to understand the relationship among key organizations involved in supporting the transport sector in regional integration in EAC; and (ii) to understand how the Bank Group positions itself in the transport sector in regional integration in EAC in relation to other organizations. The exercise focused on influence network. Using Social Network Analysis (SNA), visual network maps were generated that provide insights into how organizations influence each other.

Identifying Key Organizations

Several sources of information were used to identify key organizations in the transport sector in regional integration in EAC. First, the team used project documents of recent Bank Group operations in Transport sector in EAC. After compiling a longlist of potential key organizations, the team consulted with experts with in-depth knowledge about the sector such as the World Bank's Task Team Leaders of transport projects in EAC, regional organizations in EAC and government agencies in EAC. 29 organizations (6 Regional Organizations, 9 Governmental Agencies, 3 Multilateral Development Banks, Other Development Partners and 3 Private Sector Associations) were identified through this process.

Data Collection included Survey of a Bank Group Staff and Key Stakeholders in other institutions

A standardized questionnaire was developed and administered to the selected organizations to collect the necessary data. The team asked a question: “Which organizations do you consider having a strong influence on your organization’s thinking, strategies, policies, decisions, or actions regarding regional integration in transport sector in East Africa? For example, which organizations do you turn to when you need advice or guidance?”

To boost response rates, the standardized questionnaires were administered in the framework of a face to face meeting with relevant representatives from the selected organizations. The final response rate was 83 percent (24 out of 29). The organizations from which the team could not obtain responses were: Northern Corridor Transit Transport Coordination Authority, European Investment Bank, Ministry of Finance of Tanzania, Ministry of Foreign Affairs and East African Cooperation of Tanzania, Ministry of Finance, Planning and Economic Development of Uganda.

The team visited three countries: Tanzania, Kenya and Uganda. For organizations which have multiple offices in the region, the team collected responses from the office which has regional representation in East Africa, for example, EU in Tanzania, AfDB in Kenya.

The team used Cytoscape as SNA software to calculate the network metrics and to generate the network maps. The layout was purposefully adapted by the team to illustrate the influence among different categories of organizations. Out-degree centrality was used as a metric to measure size of influence of the selected organizations. (See box 2.4 for details).

Interviews and Focus Group Discussions with World Bank Group Staff

Interviews formed a major component of the evaluation. The evaluation team conducted several interviews with World Bank Group staff and management to assess the enabling environment for regional integration mainstreaming in the organization as well as reasons for success or failure of projects from the point of view of project teams and TTLs. The team also organized a workshop with development partners in South Asia that addressed various stakeholders to gather evidence on opportunities and challenges for regional integration. The same set of stakeholder interview question were used across the three regional case studies. The questions (see table A8) were framed to provide insights on alignment of country and donor strategies and the role of strategic partners and the private sector. Interviews were both structured and semi-structured. TTL interviews sought to get answers to the questions in box A2 and to gather evidence on regional integration project dynamics. The team triangulated the evidence stemming

from interviews with the other evaluation components by synthesizing the lessons and findings to answer the evaluation questions.

IEG conducted the following structured interviews:

- 18 interviews of Bank Group staff associated with regional integration projects in the selected regions for the evaluation.
- 31 interviews were conducted with World Bank staff during case study missions: 12 for South Asia Region, 15 for East Africa, and 4 for Central Asia (box A2).

4.1 Box A2. TTL interview questions.

At design stage: TTL qualification, Team composition, time and budget allowed for preparing a regional project, incentive mechanism of managing a regional operation; the alignment of individual operation with SCD or CPF. The support from CMU (based on your personal experience)?

At implementation stage: budget allocation, most common challenges of implementing regional operations? The level of management support to resolve issues?

In your view, what is the comparative advantage of Bank Group?

How strong is the Bank Group convening power, give us a few specific examples?

What needs to be improved?

Table A9. Stakeholder Interview Questions

Questions to All Stakeholders				
How influential is the Bank Group to your Regional Integration (RI) decision, policy and strategies?				
What is your perception of Bank Group's support to regional cooperation / integration and its effectiveness?				
What are the comparative advantage of the Bank Group in RI? With evidences and examples				
Do you view the Bank Group as a leader of RI? With evidence and examples				
Do you think the Bank Group has the convening power in RI? (getting the key RI stakeholders together to discuss RI challenges, mobilizing resources and/or come up with solutions)				
What could the Bank Group improve to enhance its support to RI in SAR?				
What are the challenges faced with RI in SAR?				
What are the challenges of implementing RI operations in SAR?				
Tailored Questions to Set of Stakeholders				
<i>Government Counterparts</i>	<i>CMU and TTLs</i>	<i>Donors</i>	<i>Regional Institutions and Economic Communities</i>	<i>Private Sector</i>
i) Do you think the RI support from the Bank Group is consistent?	i) Do you think the Bank Group RI support is consistent and relevant to the countries' RI priorities?	i) Any implicit or explicit agreement with the Bank Group on the division of labor for RI support (either horizontally or vertically at sector level)?	i) What were the specific support that your institution received from the Bank Group?	i) Were you aware of or involved in the Bank Group RI support?
ii) Do you find the RI support from the Bank Group relevant to the RI priorities of your country? What were the effects? Were the effects sustainable?	ii) Do you think the Africa RI strategies were fully aligned with the CAS/CPS?	ii) Any formal or informal collaboration mechanism with the Bank Group?	ii) Do you find the support from the Bank Group effective? What were the effects?	ii) If you were involved in the Bank Group RI support, were you a beneficiary of or a contributor to the Bank Group RI support?
iii) How influential was the Bank Group to your RI policies, strategies and decisions?	iii) What have been achieved and what were the effects?		iii) How was the Bank Group support compared with the support that you received from other donors?	In your view, how can the Bank Group involve the private sector more in the RI activities?
iv) Do you find the support from the other development partners			iv) Do you think you have sufficient capacity or authority to coordinate RI in SAR?	

Appendix A Methodological Annex

more relevant and
effective than the Bank
Group support?

Questions on Effectiveness

Transport Operations

- i) request data on traffic volume and transport time on project transport corridor, freight cost, border crossing time, and intra-trade volume
- ii) any benefits beyond above listed results, e.g., contribution to employment, economic growth, welfare increase, etc.
- iii) any unintended outcome

Energy Sector

- i) get information on increased regional power generation and power trade, power price
- ii) any benefits beyond above listed results, e.g., contribution to employment,
- iii) economic growth, welfare increase, etc.
- any unintended outcome

ICT

- i) get information on increased coverage of broad band service, increased access to internet and reduced usage fee
- ii) any benefits beyond above listed results, e.g., contribution to employment, economic growth, welfare increase, etc.
- iii) any unintended outcome

Regional water resource management

- i) At RECs and country level, please request information/data on established dialogue mechanism between countries, enhanced exchange of information, increased trust, concrete investment projects/proposal prepared, increased funds to RECs contributed by member countries, enhanced capacity of RECs
- ii) At RECs level: evidence on enhanced capacity, staffing and funding

Econometric analysis

The IEG team conducted an econometric analysis to gather additional evidence related to the contribution of the Bank Group to furthering regional integration over the evaluation period. For this evaluation, IEG estimated a macro-level difference-in-differences model of regional integration in the trade and transport sectors. Results of the econometric analysis are presented separately in appendix I.

MODEL

The model was designed to capture the effect of regional integration projects in the transport sector on increasing intra-regional goods trade. It is a variation of a difference-in-differences model with staggered treatment times, which allows for a control group of countries that did not receive new World Bank Group funding for regional integration projects during the specified timeframe of 2003–17. The team also conducted a supplemental analysis to enhance its evaluation as much as possible. Like the econometric model approach, each alternative approach had its benefits and limitations. The alternatives pursued are as follows:

- Using a portfolio analysis approach, IEG conducted a summary analysis of multidonor trust funds and regional initiatives that are not captured in the main regional integration portfolio to provide a view on trust building and strategic partnership efforts.
- IEG referenced external econometric studies of regional integration. From this literature review, the regional integration team worked to extract coefficients related to regional transport connectivity or trade facilitation and international trade. These coefficients were then mapped to World Bank Group project-level achievement measures to quantify to some extent the World Bank Group's impact in supporting regional integration. Though it is a quantitative analysis, it is limited by the less direct empirical relationship with Bank Group efforts (see appendix I for details).

Case Study

Rationale for Congruence analysis

Congruence analysis is a small-*N* research design in which the evaluator can use case studies to provide evidence for the explanatory relevance or relative strength of one theoretical approach in comparison to other theoretical approaches.¹ This is achieved by sets of specific propositions and observable implications from abstract theories in a first step and then by comparing a broad set of empirical observations through stakeholder interviews with these implications drawn from a diverse set of theories.

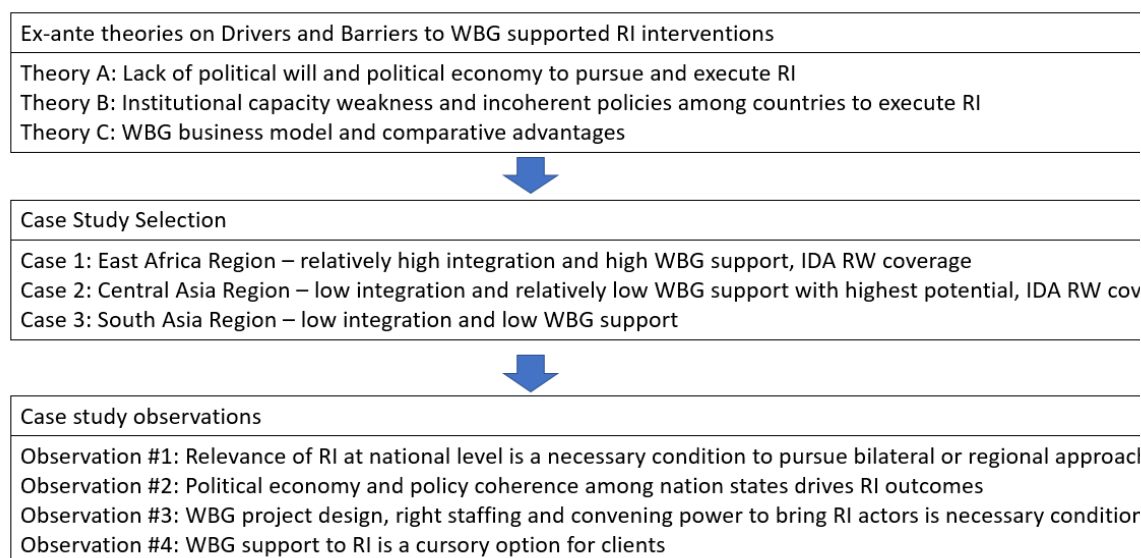
Generally, the main goal of congruence analysis using case studies is to contribute to the discourse on the relative importance of hypothesis or predictions about the necessary and sufficient conditions that affect the outcomes of an intervention² when quantitative findings are limited. This contribution from congruence analysis can take the form of either i) refining specific theories within the case studies, ii) developing a new theoretical synthesis within or across case studies, iii) strengthening the position of a theory in comparison to other theories, and iv) bolstering the aspiration of new theories to be recognized. Given that regional integration is a multidimensional theme, and generalizations can be possible only using relative importance of selected hypotheses, and through a combination of hypotheses, Congruence analysis is deemed to be a good fit.

Hypotheses and predictions in Congruence Analysis can include assumptions about the i) most important actors, ii) actors' perceptions and motivations, iii) corresponding structural factors, or iv) alternative theories to explain the drivers of results.³ Unlike covariational approaches, congruence analysis involves theoretically deduced predictions on causal process observations such as sequences and events – and not just hypothesis and predictions on specific values of dependent and independent variables.

Congruence analysis of three regional cases

Ex ante hypotheses about regional integration were prepared (for example, drivers and inhibitors, how regions perceive it, how regions perceive the role of multilaterals) during the evaluation approach paper stage, based on the literature review (figure A3). Three crucial regional cases were subsequently selected where how crucial they were depended on the likelihood of findings in the congruence analysis approach. The case studies were then designed to contribute findings to all three evaluation questions: (1) To what extent did the Bank Group achieve its intended outcomes in fostering regional integration, (2) What have been the Bank Group's role and comparative advantages in fostering regional integration, and (3) What do the lessons of experience mean for future Bank Group Strategies and regional integration interventions?

Figure A.3. Congruence Analysis Design



Source: IEG construction based on literature review and Portfolio Review and Analysis.

Many other theories are possible but the main goal here is not to present an exhaustive list. Rather it is to identify and evaluate causal pathways that have been most commonly cited in large-*N*, prior research, and publications. In the context of this evaluation, each regional case deployed analysis methods on mission observations to validate case observations and to aggregate evidence that underscores the explanatory powers of certain theories:

- Sub-Saharan Africa regional case used Social Network Analysis to validate observations for Theory A and C,
- Europe and Central Asia regional case used Political Economy Analysis to validate observations for Theory A and B, and
- South Asia regional case used Policy Coherence Analysis to validate observations for Theory B and C.

In addition, the regional cases of ECA and SAR used the concept of Consensus Analysis⁴ to draw additional inferences where at least three or more stakeholder groups⁵ had strong views on evaluation question or sub-question, and agreement among them is equivalent to triangulation or a sign of knowledge⁶. These observations were further validated findings from other evaluation methods such as Portfolio Analysis and TTL interviews.

- **Selection of regions and countries for case study:** The inherent nature of this evaluation called for regional case studies instead of country case studies. The study covered Africa, South Asia, and Europe and Central Asia for case studies (table A4). The selection of the regions, subregions, and countries was based on the following criteria: (i) availability of country and regional data; (ii) how well the case illustrated certain intervention types; (iii) how well the case represented the Bank Group regional integration portfolio and the high or low intensity of Bank Group support and (iv) how representative of types of regional integration intervention. In addition, this evaluation triangulated regional integration-specific findings from a series of IEG Project Performance Assessment Reports (PPARs) that are currently in progress, based in subregions like Western Africa, Central Africa, Southern Africa, and the Caribbean islands.
- **Protocol for case studies:** A structured protocol for case studies was developed (table A9). The methods included desk review of country strategies; portfolio review of interventions and ASA, with a regional integration component; interviews of World Bank staff in CMUs, government officials, and representatives of organizations; and focus group discussions with organizations involved and not involved in the dialogue around the regional integration.

Table A10. Case Study by Region

<i>Case Typology</i>	Region	Focus Areas
Illustrative and Representative	Europe and Central Asia – Central Asia	Regional Infrastructure and Institutional Capacity Development
Illustrative and Representative	Sub-Saharan Africa – East Africa	Regional Public Goods and Regional Infrastructure
Illustrative; Flagship initiatives	Asia and Pacific – South Asia	Regional Infrastructure

- **Selection of Interviewee Groups:** The purposive samples of relevant interviewee groups were developed for each interview exercise at regional, subregional and country level. The number of stakeholder interviews was optimized to achieve diverse and cost-efficient coverage of key stakeholders. The principles of triangulation and reaching the “point of theoretical saturation” were used to decide on the number of interviews to be conducted. The team identified stakeholder groups for interviews in the following two categories:
 - (a) *Internal Stakeholders:* Relevant internal interviewees are Country Management Units, Regional Advisors, key corporate VPUs, targeted staff in IFC’s Country Economics and Engagement department, Task Team Leaders of selected regional integration operations.

- (b) *External Stakeholders*: Relevant external interviewees are regional case study countries, Intergovernmental regional institutions, regional and bilateral development partners, and private sector co-financiers.

Regional Case Studies

The evaluation team interviewed 224 stakeholders across 133 institutions (table A10).

Table A11: Number of Key Stakeholders Met: 133 Agencies 224 People

Regions	Countries	GOV		No. REC		Development partners		Private sector		WBG	Academy/think tank	
		No of agencies	No of people	No of agencies	No of people	No of agencies	No of people	No of agencies	No of people		No of agency	No of people
East Africa	Tanzania, Kenya, Uganda	17	31	9	16	21	34	9	17	15		
Central Asia	Tajikistan, Kyrgyz Republic, Kazakhstan	15	18			18	28	16	24	4	2	3
SAR	India, Nepal	6	11			3	4	10	10	12	6	6
Total		38	60	9	16	42	66	35	51	22	8	9

Case studies adopted different levels of analysis for different regions to gather evidence on the factors that impede regional integration and to identify opportunities to promote it.

Sub-case Methods: Political Economy Analysis for Central Asia

The political economy analysis was used to account for the impediments to regional integration and identify the opportunities to promote integration, considering the political economy dynamics in the region. The analysis focused on Kazakhstan, the Kyrgyz Republic, and Tajikistan as case studies, and used a problem-driven approach which focused on identifying a problem, opportunity, or vulnerability to be addressed. The key questions that the analysis intended to answer regarding the political economy of regional integration included i) What drives and constrains regional integration in Central Asia. ii) What factors accounted for the lack of regional integration in the past iii) Is the current environment conducive to regional integration? The analysis considered three types of factors: structural, institutional, and actors, and studied how they interact to influence regional integration. The analysis considered structural factors which are usually common to Central Asian countries at the regional and single-country levels.

Sector-level analysis was also conducted for the Energy and Water, Trade, Transportation and Finance sectors. The information was collected through a desk review, complemented by key informant interviews with stakeholders and focus group discussions with development partners in Kazakhstan, the Kyrgyz Republic, and Tajikistan. The questions and discussion guides were framed in terms of opportunities and challenges to regional integration in Central Asia, and in terms of potential risks and unintended outcomes.

Sub-case Methods: Policy Coherence Analysis for South Asia

The evaluation used policy coherence analyses covering the energy sector in India and Nepal. This is because the Bank Group's regional integration portfolio in South Asia for the evaluation period is characterized largely by projects covering the energy sector, regional connectivity (roads, ports, waterways), and trade facilitation and promotion, with energy being the largest. The analyses were conducted at several levels; government to government, intergovernmental, World Bank to government, and within the World Bank. The analyses were used to gather evidence on areas where there is policy coherence among various institutions and stakeholders at different levels in the region, and how these areas influence regional integration. The information was collected through desk review, together with key informant interviews with stakeholders and focus group discussions with development partners in India and Nepal.

Analysis of Bank Group Regional Integration Portfolio Outcome Achievements

Table A12 provide a comprehensive view of the results by the three Bank Group institutions and regions, for projects rated Mostly Successful, Moderately Satisfactory, or better.

Table A12. Share of Projects with Outcome Rating MS or Above

Region	MS+ (IBRD+IDA)	n (IBRD+IDA)	MS+ (IDA)	n (IDA)	MS+ (IFC-IS)	n (IFC-IS)
AFR	0.7	43	0.7	43	0.62	13
EAP	0.57	7	1	2	0.33	3
ECA	0.66	32	0.58	12	0.5	6
LCR	1	5	1	3	0.65	17
MNA	0	1	0	0	0.75	4
SAR	1	3	1	3	0.67	3

Number of Projects that Outcome Rating is MS or Above

Region	MS+ (IBRD+IDA)	n (IBRD+IDA)	MS+ (IDA)	n (IDA)	MS+ (IFC-IS)	n (IFC-IS)
AFR	30	43	30	43	8	13
EAP	4	7	2	2	1	3
ECA	21	32	7	12	3	6
LAC	5	5	3	3	11	17
MNA	0	1	0	0	3	4
SAR	3	3	3	3	2	3

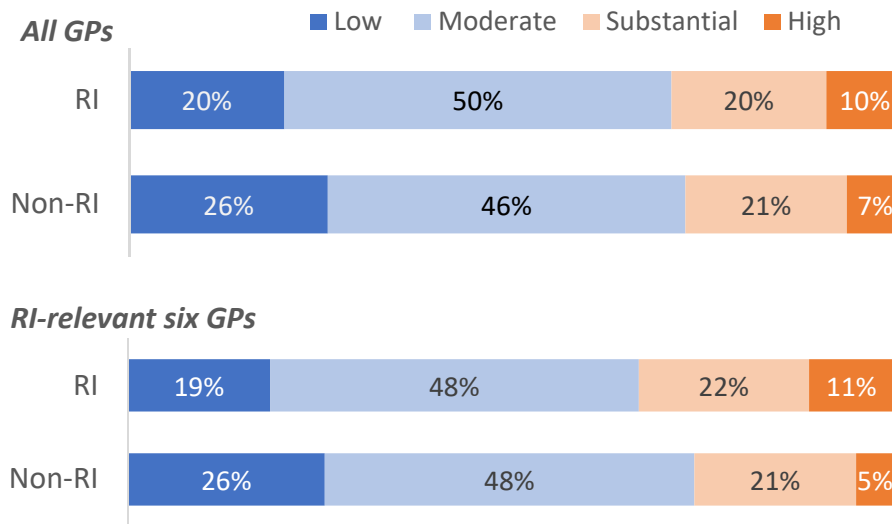
Source: IEG Ratings databases.

Note: AFR = Sub-Saharan Africa; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MNE = Middle East and North Africa; SAR = South Asia.

Comparison of SORT risk ratings between regional integration and non-regional integration projects

The complexity of regional integration projects is further confirmed by the higher risk they experience. The analysis compared the latest overall risk ratings as measured by Systematic Operations Risk-Rating Tool (SORT) and found that RI projects experienced a higher risk compared to non-RI projects. The gap is especially large when the comparison is limited to the six GPs most relevant to regional integration. The SORT rates overall risk on a 4-point scale: low, moderate, substantial, and high, where 1 is low and 4 is high. Regional integration projects received an average rating of 2.2 compared to 2.1 received by other projects (figure A4). Among the six regional integration-relevant GPs, the difference is further increased, with 2.3 for regional integration and 2.1 for non-regional integration, and statistically significant at the 95 percent level.

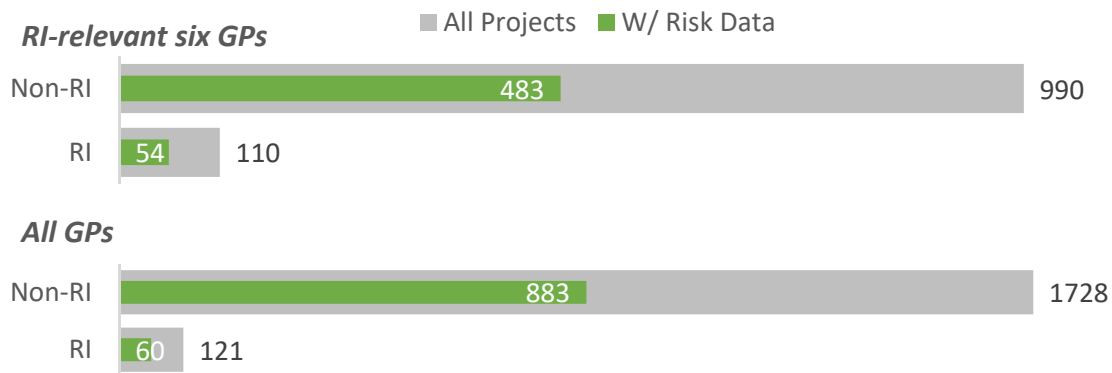
Figure A4. Project Latest SORT Overall Risk Rating: RI vs Non-RI



Source: IEG ratings databases and IEG Portfolio Review and Analysis.

Risk data are only available for half of the projects. It is worth noting that the analysis has limitations in data availability. Among the total of 121 regional integration projects and 1,728 non-regional integration projects, only 60 (50 percent) regional integration and 883 (51 percent) of non-regional integration projects have the SORT overall risk data. Similarly, for the six GPs relevant to regional integration, the risk data are only available for 54 out of 100 (54 percent) regional integration projects and 483 out of 990 (49 percent) non-regional integration projects (figure A5). Though the share is similar between regional integration and non-regional integration projects, it is not clear if SORT data availability is tied to any underlying selection bias, and, if so, whether the bias affects each of the two types of projects differently.

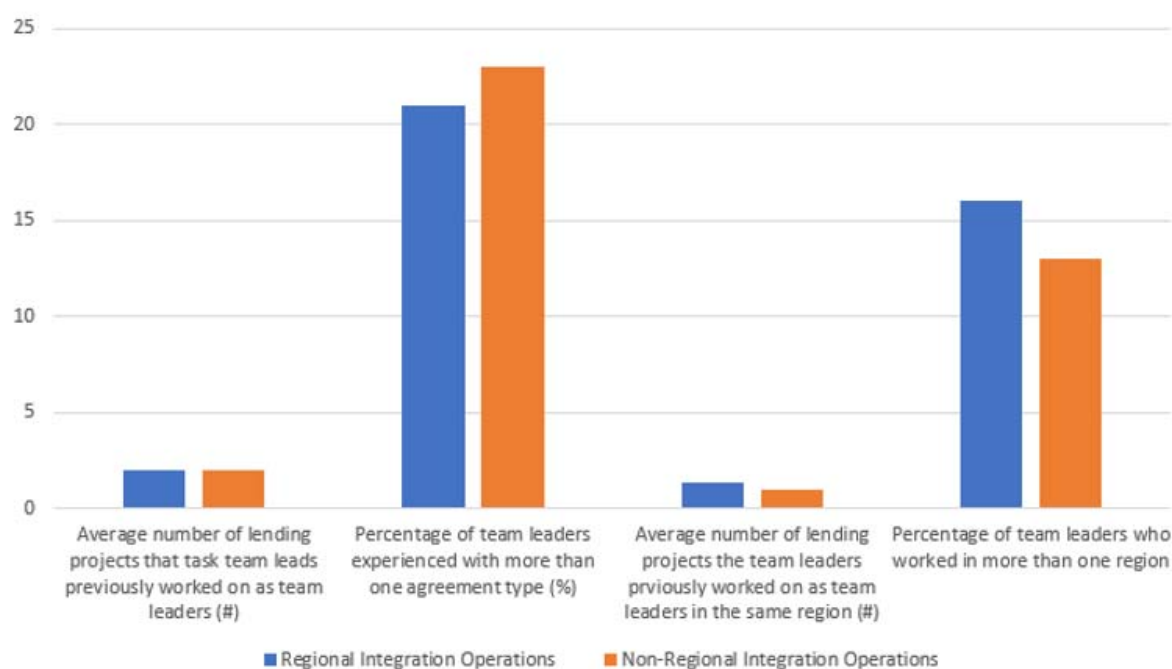
Figure A5. Data Availability of SORT Overall Risk Rating: RI vs Non-RI



Source: IEG ratings databases; Portfolio review and analysis.

Task Team Leaders' Experience

Figure A6. Comparison of TTL experience for RI and non-RI projects



Analysis of IDA Regional Window Support to Subregions: Assumptions and Methodologies

Assumptions:

1. The six World Bank Regions were divided into 19 subregions as per United Nations Geoscheme.
2. Angola was categorized as part of Southern Africa subregion and Azerbaijan was categorized as part of Central Asia subregion.

IDA RW commitments – missing values calculations:

1. With the overarching criteria that the IDA Regional Window can commit up to 2/3 of the needs of a World Bank-supported project, IEG used the following methods to calculate missing data points:
 - a. IDA 13 & IDA 15: we take 2/3 of the commitment amount
 - b. IDA 14 & IDA 17: we take the original value and treat missing values as-is
 - c. IDA 16: we take 60 percent of the commitment amount

2. Following the treatment on missing values, the total amounts were validated against the retrospective summaries cleared by the World Bank Group Board of Executive Directors, for IDA13-17.

IDA Regional Window commitments, by subregion:

Based on the above assumptions and methodology, the total Regional Window commitments, by subregion, were calculated and shared with IDA DFI teams (Table A12).

Table A13. Regional Window Commitments, by Subregion

<i>Region</i>	<i>IDA Regional Window Commitment Amount (\$ millions)</i>	<i>Total share over five cycles (%)</i>
Caribbean	67.1	0.5%
Central America	27.6	0.2%
Central Asia	449.0	3.5%
Eastern Africa	4,548.9	35.5%
Middle Africa	1,964.8	15.3%
Pacific & Oceania	410.3	3.2%
South Asia	1,307.4	10.2%
Southeast Asia	52.7	0.4%
Southern Africa	25.8	0.2%
Southern Europe	54.2	0.4%
Western Africa	3,914.1	30.5%
East Asia	-	0.0%
Western Europe	-	0.0%
Eastern Europe	-	0.0%
North America	-	0.0%
Northern Africa	-	0.0%
Northern Europe	-	0.0%
South America	-	0.0%
West Asia	-	0.0%
Total Commitments	12,821.8	100.0%

Source: IEG, IDA DFI.

Approach for mapping regional integration and sustainable Development Goals

While many countries focus on improving their domestic connectivity to contribute to the achievements of Sustainable Development Goals (SDGs), the future of regional integration depends on how closely regions, subregions, countries, institutions, and their partners work as one system. In this context, new challenges arise in terms of coordination not only across borders, but also across sectors, and across partners, which can impede SDG achievements. The literature review suggests that the direction and

effectiveness of intergovernmental and intragovernmental policy coherence can determine the level of SDG achievements across the 17 goals and 169 targets.⁷ Based on a mapping analysis of SDG framework to the regional integration conceptual framework, this evaluation identified both core, direct links and indirect links to the SDGs.⁸ Approaches to regional integration can be mapped directly to four SDGs and indirectly to four SDGs. The core regional integration-linked SDGs promote decent work and economic growth, development of industry, innovation, and infrastructure, nurturing peace, justice, and strong institutions, and supporting the building of partnerships for the goals. Four indirectly linked SDGs promote clean water and sanitation, affordable and clean energy, responsible consumption and production, and collective action on climate change.

Methodological Limitations

The various components leading to the findings and conclusions reached by this evaluation were subject to some limitations as outlined below:

- The risks to the evaluation included the limited number of evaluated regional integration operations; the absence of structured evaluations for non-lending activities; lack of macro-level data on regional integration and challenges of linking very diversified Bank Group project-level support to progress on macroeconomic level;
- Limitation in data analysis from missing, unavailable, incomplete, and/or mixed quality data;
- Interviewee bias and Survey respondent bias;
- Lack of intraregional, trade, FDI, migration, remittances, and private-sector relevant data;
- Limitation with SNA was the construct validity of the data used to measure the variables of interest. In this study, the team tried to achieve a high level of construct validity of findings by collecting data based on a customized standardized questionnaire that was administered to all the selected organizations; and
- Limitation of econometric analyses involved the small scale of World Bank projects relative to all other relevant factors in intraregional trade. Second, increased trade was an imperfect proxy for increased regional integration in the transport sector. Third, the model was limited by the binary “project or no project” dummy analysis, which does not account for variation in project size or speed of implementation.

Limitations on the political economy analyses for Central Asia case study included lack of detailed analyses regarding sector-related issues, including stakeholder mapping at each sector. Sector-level mapping would have offered more opportunities for analysis, but was unfeasible to achieve in the available time.

¹ Blatter, Joachim, *Innovations in Case Study Methodology*, Swiss Political Science Association, 2012

² Mills, Albert, Gabrielle Durepos and Elden Wiebe, *Congruence Analysis*, *Encyclopedia of Case Study Research*, 2010; Haverland, Marcus, *If Similarity is the Challenge*, *European Political Science Journal*, 9(1): 68-73, 2010.

³ Blatter and Blume, *In search of Covariance, Causal Mechanisms or Congruence? Towards a Plural Understanding of Case Studies*, 2008

⁴ Romney, Welder and Batchelder, 1986

5 RI Stakeholders were classified into five groups: (i) Government & Public-sector clients and participants, (ii) Private-Sector clients and participants, (iii) Industry Associations and Civil Society, (iv) Development Partners (including Multilateral, bilateral development banks and donors) and (v) Bank Group staff.

6 Caulkins and Hyatt, 1999; Caulkins, Offer-Westort and Trosset, 2005

7 UNDP, UNESCAP: *Regional Cooperation and SDGs*, 2016

8 Given that SDGs themselves are inter-linked to one another within the 17 goals, a network analysis of the SDGs has been conducted by UNDP and UNESCAP in 2016. This evaluation has synthesized and internalized the findings of the UNDP and UNESCAP studies to conduct the SDG-RI mapping.

Appendix B. Frontier Analysis

Background

Regional integration has long been viewed as a key strategy for fostering economic growth and reducing conflicts. Despite historically varying degrees of success and the recent renaissance of nationalism in some parts of the world, policymakers continually argue that deeper regional integration constitutes a crucial factor in creating an environment conducive to sustainable economic growth, peace, and security (UNESCAP 2016; ACET 2017; EU 2018; UNECA 2018).

Despite the prominence of efforts aimed at increasing regional integration on the current agenda of many international development organizations, there is very limited empirical evidence that allows quantifying and comparison of integration levels across different regions and mapping of achieved progress against stated goals. The economic literature comprises many studies that provide detailed insights on single dimension of regional integration (for example, focusing on trade or migration), but policy makers are often in need of more comprehensive, yet compact, measures of integration.¹

This appendix addresses this need in two ways. First, a multidimensional index is constructed to quantify regional integration outcomes. The obtained Composite Regional Integration (CRI) Index aggregates information from 11 different empirical indicators into a single composite measure, covering five key dimensions of regional integration: trade integration, financial integration, regional investment and production networks, movement of people, and peace and security. By using standardized normalization and aggregation methods, the CRI Index allows to quantify and rank regions and subregions across all geographical parts of the world according to their currently achieved degree of regional integration.²

Second, the CRI Index is used to estimate empirical magnitudes of untapped regional integration potential across the 19 considered subregions. This is done by combining the CRI Index together with proxies of the enabling environment for regional integration (capturing enabling factors related to trade openness, cross-border infrastructure, and business regulation environment) in a data envelopment analysis (DEA).³ The obtained results complement the analysis, because a simple comparison of achieved regional integration levels based on the CRI Index may not do full justice to the individual conditions faced by each subregion.

There are several ways in which the findings in this paper can contribute to evaluating the World Bank's efforts in strengthening regional cooperation and economic integration. **First**, the analysis can help to assess the World Bank's achievements in

targeting subregions with certain needs and characteristics, such as subregions that are performing relatively well despite low absolute levels of integration or subregions that are still far away from reaching their estimated integration potential. Second, the analysis provides insights about which enabling factors (i.e., trade-related political institutions, physical infrastructure, or private sector regulations) are particularly strong or weak in certain subregions. Finally, these insights can be used to (a) evaluate the relevance and appropriateness of current interventions in each subregion, (b) review the “frontier” regions or subregions with the most potential, and (c) decide on the types of interventions that future programs should prioritize.

The remainder of the paper is structured as follows. Section II explains the construction of the CRI Index and presents the results of a global comparison of regional integration levels along the considered dimensions. Section III uses the CRI Index in a nonparametric frontier analysis to estimate magnitudes of untapped regional integration potential across 19 subregions. Section IV concludes.

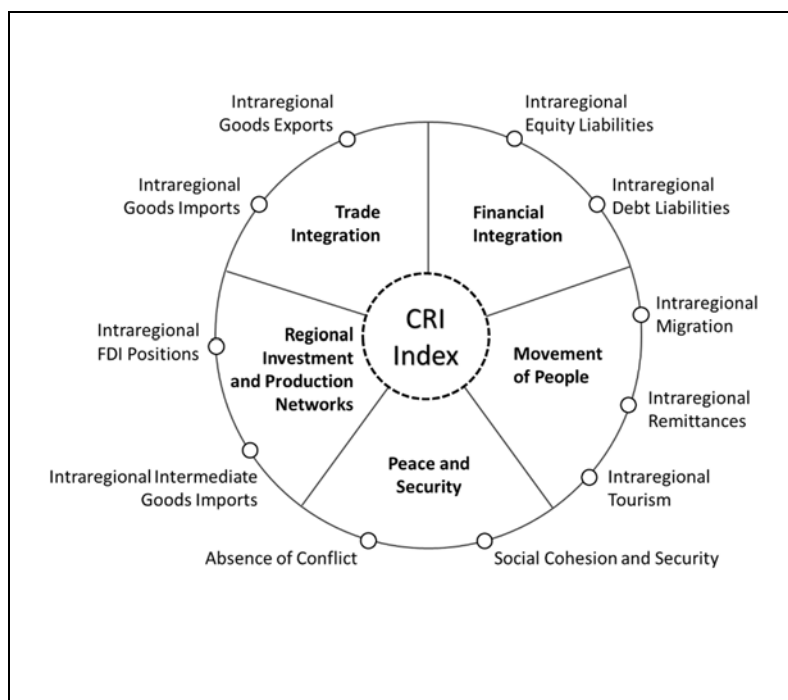
Composite Regional Integration Index

Figure B1 shows a schematic illustration of the construction of the CRI Index. The final composite index captures five dimensions of regional integration: trade integration, financial integration, regional investment and production networks, movement of people, and peace and security. Each dimension comprises two or more individual indicators (e.g., the trade dimension is composed of intraregional exports and intraregional imports). These indicators are obtained from empirically-observed variables measuring different aspects of regional integration.

In contrast to other studies in this context, we distinguish between ultimate regional integration outcomes (such as actual flows of goods and people across borders) and intermediate outcomes which can be perceived as means for achieving higher ultimate outcomes (such as signed free trade agreements, available infrastructure, and prevailing business regulations).⁴

Although the latter are used as part of the analysis in Section III (as proxies of the ‘enabling environment’ for regional integration), the CRI Index is designed to capture subregions’ performance in terms of ultimate integration outcomes.

Figure B.1. Composite Regional Integration Index



Methodology

When it comes to the construction of composite indices, no unique standard procedure has been established in the literature. Rather, the applied methods must be adapted to the specific context and purpose at hand (De Lombaerde et al. 2008). This is reflected in our analysis, which is based both on methods that are specifically designed to capture regional integration outcomes as well as on standard normalization and aggregation methods that are also used in the construction of other well-known composite indices (such as the Doing Business Index or the Human Development Index). This section provides a detailed description of the methodology underlying the construction of the CRI Index, which builds upon the approach developed in Naeher (2015) and is in line with the guidelines laid out by the OECD (2008). The robustness of the resulting estimates to alternative specifications is discussed as part of the robustness tests in appendix D.

Measuring regional integration. Differing from composite indices in other contexts, the construction of a multidimensional index of regional integration outcomes requires measures based on bilateral (dyadic) data rather than national data. There are several possible ways to construct such measures. To guarantee comparability across the different dimensions of the composite index, we include only variables that can be

measured as intraregional shares of a bilateral data matrix.⁵ Based on a country-by-country matrix containing information about flows F_{ij} between countries i and j , the intraregional share is defined as the fraction of flows between the countries in subregion R (denoted F_{RR}) and total flows between the countries in R and all countries in the world (F_{RW}). Formally, intraregional shares are calculated as

$$\frac{F_{RR}}{F_{RW}} = \frac{\sum_{i \in R} \sum_{j \in R, j \neq i} F_{ij}}{\sum_{i \in R} \sum_{j \in W, j \neq i} F_{ij}} \quad (1)$$

Normalization. To facilitate aggregation into an overall index, the data must be normalized such that higher values indicate higher degrees of regional integration and all variables feature a comparable range of values. For those sub-indicators representing intraregional shares of bilateral variables, the former is already achieved. For dimension V. (peace and security), the data are inverted by subtracting the respective scores from the highest possible value (10). Regarding the range of values, several possible methods exist for rescaling, each featuring its own set of advantages. We apply standard min-max rescaling, which ensures that all variables range between 0 and 1.⁶ For each subregion i in the overall sample N , indicator I is normalized using the formula

$$I_i^* = \frac{I_i - \min_{i \in N}(I_i)}{\max_{i \in N}(I_i) - \min_{i \in N}(I_i)} \quad (2)$$

Weighting and aggregation. The construction of the CRI Index involves two steps of aggregation. First, the overall composite index incorporates information along five dimensions of regional integration (as shown in Figure 1). Second, each of these dimensions is composed of multiple individual indicators (mostly representing intraregional shares of bilateral variables). At both levels of aggregation, an equal weighting scheme is applied to combine the respective sub indicators. This facilitates the interpretation of the results and is in line with many other studies that construct composite indices.⁷

Aggregation follows the scheme illustrated in figure B1, using the variables listed in table 1 and the normalization and weighting schemes described above. Because each dimension enters the index with equal weight, the resulting score of the CRI Index can be interpreted as the average performance of a given subregion along the considered dimensions of regional integration. The same applies to each of the five dimensions individually, across the respective sub-indicators. Alternative weighting schemes (including principal component analysis) are explored as part of the robustness tests. The Asian Development Bank and the African Development Bank have constructed similar composite indices.

Data and variables

The number of possible dimensions of the CRI Index is limited by the availability of empirical measures of regional integration outcomes. For indicators that can be represented as intraregional shares of bilateral data, the number of potential variables to be included is even more restricted. Nevertheless, several key dimensions of regional integration can be covered this way. As shown in figure B1, the CRI Index is composed of 11 individual sub indicators measuring different aspects of regional integration along five dimensions: (I.) trade integration, (II.) financial integration, (III.) regional investment and production networks, (IV.) movement of people, and (V.) peace and security.⁸ Table B1 provides a complete list of the variables used in the analysis and respective data sources.

For most of the variables used, data are available for 2017 and/or 2016. In these cases, we either use the most recent year available or combine the information from both years to achieve better coverage. For indicators III.b and IV.c, the most recent data we could obtain are from 2015 and 2012, respectively. In the latter case, we use the average annual growth over the previous five years to linearly extrapolate the data to 2017.

Based on data availability, the sample consists of 193 economies, grouped into 19 subregions spanning all geographical regions of the world. In defining subregions, we follow the classifications of the UN (2017).⁹

Limitations: It should be noted that looking at geographical subregions may seem unconventional, as these (i) differ in size and (ii) are not always in line with the political objectives of the corresponding countries. It was therefore considered to perform the analysis instead for regional economic communities (RECs), such as ASEAN, EU, and SADC. Using RECs, however, would lead to methodological difficulties, because the analysis would have to deal with countries that are not part of any REC as well as with countries that are part of several RECs (at the same time, the issue of different sizes of regional groupings would remain, because the number of member countries varies widely across RECs). To be able to assess regional integration outcomes globally for all countries (subject to data availability), this evaluation worked with geographical subregions, because this approach provides a complete set of country groupings where each country can be assigned to exactly one subregion.

In interpreting the obtained results, the following limitations of the approach should be kept in mind. First, the DEA estimates are exclusively based on currently available resources and conditions, not on future scenarios. Thus, the analysis cannot forecast integration outcomes under possible scenarios of changes in political or economic conditions. Second, the obtained estimates relate only to the dimensions of regional integration captured by the CRI Index, which do not necessarily imply effects on all final

Appendix B

Frontier Analysis

target variables such as human development or income growth. Finally, given that the considered subregions do not represent perfectly comparable units of observation, all quantitative results should be interpreted with that view. The obtained findings and derived implications should therefore be regarded as suggestive rather than conclusive, serving, it is hoped, as a first step toward a more comprehensive line of analysis going beyond the scope of this report.

Table B1. Variable Descriptions and Data Sources

Dimension	Indicator	Description	Data source and year
<i>Panel A: Ultimate regional integration outcomes (CRI Index, DEA outputs)</i>			
I. Trade integration	I.a	Intraregional goods exports	Percentage of intraregional goods exports compared to total goods exports
	I.b	Intraregional goods imports	Percentage of intraregional goods imports compared to total goods imports
II. Financial integration	II.a	Intraregional equity liabilities	Percentage of intraregional cross-border equity liabilities compared to total cross-border equity liabilities
	II.b	Intraregional debt liabilities	Percentage of intraregional cross-border debt liabilities compared to total cross-border debt liabilities
III. Regional investment and production networks	III.a	Intraregional FDI positions	Percentage of intraregional inward FDI positions compared to total inward FDI positions
	III.b	Intraregional intermediate goods imports	Percentage of intraregional intermediate goods exports compared to total intraregional goods exports
IV. Movement of people	IV.a	Intraregional migration	Percentage of intraregional outbound migration compared to total outbound migration
	IV.b	Intraregional remittances	Percentage of intraregional remittances inflows compared to total remittances inflows
	IV.c	Intraregional tourism	Percentage of intraregional outbound tourists compared to total outbound tourists

Table B1. Variable Descriptions and Data Sources

Dimension	Indicator	Description	Data source and year
V. Peace and security	V.a Absence of conflict	Subregional mean of GCRI scores for security risk area (current conflict situation, history of conflict)	EU - Global Conflict Risk Index (GCRI), 2017
	V.b Social cohesion and security	Subregional mean of GCRI scores for social risk area (social cohesion and diversity, public security and health)	EU - GCRI, 2017
<i>Panel B: Intermediate outcomes/enabling environment (DEA inputs)</i>			
Trade openness		Percentage of country pairs within subregion that have signed FTAs	Design of Trade Agreements Database (DESTA), 2017
Cross-border infrastructure		Subregional mean of Logistics Performance Index (overall score)	World Bank - Logistics Performance Index (LPI), 2016
Business regulation environment		Subregional mean of Doing Business Index (distance to frontier score)	World Bank - Doing Business Index (DBI), 2017

Note: FDI = foreign direct investment, FTA = free trade agreement, DEA = data envelopment analysis.

In some cases, information in the original datasets is missing for some economies, such that the affected subregions are only represented by a subset of the corresponding economies. To minimize potential biases, some attempts were made to adjust for missing values, for example, by imputation.

Background on conflict¹⁰

Conflict and lack of regional integration. Risk of a conflict and level of regional integration are two factors closely linked to achieving the World Bank Group's twin goals (World Bank 2018a). Conflicts cause protracted, severe disruption of economic activities and infrastructure, and are key constraints to development in many countries (Cali 2015). Conflict-affected economies cannot produce the necessary levels of income and welfare to help end extreme poverty and boost shared prosperity. To that end, for example, IDA has allocated over \$11 billion in post-conflict reconstruction assistance to "fragile and conflict affected situations" since 2000.

In a 2015 World Bank report, authors suggest that by "2030 more than 90 percent of the world's extreme poor are projected to live in fragile and conflict affected states" (Oliver and Cali 2015). An additional complicating factor is that 90 percent of the conflicts

between 2000 and 2010 occurred in countries that had already experienced a recent conflict, with almost half of the post-conflict countries relapsing back to conflict within 10 years (World Bank 2011). The situation is especially worrying in Sub-Saharan Africa, where most countries at risk of conflict are situated.¹¹ This prognosis warrants a greater emphasis on the study and analysis of conflict in relation to integration and trade.

Furthermore, resurgence of nationalistic rhetoric and protectionism in recent years has adversely affected trade, which in turn increases the risk of conflict, especially among neighbors (World Bank 2018b). This is especially true for small countries, landlocked countries, and countries affected by fragility, conflict, and violence (FCV), which are disproportionately more susceptible to loss of income and welfare to protectionist measures and lack of integration.

To some extent, conflict and lack of integration are mutually reinforcing factors that may trap countries in a cycle of violence, halting development. Conversely, improved trade and reduced conflicts can promote greater growth and reduce poverty (Venables et al. 1999). Fostering regional integration then becomes one of the tools to solve this problem and make progress toward achieving the World Bank Group's twin goals.

Global Conflict Risk Index. One of the available resources for quantifying conflict risk is the Global Conflict Risk Index (GCRI) – an early warning system designed to provide a global risk assessment based on economic, social, environmental, security, and political factors (Halkia et al. 2017). It is an index of the statistical risk of violent conflict occurring in the subsequent 1 to 4 years, exclusively based on quantitative indicators from open sources. To determine the intensity of a conflict, the GCRI uses a scale from 0 to 10, with an intensity level of 0 equivalent to no conflict being present in the country. GCRI offers a comprehensive methodology that isolates three dimensions of conflict: the risk of confrontation with other states, the risk of internal conflicts over government control, and the risk of internal conflict over issues apart from government power itself, such as resources (GCRI 2017).

Each of the 5 factors are further granulated into 24 variables in total, deemed as good determinants for forecasting the risk of conflict in the short-term. The security factor, for example, is subdivided into (1) recent internal conflict, (2) neighboring conflict, and (3) years since highly violent conflict. Similarly, the social factor is determined by (1) corruption, (2) ethnic power change, (3) ethnic competition, (4) transnational ethnic bonds, and (5) homicide rate (Halkia et al. 2017).

Regional integration and trade can not only ameliorate such situations economically, but in some instances, can produce spillover effects in the security and social realms of the country and the region at large. Under specific conditions, trade and trade policy can

help prevent conflicts (Oliver and Cali 2015). A 2015 World Bank report titled “Trading Away from Conflict,” discusses the opportunity cost effect, which occurs when trade translates into higher real income, and people are less likely to engage in internal conflict.¹² A potential pitfall to recognize is the rapacity effect, when people fight over valuable resources (mainly oil and minerals). Evidence shows that the rapacity effect vanishes for countries with relatively high levels of accountability, which can also be fostered through capacity development and deeper integration (Oliver and Cali 2015). The report concludes with recommendations on how best to use trade policy to ease conflicts in fragile states, which includes protecting producers, consumers, and workers from adverse trade shocks, promoting trade with neighbors, and supporting labor-intensive exports (Cali 2015).

World Bank Group Theory of Change. The World Bank Group’s two-tier theory of change provides with a comprehensive description and illustration of how regional integration is expected to occur, with clear inputs, outputs, outcomes, underlying assumptions, and potential hazards. One of the desired final outcomes is a “decrease in regional conflicts, political risk, and cross-border constraints.” The theory of change also outlines three main Bank Group functions to achieve the specific outcomes: enabler, financier, and convener. This theory of change, leverage and amalgamates the World Bank’s comparative advantages to complement the regional integration work of other multilateral development banks, RECs, and other stakeholders.

The World Bank’s enabler role is envisioned primarily as one of providing quality analytical work, access to global knowledge, as well as the ability to mobilize global experts, and consistent long-term engagement with the clients. Alignment of local, national, and regional priorities, as well as greater focus on the local context, are existing gaps. GCRI can serve as a valuable resource in informing about the existing local and regional security risks for better design and execution of regional integration projects.

The financier’s function assumes a multisector approach, availability of diverse investment instruments, ability to crowd-in public and private funding, and global engagement with landlocked, small states, and FCV countries. An overall insufficient engagement on regional integration activities of the World Bank, especially in areas with greater need, is considered one of the existing challenges. Again, GCRI can be used as one of the inputs in identifying potential “hot spots” and designing interventions to deepen cross-country integration with the aim of reducing the risk of a conflict.

Finally, in its capacity as convener, the World Bank plans to leverage the comparative advantage of its political neutrality, strengthening the nexus of country priorities and regional agenda to champion processes, supplement financing for regional public goods, and promote longstanding partnerships. Not all client countries in a regional group may

be equally willing or have the same incentives to integrate; and knowledge of best practices in regional integration may not be equally distributed among clients in the group. More knowledge transfer about the benefits of regional integration, and careful design of incentives to entice countries to engage in regional integration activities can have positive effects in strengthening peace and prosperity regionally.

Non-Economic Benefits. GCRI can not only inform the design of a particular regional integration project, given local idiosyncrasies, but also serve as an indicator of its effectiveness in the evaluation stage. A decrease in the risk indices over time may suggest some causal relationship between the regional integration programming and intensity of conflict. Such an approach may demonstrate the non-economic benefits and spillover effects of regional integration, including in the social and security dimensions. In a bid to ensure transparency and scientific integrity, GCRI technical reports include all the information necessary to independently calculate indices for the year(s) needed and allow for tracking and measurement of conflict risk over time.

Notwithstanding the economic benefits that regional integration can provide, it is also important to keep in mind that carefully-designed projects can also have positive spillover effects in the security, social, and even environmental dimensions. The World Bank Group can play an important role in championing such initiatives globally by leveraging its comparative advantages, and as a result, creating both economic and non-economic benefits for all the parties involved.

Global comparison of regional integration levels

Figure 2 shows the resulting ranking of subregions according to the CRI Index (exact numerical values are provided in table B.1). The two subregions with the highest CRI scores are Western Europe (0.78) and East Asia (0.71). After a considerable gap, Southeast Asia (0.50), Northern Europe (0.47), and North America (0.45) follow next. At the lower end of the ranking are Central Asia (0.16), Northern Africa (0.11), and Middle Africa (0.06). The last two subregions feature CRI scores below one third of the average CRI Index across all 19 subregions, which equals 0.34.

Figure B3 depicts results for geographical regions, where the thick squares represent simple averages and the lines indicate ranges of obtained CRI scores across those subregions belonging to the same region (bounded by the minimum and maximum value within each region). In terms of average CRI levels, Europe (0.50) achieves the highest result, Asia (0.36) and the Americas (0.33) are close to the overall sample mean across all subregions (0.34), and Africa (0.21) lags. The gap between Africa and Europe becomes even more apparent when looking at the depicted ranges. While all regions feature considerable heterogeneity in regional integration levels, the most integrated subregion in Africa (Southern Africa) has a lower CRI score than the least integrated

subregion in Europe (Eastern Europe). Asia shows the by far largest range of CRI scores, being the only region that comprises subregions at the very top and bottom ends of the CRI Index.

Overall, the results in figures B2 and B3 appear to support the view that economies in Europe (the Western European economies belonging to the European Union) constitute the highest level of regional integration worldwide (see Freund and Ornelas 2010; Baldwin and Wyplosz 2006). However, though the gap between Europe and other regions may be large in terms of institutional integration (for example, following the definition of Balassa 1961), the findings in figure B2 suggest that in “actual” integration outcomes as measured by the intraregional shares included in the CRI Index, some subregions in Asia are currently achieving outcomes that are comparable to those achieved by European subregions.¹³

Figure B4 shows the resulting rankings of subregions for individual dimensions of regional integration. Disaggregating the results in this way reveals that Western Europe is leading the rankings for trade and financial integration as well as for regional investment and production networks. East Asia performs very well in trade integration, investment and production networks, and movement of people, such that the lower CRI score compared to Western Europe can be mainly attributed to the different performance in financial integration and peace and security.

Middle Africa, Northern Africa, and Central Asia are among the lowest-ranked subregions for almost all five dimensions, suggesting that the low values of the overall CRI Index for these subregions are not driven by any particular dimension. Although the two subregions that comprise mainly island states, the Caribbean and Pacific & Oceania, are ranked among the bottom half for most dimensions, they perform very well in terms of dimension V (peace and security). The opposite holds for Eastern Europe, which achieves relatively high scores for dimensions I to IV, but ranks low for dimension V. As shown in figure B4, there is a large gap in financial integration between the highest-ranked subregion (Western Europe) and all other subregions. One might worry that some of the results are primarily driven by the high value of Western Europe for financial integration. However, as shown in appendix D, the overall ranking of subregions remains almost unchanged when different weighting schemes are applied, suggesting that the results are not driven by only one dimension.

It should be noted that the ranking for dimension IV (movement of people) differs relatively strongly from the rankings for the other dimensions. The low scores for North America and some of the European subregions for dimension IV are likely owing to the high global mobility that people in these subregions enjoy, rather than to constraints on movement within these subregions. For example, small intraregional shares for

migration in richer subregions may be because individual migration decisions in these subregions are not restricted to neighboring countries (that is, within the same subregion), as might be the case for many people in poorer and less developed subregions.

Figure B2. Composite Regional Integration Index, Comparison by Subregions

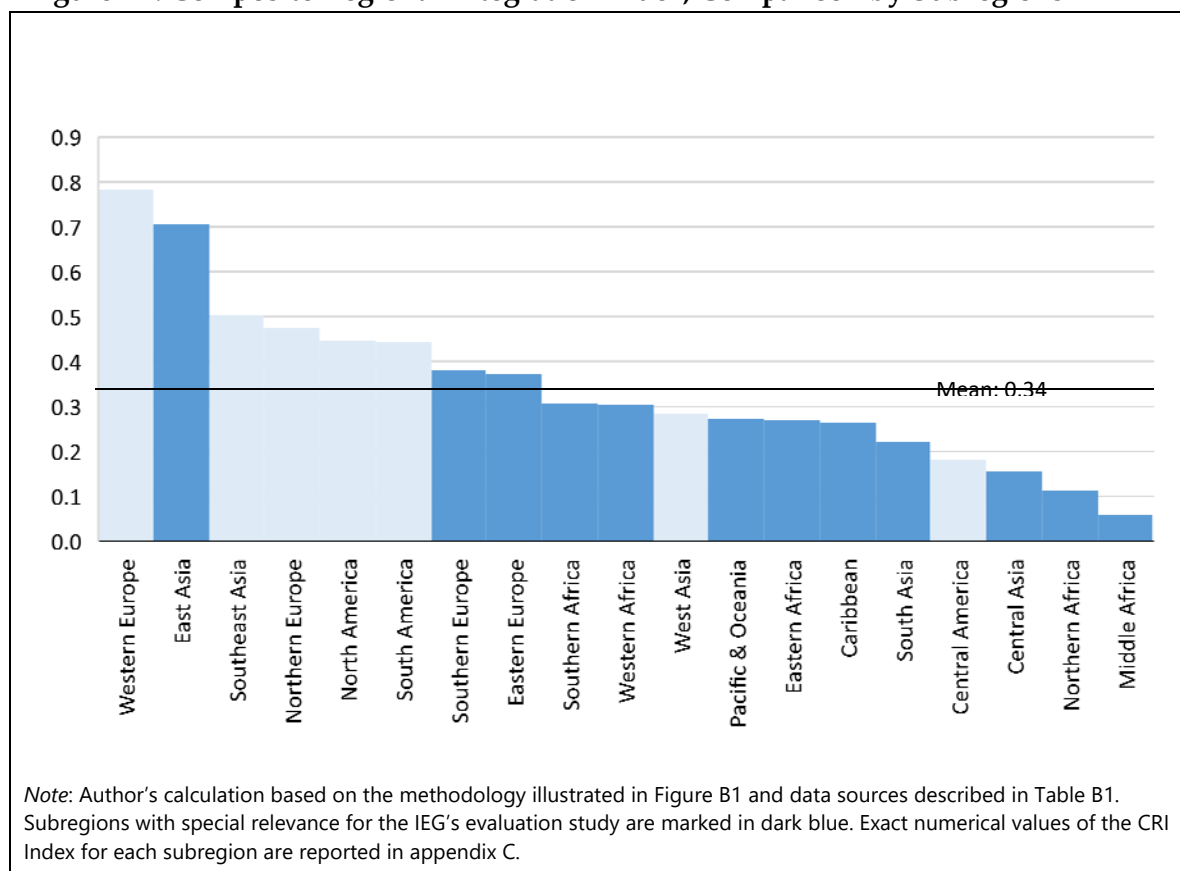
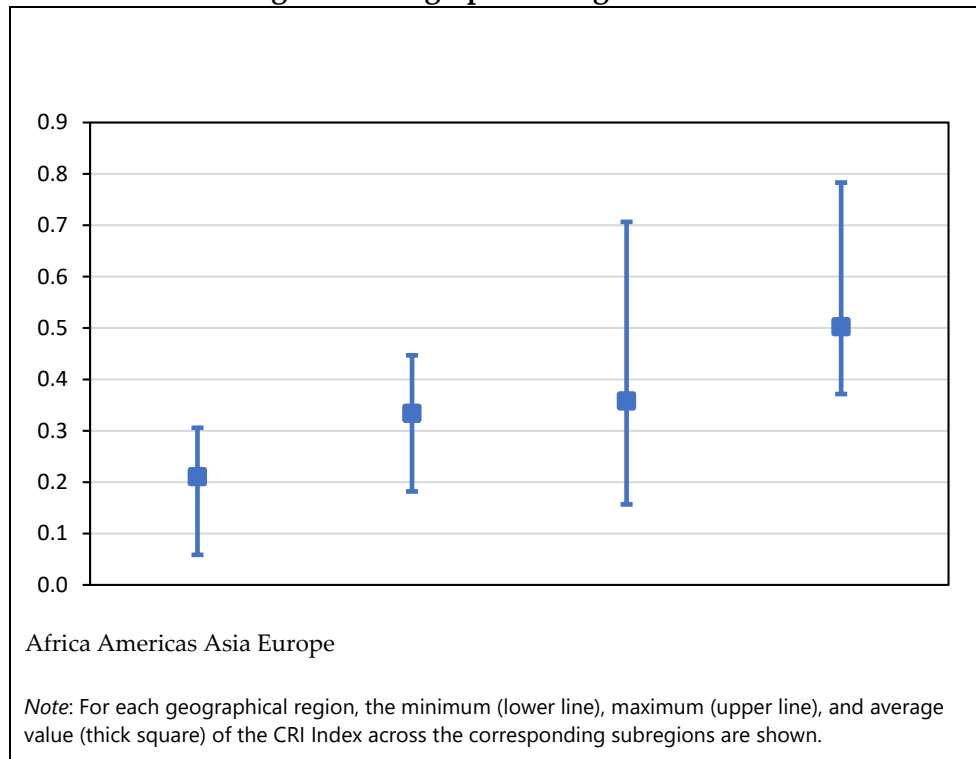


Figure B3. CRI Index: Ranges for Geographical Regions



Estimation of untapped regional integration potential

We now turn to an empirical analysis that uses the CRI Index in combination with additional data in a so-called data envelopment analysis, to assess the degree of untapped regional integration potential in each of the 19 subregions. Following the approach outlined in Naeher (2015), this is accomplished by first estimating regional integration potential for given levels of enabling factors, and then calculating the extent to which this potential is currently being reached by individual subregions. The analysis thus goes beyond the simple comparison of absolute levels of regional integration and provides an additional perspective on the status of integration in the considered subregions. The results are obtained along the following lines.

First, we calculate an empirical production possibility frontier for regional integration outcomes. The frontier specifies the potential level of regional integration (measured by the CRI Index) as a function of intermediate factors needed to foster regional integration (that is, the “enabling environment”). We then use the estimated frontier to rate the performance of subregions in achieving integration relative to their empirical potential. This allows identification of those subregions that, relative to other subregions facing a similar enabling environment, are currently achieving relatively high levels of integration, and those subregions that are apparently falling short of their potential.

The results obtained from this analysis complement the earlier insights because a simple comparison of achieved levels of regional integration as performed above may not do full justice to the individual conditions faced by each subregion. In the following, we first explain the general intuition and underlying assumptions of data envelopment analysis, then describe how the 'enabling environment' for regional integration is measured, and finally present the results.

Figure B.4. CRI Index Disaggregated by Dimension

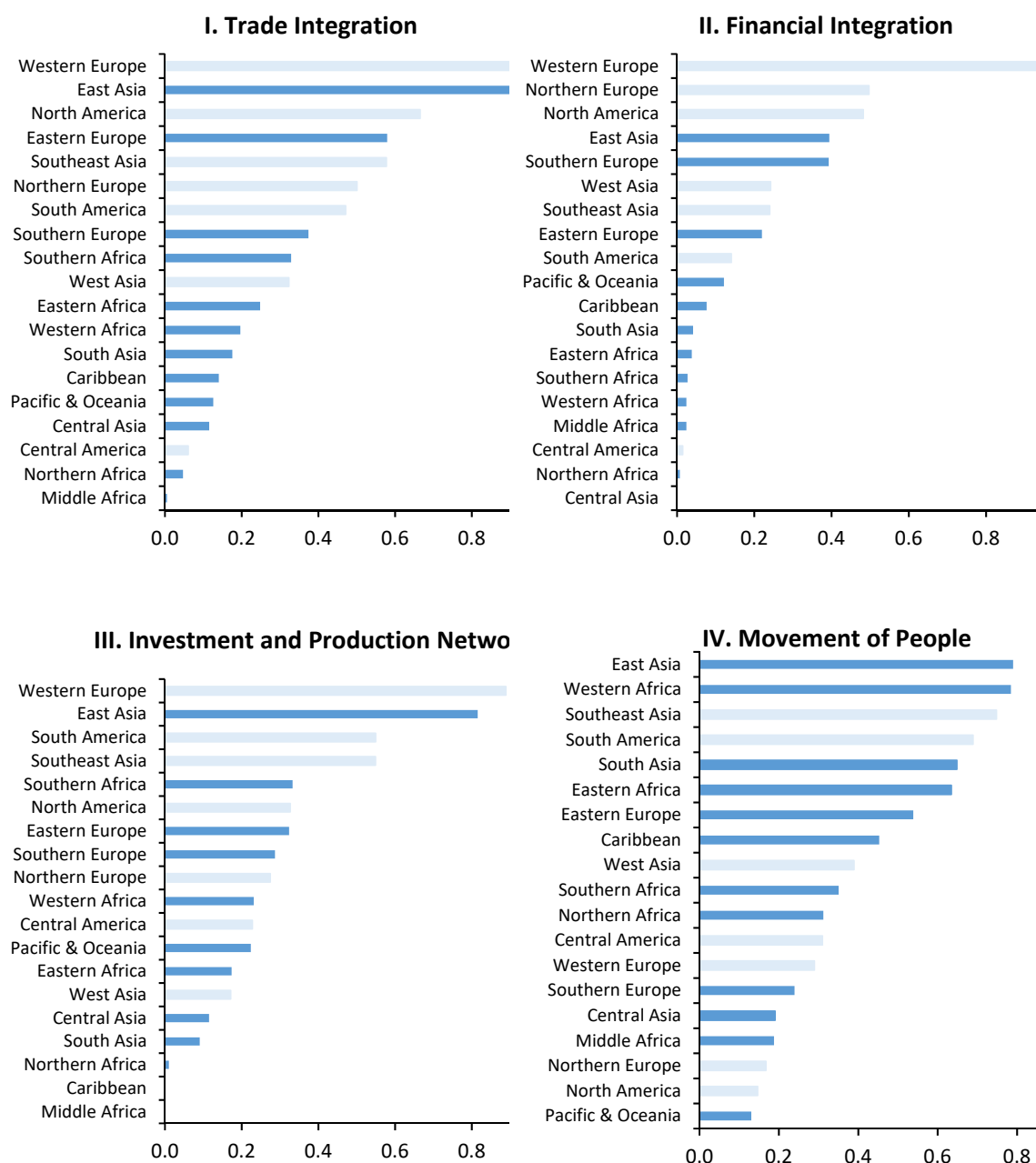
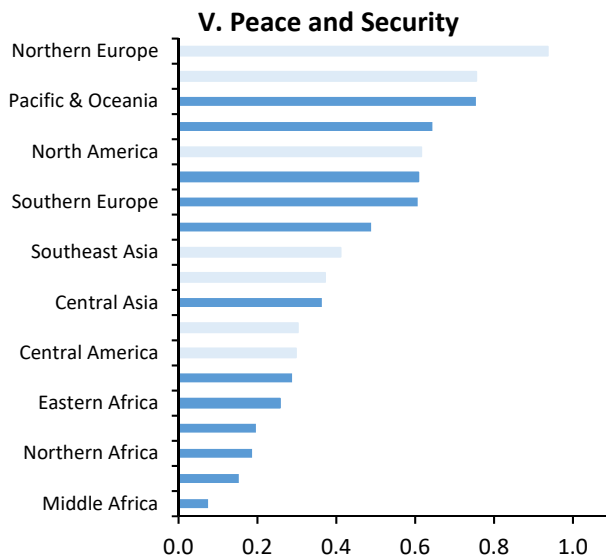


Figure B.4. CRI Index Disaggregated by Dimension (continued)



Note: Subregions with special relevance for the IEG's evaluation study are marked in dark blue.

Data envelopment analysis

Data envelopment analysis (DEA) is a nonparametric method for estimating production possibility frontiers that can be used to measure relative efficiency rates across sets of comparable units of observation.¹⁴ In its simplest form, DEA assumes the existence of a convex production possibility set and estimates the frontier as the maximal attainable level of output for a given input level. Efficiency of an observed input–output combination is measured as the distance to the estimated frontier. For example, a unit is considered relatively inefficient if another unit uses less or an equal amount of inputs to generate a greater amount of output. The obtained efficiency scores are normalized to range between 0 and 1, where units located on the frontier are assigned the maximum value of 1.

In the context of regional integration, the key assumption underlying DEA is that subregions that feature similar levels of enabling factors for integration (such as quality of cross-border infrastructure or institutional arrangements that facilitate trade and multinational private sector activities) should in principle be able to achieve similar levels of regional integration outcomes. Estimated efficiency scores below 1 can thus be interpreted as untapped potential in regional integration. In the analysis, untapped regional integration potential is therefore defined as the distance between the currently

achieved level of regional integration (measured by the CRI Index) and the theoretically possible level (corresponding to the estimated frontier).

It is important to note that the obtained estimates are based on currently available resources and conditions, not on potential future developments. The analysis does not seek to forecast integration outcomes under possible scenarios of changes in political or economic conditions. Instead, the analysis compares levels of integration outcomes across different subregions and identifies those subregions that, relative to other subregions with a similar enabling environment, are currently achieving lower levels of integration than they should potentially be able to. Furthermore, it should be noted that the obtained estimates relate only to the dimensions of regional integration captured by the CRI Index and do not provide direct implications for potential welfare or growth effects.¹⁵

Enabling environment

In estimating untapped regional integration potential, DEA treats the CRI Index as an output variable and sets it in relation to empirical measures of the enabling environment (DEA input variables). In the context of this study, the enabling environment consists of factors that facilitate higher levels of ultimate regional integration outcomes as captured by the CRI Index. Though many potential factors may affect regional integration outcomes, including geographical features (such as distance and natural characteristics) and cultural background (such as common language), we focus on factors that are more directly in control of governments and international policy makers. The analysis considers factors related to trade openness, cross-border infrastructure, and business regulation environment. These are chosen because they represent key enabling factors behind the three processes that are often seen as driving regional integration.¹⁶

Market-led processes. According to many studies, part of regional integration arises naturally because of economic forces in that the benefits of agglomeration (economies of scope, scale, and speed) outweigh the costs of agglomeration, such as congestion (McKay et al. 2005; Marinov 2015). Such market-led processes are often driven by reductions of barriers to trade and investment, as well as by the development of regional transportation and communication infrastructure (Francois and Manchin 2013). To account for market-led processes in the analysis, we include regional average scores of the World Bank's Logistic Performance Index (LPI) as one of the proxies for the enabling environment. The LPI captures a wide range of relevant aspects in this context, including the quality of trade- and transport-related infrastructure, efficiency of customs clearance processes, and various other export- and import-related conditions such as ease of arranging shipments, quality of logistics services, and ability to track consignments.

Institution-led processes. Another driving force of regional integration derives from institutional arrangements, such as regional trade agreements, customs unions, and bilateral free trade agreements between economies within the same region. To account for institution-led processes in the analysis, we include a measure of intraregional free trade agreement coverage, which is calculated as the percentage of country pairs within each subregion that have signed free trade agreements. The data comes from the Design of Trade Agreements Database (Dür et al. 2014), which provides information for about 730 preferential trade agreements, of various types that liberalize trade, including bilateral, regional, and inter-regional agreements (we include only those agreements that are listed by the World Trade Organization (WTO)).

Private sector-led processes. According to many studies, a third driving force behind regional integration is private sector-led initiatives, such as the establishment of regional production networks through multinational corporations and development of subregional economic zones (Peng 2002; Yoshimatsu 2002). To account for private sector-led processes in the analysis, we include subregional average scores of the World Bank's Doing Business Index as a third proxy for the enabling environment. The Doing Business Index scores capture various important factors in this context, including business entry regulations, financing constraints, and taxation issues. To facilitate the computation of DEA, the three identified variables capturing enabling factors for regional integration are combined into a single measure (the "DEA input index"). This is done by applying the same aggregation methods as used in the construction of the CRI Index, i.e., normalization via min-max rescaling and aggregation based on equal weights (the obtained values for each sub-indicator are reported in table B.1). Overall, the DEA input index should be thought of as a proxy composite measure of the broader enabling environment for regional integration faced by individual subregions.

Empirical results

The obtained values of the DEA input index for each subregion are listed in Table 2. According to the results, the subregions with the strongest enabling environments for regional integration are North America (0.97), Western Europe (0.95), and Northern Europe (0.92). The subregions with the weakest enabling environments are Eastern Africa (0.37), the Caribbean (0.34), and Middle Africa (0.18). Looking at simple averages across geographical regions, Europe (0.76) obtains the highest score, while the Americas (0.57) and Asia (0.48) are ahead of Africa (0.42).

Figure B5 plots the CRI Index over the DEA input index and shows the resulting production possibility frontier for regional integration (dotted line). For the considered sample of 19 subregions, the frontier turns out to be defined by four subregions. At the lower end of the enabling environment, the frontier is defined by Middle Africa, mainly

because there are no other subregions with similarly small values of the DEA input index. In the middle of the sample, the frontier is defined by Southeast Asia and East Asia, both of which outperform many other subregions with similar levels of the DEA input index. At the upper end, the frontier is defined by Western Europe, which achieves a much higher CRI score than the two subregions with similar enabling environments, North America and Northern Europe.

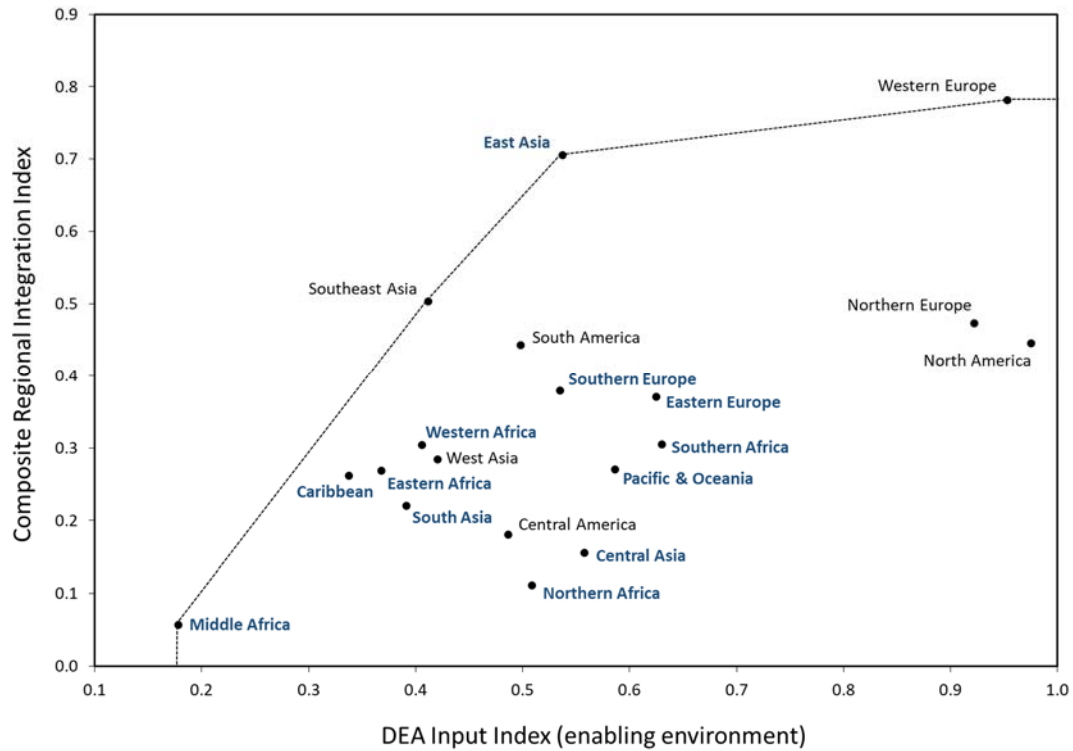
Table B2 presents the resulting estimates for untapped regional integration potential (DEA scores), along with each subregions rank. Larger ranks correspond to smaller scores and indicate higher potential for increasing regional integration levels based on current conditions (an estimated score of one indicates the subregion is located on the frontier).¹⁷ Most of the subregions achieve scores between 0.4 and 0.7, suggesting that these subregions are currently achieving around 40 percent to 70 percent of their potential integration levels.¹⁸ South America and the Caribbean obtain scores larger than 0.65, which suggests that these subregions are performing considerably well, given their enabling environments. The three subregions with the largest untapped integration potential are Central America, Central Asia, and Northern Africa, which, according to the estimates, are currently achieving only less than one-third of their potential integration levels.

According to the average scores reported at the bottom of table B2, all geographical regions include subregions with considerable untapped integration potential. On average, the subregions in Europe achieve around 67 percent of their integration potential (with Eastern and Southern Europe featuring the lowest DEA scores). In Asia, average untapped integration potential is around 40 percent (with the lowest score obtained by Central Asia). The subregions of the Americas and Africa are found to achieve 57 percent of their integration potential on average (with the lowest scores for Central America and Northern Africa, respectively). Globally, average regional integration levels across all subregions are found to be at 60 percent of the estimated potential.

It should be noted that the quantitative results should be interpreted with caution, because data availability and quality for the used indicators are limited. Still, the obtained rankings along the CRI Index and for individual dimensions of regional integration appear to be plausible in comparison to the findings of other studies in this context. In addition, this analysis shows that the obtained results are generally robust to moderate changes in the aggregation methods underlying the construction of the CRI Index. Although the analysis itself focuses exclusively on economic integration and conflict reduction, the findings may also be used as a basis for discussions on further advances in regional integration at the institutional level, or as a starting point for

investigations into the deeper reasons behind each subregion's performance (both of which go beyond the scope of this study).

Figure B5. Regional Integration Frontier



Notes: The dotted line represents the production possibility frontier for regional integration as measured by the CRI Index. Subregions with special relevance for the IEG's evaluation study are marked in bold dark blue. Exact numerical values of the CRI Index and the DEA Input Index for each subregion are reported in Figure B.4 and Table B2.

Table B2: Data Envelopment Analysis Estimates of Untapped Integration Potential

Subregions	DEA Input Index	Score	Rank
Western Africa	0.405	0.62	5
Northern Africa	0.508	0.17	16
Eastern Africa	0.367	0.64	4
Middle Africa	0.177	1.00	1
Southern Africa	0.629	0.42	12
North America	0.974	0.57	7

Table B2: Data Envelopment Analysis Estimates of Untapped Integration Potential

Subregions	DEA Input Index	Score	Rank
Central America	0.486	0.29	14
Caribbean	0.337	0.72	2
South America	0.497	0.69	3
West Asia	0.420	0.55	8
Central Asia	0.557	0.22	15
East Asia	0.536	1.00	1
South Asia	0.390	0.48	11
Southeast Asia	0.411	1.00	1
Pacific & Oceania	0.586	0.38	13
Western Europe	0.952	1.00	1
Northern Europe	0.921	0.61	6
Eastern Europe	0.624	0.51	10
Southern Europe	0.534	0.54	9
<i>Regional Averages:</i>			
Africa	0.42	0.57	
Americas	0.57	0.57	
Asia	0.48	0.60	
Europe	0.76	0.67	
Global Average	0.54	0.60	

Notes: The last two columns report DEA scores and corresponding ranks based on output oriented analysis under variable returns to scale (VRS), estimated via DEAP 2.1 (Coelli 1996; Coelli et al. 2005). Input variable: DEA Input Index; output variable: CRI Index (see table B.1).

Summary and conclusion

This section addresses several important questions in the context of evaluating the Bank Group's support for regional cooperation and integration: (i) how integrated are specific subregions compared to other subregions in the world when looking at multiple key dimensions of regional integration; (ii) what are the levels of available resources and prevailing conditions in each subregion that are needed to achieve higher regional

integration outcomes (that is, how weak or strong is the enabling environment for regional integration in different subregions); (iii) how well are individual subregions doing relative to other subregions facing similar conditions; and (iv) how large is the untapped integration potential for each subregion based on its current enabling environment.

To address these questions, we first construct a composite index of regional integration that allows quantification and comparison of regional integration outcomes along five key dimensions: trade integration, financial integration, regional investment and production networks, movement of people, and peace and security. The obtained values of the CRI Index cover 19 subregions across all geographical regions of the world. In a second step, we follow the approach developed in Naeher (2015) and set the CRI Index in relation to a proxy measure of the enabling environment for regional integration, making use of a non-parametric frontier estimation method (DEA) to estimate the magnitude of untapped integration potential for each subregion. Overall, the study gives rise to the following findings and implications.

Western Europe features the highest level of regional integration along the considered dimensions of the CRI Index, and some subregions in Asia (especially East Asia) follow closely behind. This holds particularly for levels of economic integration (such as trade and regional investment and production networks): several subregions in Asia achieve outcomes comparable to those achieved by European subregions. The subregions with currently the lowest levels of integration are Middle and Northern Africa, Central Asia, and Central America. These subregions are ranked low across almost all the five dimensions covered by the CRI Index, suggesting that they may face systematic barriers to higher integration rather than difficulties in just a single area.

Other subregions perform relatively well in overall integration levels but seem to struggle with issues in one area. Taking these issues into account may be critical for the success of programs aimed at fostering stronger cooperation and integration. This may be particularly relevant for subregions facing challenges related to peace and security, because challenges in this domain are likely to also affect the outcomes in other areas of integration. According to the disaggregated results for each dimension, this applies to South Asia and Eastern Europe, as well as to all African subregions except Southern Africa. In East Asia, which achieves very high levels of economic integration, special attention should be paid to peace and security as well as to financial integration.

According to this evaluation's measure of the enabling environment, subregions that currently feature relatively poor conditions for regional integration include Western, Eastern, and Middle Africa, as well as South Asia and the Caribbean. In these subregions, programs aimed at facilitating higher regional integration should aim

primarily at improving the conditions needed to foster higher regional integration levels, such as trade openness, cross-border infrastructure, and business regulations. Southeast Asia appears to be a benchmark and potential role model for these subregions, as, despite featuring a similarly low enabling environment, Southeast Asia is achieving considerably higher levels of ultimate regional integration outcomes according to the CRI Index.

In case strategic priorities are to be given to specific subregions, our estimates of untapped integration potential suggest that these should not be restricted to a single geographical region. Rather, we find that subregions with large untapped integration potential are spread across all geographical regions of the world. Those which currently achieve only up to half of their estimated potential include Northern and Southern Africa, Central America, Central and South Asia, and Eastern Europe. Globally, average regional integration levels across all subregions are found to be at 60 percent of the estimated potential.

List of included economies and subregional groupings

The sample consists of 193 economies, grouped into the following geographical regions and subregions (number of economies in parentheses) as classified by the UN (2017):¹⁹

Europe (39):

Eastern Europe (10): Belarus, Bulgaria, Czechia, Hungary, Moldova, Poland, Romania, Russia, Slovakia, Ukraine

Northern Europe (10): Denmark, Estonia, Finland, Iceland, Ireland, Latvia, Lithuania, Norway, Sweden, United Kingdom

Southeastern Europe (12): Albania, Bosnia and Herzegovina, Croatia, Greece, Italy, North Macedonia, Malta, Montenegro, Portugal, Serbia, Slovenia, Spain

Western Europe (7): Austria, Belgium, France, Germany, Luxembourg, Netherlands, Switzerland

Americas (37):

Caribbean (15): Antigua and Barbuda, Aruba, Bahamas, Barbados, Cuba, Dominica, Dominican Republic, Grenada, Haiti, Jamaica, Puerto Rico, Saint Lucia, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Trinidad and Tobago

Central America (8): Belize, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama

North America (2): Canada, United States

South America (12): Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Uruguay, Venezuela

Asia (65):

Central Asia (6): Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan

East Asia (8): China, Hong Kong SAR, China, Macau SAR, China, DPR Korea, Japan, Mongolia, South Korea, Taiwan, China

South Asia (9): Afghanistan, Bangladesh, Bhutan, India, Iran, Maldives, Nepal, Pakistan, Sri Lanka

Pacific and Oceania (15): Australia, Cook Islands, Fiji, Kiribati, Marshall Islands, Micronesia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu

Southeast Asia (11): Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Timor-Leste, Vietnam

West Asia (16): Armenia, Bahrain, Cyprus, Georgia, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, Turkey, United Arab Emirates, Yemen

Africa (52):

Eastern Africa (17): Burundi, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Mauritius, Malawi, Mozambique, Rwanda, Seychelles, Somalia, South Sudan, Tanzania, Uganda, Zambia, Zimbabwe

Middle Africa (8): Angola, Cameroon, Central African Republic, Chad, Dem. Rep. of the Congo, Congo, Equatorial Guinea, Gabon

Northern Africa (6): Algeria, Egypt, Libya, Morocco, Sudan, Tunisia

Southern Africa (5): Botswana, Lesotho, Namibia, South Africa, Eswatini

Western Africa (16): Benin, Burkina Faso, Cabo Verde, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo

Handling of missing data

The analysis is affected by two types of data unavailability: missing values for individual economy-pair observations and complete absence of some economies in the original datasets. To address the first issue, we augment the data with information from

the previous year (that is, we impute missing with the corresponding value from the previous year if available) for those variables that are most affected (those for I.b, II.a, II.b, and III.a). Besides this procedure, no additional imputations for single missing values are performed.

Regarding absent economies, none of the included variables provide information on all 193 economies included in the analysis. However, in most cases coverage is well above 95 percent. The only variables that cover less than 95 percent of economies are those for indicators II.a, II.b, III.a, V.a and V.b of the CRI Index (foreign direct investment (FDI) positions and the two indicators for financial integration and peace and security, respectively), as well as the Logistics Performance Index, which is used as input variable in the DEA. For indicator III.a, data on bilateral FDI positions from the IMF's Coordinated Direct Investment Survey (CDIS) are only available for 115 economies (about 60 percent). To increase coverage, we use data from UNCTAD's Bilateral FDI Statistics 2014 to add information for those countries missing in the CDIS. This leads to a total of 192 economies represented in the respective indicator for FDI. Similarly, we use data from the UN's Commodity Trade Statistics Database (COMTRADE) to impute the intraregional share of intermediate goods exports (III.b) for Southern Africa, the only subregion that is not sufficiently covered in the WITS dataset.

For indicators II.a and II.b, data are only available for 75 and 76 economies, respectively (around 40 percent). Coverage is particularly low for the Caribbean, Pacific & Oceania, and the subregions in Africa, where in some cases data are only available for a single economy within a subregion. For Western and Middle Africa, no data at all are available. As we were unable to identify an alternative data source, we impute the missing values for these two subregions by using the respective mean values across the other three African subregions. While this approach certainly provides only a very rough approximation, we believe it likely helps to reduce the potential bias that might otherwise occur if the CRI Index was computed without the dimension of financial integration for these two regions. When we compute the CRI Index without the financial integration dimension at all, the resulting ranks of the two affected subregions change only marginally. This suggests that the imputed values are not driving the overall results for these regions. For the two indicators of dimension V., data are only available for 136 economies (70 percent), because most of the European economies are not included in the Global Conflict Risk Index. For the Logistics Performance Index, data are available for 165 economies (85 percent). Because all the subregions are covered, we abstain from additional imputations for these three indicators and simply compute the respective values based on the subsets of economies available for each subregion

¹ The recent wave of policy-oriented studies on composite measures of regional integration is evidence of this (for example, De Lombaerde et al., 2008; African Union Commission, African Development Bank, and UNECA 2016; ADB 2017; Claveria and Park 2018).

² The term ‘subregion’ refers to a set of (typically bordering) economies located in the same geographical region (see Appendix A for classifications). To simplify notation, we use the term ‘regional integration’ even when talking about subregions.

³ Data envelopment analysis is a nonparametric method for estimating production possibility frontiers (details are provided in Section III). For a more elaborated introduction to DEA, see Coelli et al., (2005).

⁴ Other composite indices pool these two sets of outcomes together, e.g., the Africa Regional Integration Index (African Union Commission, African Development Bank, and UNECA 2016) and the Asia-Pacific Regional Integration Index (Huh and Park 2018).

⁵ The only exception is dimension V. (peace and security), for which no bilateral data could be identified. Other possible measures of regional integration outcomes include intraregional correlation coefficients and intensity indices.

⁶ The same method is used in the construction of other well-known composite indices, such as the Africa Regional Integration Index, Doing Business Index, and the United Nation’s Human Development Index.

⁷ This includes popular indices such as the Human Development Index and the Africa Regional Integration Index, as well as indices constructed with the sole purpose of using them in data envelopment analysis (e.g., Afonso et al. 2005; Herrera and Pang 2005). In Afonso et al. (2005), the use of an equal weighting scheme is justified by stating that this weighting “is quite straightforward and economically intuitive (even though it is still somewhat ad hoc). It avoids the problem of lack of economic justification of a more complex statistical approach.”

⁸ These categories are broadly in line with other studies on regional economic integration, such as African Union Commission, African Development Bank, and UNECA (2016), Huh and Park (2018), and Naeher (2015).

⁹ The only exception is Azerbaijan, which we include in Central Asia to be more in line with World Bank classifications.

¹⁰ The content of this subsection was provided by Armen Sahakyan.

¹¹ Based on available WDI data for 22 fragile countries from the OECD list. The difference was statistically significant at the 0.05 level.

¹² Cross-country evidence does not support this assertion; however, the opportunity cost effect can also apply to neighboring countries.

¹³ Balassa (1961) defines five stages of regional integration: free trade area, customs union, common market, economic and monetary union, and full political union.

¹⁴ DEA has been applied to a wide range of fields, including efficiency of expenditures on health and education (Clements 2002; Herrera and Pang 2005), agricultural efficiency (Latruffe et al.

2004), and overall public-sector efficiency (Afonso et al. 2005, 2013; Gupta and Verhoeven 2001). In Naeher (2015), DEA is used in the context of regional economic integration in Asia.

¹⁵ Implications of economic integration in this direction are discussed elsewhere (e.g., Baldwin and Venables 1995; Sapir 2011).

¹⁶ In addition, some of the included indicators for cross-border infrastructure may also (partially) capture geographic conditions, for example, by representing de-facto distances between economies in terms of the time and cost for transportation.

¹⁷ Note that the obtained results should be interpreted as lower bounds, since for subregions located on the frontier untapped potential is assumed to be zero by definition, even though there may still be scope for further enhancement in these subregions (there are simply no other subregions in the sample that can serve as benchmarks).

¹⁸ Note that the reported estimates are based exclusively on currently available resources and prevailing conditions, and thus do not allow for interpretations of how close subregions are to their general integration potential if economic or political conditions improve in the future.

¹⁹ The only exception is Azerbaijan, which we include in Central Asia to be more in line with World Bank classifications.

Table B.3. Regional Integration and Enabling Environment: Disaggregated by Dimensions

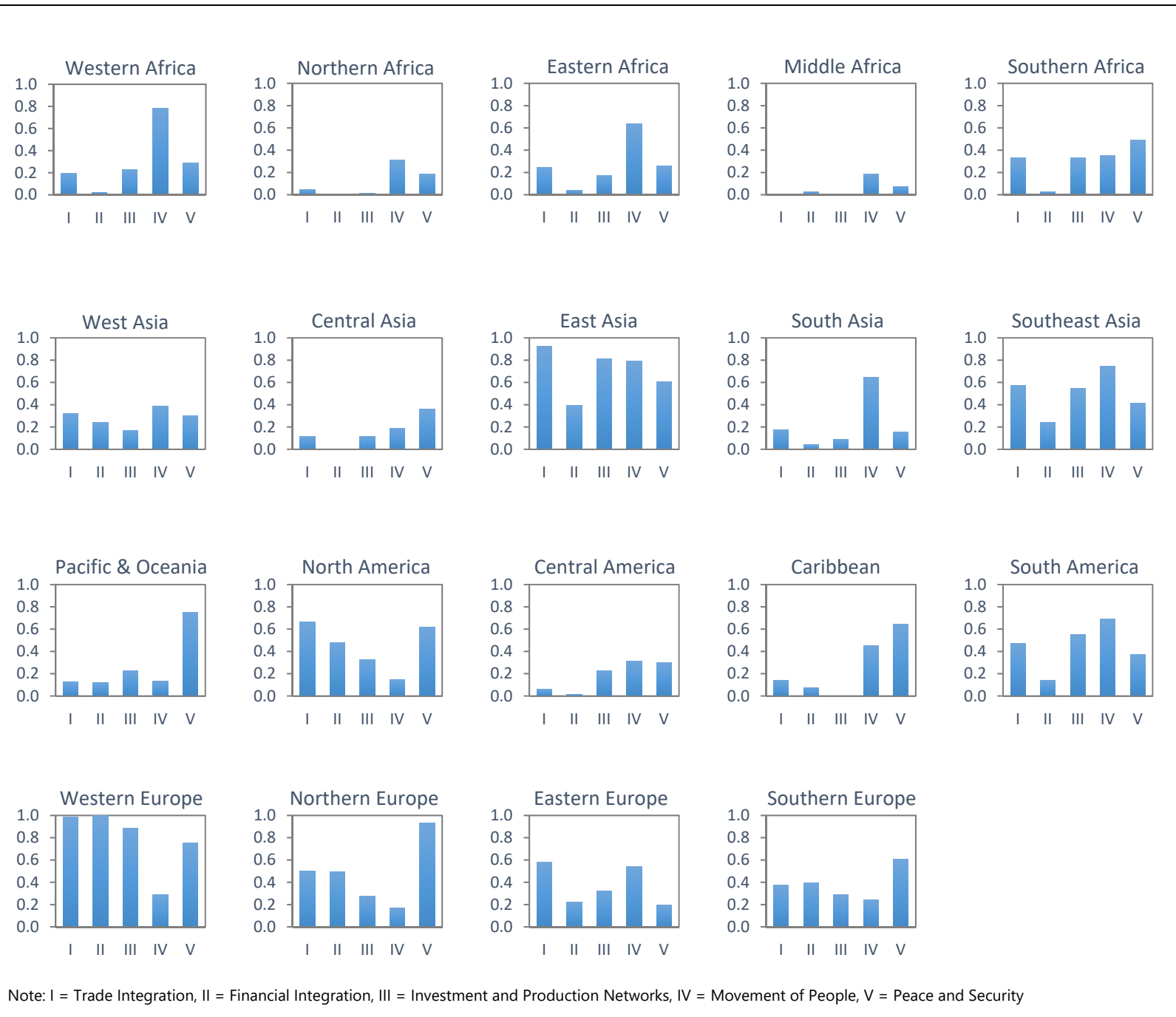
Subregions	Ultimate Regional Integration Outcomes						Enabling Environment			
	<i>CRI Index</i>	Trade Integration	Financial Integration	Investment and Production Networks	Movement of People	Peace and Security	<i>DEA Input Index</i>	Trade Openness	Cross-border Infrastructure	Business Regulation Environment
	(1)	(2)	(3)	(4)	(5)		(6)	(7)	(8)	(9)
Western Africa	0.31	0.20	0.02	0.23	0.78	0.29	0.41	0.88	0.10	0.23
Northern Africa	0.11	0.05	0.01	0.01	0.31	0.19	0.51	1.00	0.23	0.29
Eastern Africa	0.27	0.25	0.04	0.17	0.63	0.26	0.37	0.68	0.17	0.25
Middle Africa	0.06	0.01	0.02	0.00	0.19	0.08	0.18	0.53	0.00	0.00
Southern Africa	0.31	0.33	0.03	0.33	0.35	0.49	0.63	1.00	0.36	0.53
North America	0.45	0.66	0.48	0.33	0.15	0.62	0.97	1.00	0.92	1.00
Central America	0.18	0.06	0.01	0.23	0.31	0.30	0.49	0.63	0.28	0.55
Caribbean	0.26	0.14	0.08	0.00	0.45	0.64	0.34	0.50	0.08	0.43
South America	0.44	0.47	0.14	0.55	0.69	0.37	0.50	0.78	0.29	0.42
West Asia	0.29	0.32	0.24	0.17	0.39	0.30	0.42	0.35	0.37	0.53
Central Asia	0.16	0.12	0.00	0.12	0.19	0.36	0.56	1.00	0.06	0.61
East Asia	0.71	0.93	0.39	0.82	0.79	0.61	0.54	0.00	0.73	0.87
South Asia	0.22	0.18	0.04	0.09	0.65	0.15	0.39	0.64	0.22	0.32
Southeast Asia	0.50	0.58	0.24	0.55	0.75	0.41	0.41	0.30	0.41	0.53
Pacific & Oceania	0.27	0.13	0.12	0.22	0.13	0.75	0.59	0.88	0.35	0.52
Western Europe	0.78	0.98	1.00	0.89	0.29	0.75	0.95	1.00	1.00	0.86
Northern Europe	0.47	0.50	0.50	0.27	0.17	0.94	0.92	0.97	0.80	1.00
Eastern Europe	0.37	0.58	0.22	0.32	0.54	0.20	0.62	0.65	0.41	0.81
Southern Europe	0.38	0.37	0.39	0.29	0.24	0.61	0.53	0.40	0.42	0.78
<i>Regional Averages:</i>										
Africa	0.21	0.17	0.02	0.15	0.45	0.26	0.42	0.82	0.17	0.26

Appendix B
Frontier Analysis

Americas	0.33	0.33	0.18	0.28	0.40	0.48	0.57	0.73	0.40	0.60
Asia	0.36	0.37	0.17	0.33	0.48	0.43	0.48	0.53	0.36	0.56
Europe	0.50	0.61	0.53	0.44	0.31	0.62	0.76	0.76	0.66	0.86
Global Average	0.34	0.36	0.21	0.29	0.42	0.44	0.54	0.69	0.38	0.55

Notes: Values above 0.75 are marked in bold. CRI=composite regional integration, DEA=data envelopment analysis.

Figure B.6. Global CRI Index: Dimensions, by Subregion



Robustness checks

As described above, the construction of the CRI Index involves a number of decisions about the applied aggregation methodology, which may affect the obtained results in

Section II and Section III. To assess the robustness of the CRI Index to different specifications, this section explores the resulting values and rankings of the CRI Index for different weighting schemes, including principal component analysis (PCA).

In table B3, four different weighting schemes are applied, each scheme assigning double weight to one dimension. For example, in the column for dimension I., the indicator for trade integration is assigned a weight of 2/6, while the indicators for the remaining four dimensions are each assigned a weight of 1/6. The two columns thereafter report the resulting values and ranking when the CRI index is constructed based on principal component analysis (the corresponding eigenvalues and scoring coefficients are reported in Table B5).

In addition to the standard Pearson correlation coefficient for continuous variables, we also calculate Spearman correlation coefficients which measure the similarity between discrete rankings. The Spearman correlation coefficient equals 1 if both rankings are identical, and values smaller than 1 indicate less agreement (a value of 0 indicates that the rankings are completely independent).

The results in table B3 suggest that the conclusions presented in the main part of this paper are not generally driven by the applied weighting scheme in the construction of the CRI Index. For most subregions, the respective ranks show only very small changes across the considered alternative weighting schemes. Both the Pearson correlation coefficient for continuous values and the Spearman correlation coefficient for the rankings are most of the time very close to one and always significant at the 1 percent significance level. This indicates that the baseline CRI Index is robust against moderate changes in the underlying weighting scheme, which suggests that the results in Section II and Section III are unlikely to be driven by the applied aggregation methodology.

Appendix B
Frontier Analysis

Table B4. Robustness to Different Weighting Schemes and Principal Component Analysis

Subregions	Base-line ^a	Rank	Weights doubled for individual dimensions:										PCA ^b	Rank
			I.	Rank	II.	Rank	III.	Rank	IV.	Rank	V.	Rank		
Western Africa	0.31	10	0.29	11	0.26	11	0.29	10	0.39	8	0.30	12	-1.03	13
Northern Africa	0.11	18	0.10	18	0.10	18	0.10	18	0.15	18	0.12	18	-2.03	18
Eastern Africa	0.27	13	0.27	12	0.23	14	0.25	13	0.33	10	0.27	14	-1.09	14
Middle Africa	0.06	19	0.05	19	0.05	19	0.05	19	0.08	19	0.06	19	-2.30	19
Southern Africa	0.31	9	0.31	9	0.26	10	0.31	9	0.31	11	0.34	10	-0.28	10
North America	0.45	5	0.48	4	0.45	5	0.43	6	0.40	7	0.47	5	1.48	4
Central America	0.18	16	0.16	16	0.15	16	0.19	16	0.20	16	0.20	16	-1.36	15
Caribbean	0.26	14	0.24	14	0.23	13	0.22	14	0.29	13	0.33	11	-0.94	12
South America	0.44	6	0.45	6	0.39	6	0.46	4	0.48	4	0.43	6	0.51	7
West Asia	0.29	11	0.29	10	0.28	9	0.27	11	0.30	12	0.29	13	-0.49	11
Central Asia	0.16	17	0.15	17	0.13	17	0.15	17	0.16	17	0.19	17	-1.42	16
East Asia	0.71	2	0.74	2	0.65	2	0.72	2	0.72	1	0.69	2	2.86	2
South Asia	0.22	15	0.21	15	0.19	15	0.20	15	0.29	14	0.21	15	-1.57	17
Southeast Asia	0.50	3	0.52	3	0.46	4	0.51	3	0.55	3	0.49	4	0.99	5
Pacific & Oceania	0.27	12	0.25	13	0.25	12	0.26	12	0.25	15	0.35	8	-0.27	9
Western Europe	0.78	1	0.82	1	0.82	1	0.80	1	0.70	2	0.78	1	4.56	1
Northern Europe	0.47	4	0.48	5	0.48	3	0.44	5	0.42	5	0.55	3	1.63	3
Eastern Europe	0.37	8	0.41	7	0.35	8	0.36	8	0.40	6	0.34	9	0.10	8
Southern Europe	0.38	7	0.38	8	0.38	7	0.36	7	0.36	9	0.42	7	0.66	6
Pearson corr.	1.00	-	1.00	-	0.99	-	1.00	-	0.98	-	0.99	-	0.97	-
Spearman corr. ^c	-	1.00	-	0.99	-	0.99	-	0.99	-	0.96	-	0.97	-	0.97

Notes: ^aSimple average, i.e., equal weights assigned to each dimension (as in Table A.1, column 1). ^bPrincipal component analysis.

^cThe Spearman correlation coefficient ranges inside the interval [-1,1] and takes the value 1 if the agreement between two rankings is perfect (i.e. the two rankings are identical), the value 0 if the rankings are completely independent, and the value -1 if one ranking is the reverse of the other.

Table B5. Principal Component Analysis

	I. Trade Integration	II. Financial Integration	III. Investment and Prod. Networks	IV. Movement of People	V. Peace and Security
Eigenvalues	3.042	1.392	0.369	0.138	0.059
Proportion	0.608	0.278	0.074	0.028	0.012
Cumulative Proportion	0.608	0.887	0.961	0.988	1.000
Scoring Coefficients:					
Component 1	0.543	0.528	0.514	0.027	0.402
Component 2	0.193	-0.180	0.283	0.810	-0.440
Component 3	-0.192	-0.380	-0.056	0.416	0.801
Component 4	0.137	0.535	-0.746	0.370	0.043
Component 5	-0.783	0.508	0.310	0.181	-0.019

Appendix C. Benchmarking Analysis

This section describes the strategies and approaches of the Multilateral Development Banks and compares them against that of the Bank Group.

MDBs' Approaches to Regional Integration

Regional Integration as a Corporate Strategy

The Asian Development Bank (ADB) has a corporate-level Regional Cooperation and Integration (RCI) Strategy which was approved in 2006. The Strategy viewed RCI not as an end, but as a means to achieve ADB's overarching objective of poverty reduction in Asia and the Pacific.¹ In 2008, ADB adopted a long-term strategic framework, Strategy 2020. The strategic directions of the RCI Strategy were aligned with ADB's overarching Strategy 2020 at two levels: (i) regional integration is one of the three complementary strategic agendas in Strategy 2020 and (ii) regional cooperation and integration is one of the five core operational areas in Strategy 2020. The Asian Development Bank (ADB) Charter outlines the strategic importance of regional cooperation in the organization's operations, but it was not until 1994 that a formal Regional Cooperation Policy (RCP) was put in place as a matter of corporate strategy.^{2 3} Fifteen years after the adoption of RCP, ADB approved an upgraded and multidimensional Regional Cooperation and Integration Strategy (RCIS).⁴

Regional Integration Policy and Strategy for 2014–23 are anchored in the African Development Bank (AfDB) Group's current 10-year strategy.⁵ Prior to that, AfDB had approved the Economic Cooperation and Regional Integration Policy in 2000, established a department responsible for regional integration in 2006, developed the Regional Integration Strategy (RIS) for 2009–12, and extended it to 2013. The AfDB also has a corporate-level regional integration strategy to support regional integration initiatives. The overall strategic position for regional integration is to “create larger, more attractive markets, link landlocked countries to international markets and support intra-African trade” (AfDB 2013a). Thus, AfDB's strategy is anchored in two mutually reinforcing pillars: supporting regional infrastructure development, and enhancing industrialization and trade. Implementation is to be aided by a cross-cutting pillar: strengthening country and regional mechanisms and institutional capacities.

The Asian Infrastructure and Investment Bank's (AIIB) Articles of Agreement state the importance of regional cooperation.⁶ Currently, one of the three main thematic priorities of the AIIB is cross-country connectivity,⁷ with the bank recently also launching public consultations on a draft Transportation Strategy.⁸ Unlike most other regional multilateral development banks discussed in this section, AIIB has defined regional

integration mainly in terms of cross-country transportation infrastructure development, not prioritizing other components. AIIB's regional integration strategy forms part of its thematic priorities- Cross-country Connectivity.⁹ AIIB was created to help connect Asia by investing in the roads, railways, pipelines, transmission lines, ports, sustainable cities, and low-carbon energy sources it needs to trade and grow. This involves prioritizing cross-border infrastructure: roads and rail, ports, energy pipelines and telecoms across Central Asia, the maritime routes in South East and South Asia, and the Middle East, and beyond. And just as importantly, AIIB also promotes cooperation of governments well beyond physical investments to address policy constraints, harmonize regulations, and facilitate trade¹⁰.

In 2011, the Inter-American Development Bank (IDB) adopted a Sector Strategy to Support Competitive Global and Regional Integration. It intended to "invest simultaneously in the software and hardware of integration to increase competitiveness and create jobs." It targeted 15 percent of lending to promote such integration.¹¹ One of the IDB's five main goals is "promoting regional cooperation and integration."¹² In its latest Update to the Institutional Strategy, IDB identifies "lack of regional economic integration as one of the three main development challenges."¹³

The World Bank Group has undertaken many projects with a regional integration focus, but does not have an explicit corporate-level regional integration strategy. The World Bank does support regional integration activities through Regional Strategy documents.¹⁴ Working with partners such as regional banks and other organizations, Bank Group country programs support regional integration largely through technical assistance, advisory services, and lending.¹⁵

The European Bank for Reconstruction and Development's (EBRD's) 2015 Strategic and Capital Framework declares international and regional integration to be a medium-term priority because it is a powerful force supporting efficient markets and reinforcing reform discipline. It foresees using infrastructure investments and trade finance as vehicles.¹⁶ Although EBRD is not a newcomer to regional integration and connectivity – with over 100 integration project investments and involvement in the development of trans-European networks for transport and energy¹⁷ – it does not itself have an explicit corporate-level strategy devoted to regional integration.¹⁸ Nevertheless, EBRD's Energy and Transport Sector strategies do have strong regional integration and cooperation components.¹⁹

The Islamic Development Bank's (IsDB) Articles of Agreement Preamble makes a reference to the need of for "mutual financial and economic cooperation among the Muslim states in the economic, social, and other fields of activity."²⁰ In 2014, then IsDB president Dr. Ahmad Ali noted in his remarks at the Development Committee meeting

in Washington, DC that “economic cooperation and integration is an overarching objective of IsDB Group since its inception.”²¹

Subregional Programmatic Approach

The nature, scope, and depth of integration vary greatly across the world’s regions.²² Multilateral development banks, too, play different roles in facilitating integration in their geographic areas of focus, varying from serving as an honest broker to financing cross-country infrastructure to creating innovative economic groupings and forums to increase trade and produce regional public goods.

In addition to several projects with a regional scope, ADB has played a key role in institutionalizing three subregional integration vehicles, namely the Greater Mekong Subregions (GMS) in 1992; Central Asia Regional Economic Cooperation Program (CAREC) in 2001; and South Asia Subregional Economic Cooperation (SASEC) in 2001.²³

IDB has launched its Trade and Integration Network, consisting of high-level government officials discussing trade and integration policy in Latin America and the Caribbean.²⁴ The IDB has also actively promoted region’s major integration initiatives, including the Caribbean Growth Forum, Initiative for the Integration of Regional Infrastructure in South America (IIRSA/COSIPLAN), Latin American Integrated Market (MILA), Mesoamerican Integration and Development Project, and others.²⁵ IDB has likewise provided support and collaborated with all established integration bodies in the region, including the Southern Common Market (MERCOSUR), Andean Community (CAN), Caribbean Community (CARICOM), and Central American Integration System (SICA).²⁶

The Bank Group currently has partnerships with over 50 regional organizations collaborating in various sectors, including supporting subregional integration efforts.²⁷ Some homegrown subregional programs include the Sahel and Great Lakes initiatives. To that end, the Bank Group has committed to US\$1.5 billion of investments in the Sahel and US\$ 1.4 billion of new funding for the Great Lakes region, facilitating cross-border trade and other regional integration activities which are highly relevant public goods initiatives.²⁸ So far, the Bank Group has not undertaken subregional or regional diagnostics or multicountry diagnostics to program regional integration issues into its operations.

AfDB has been designated as the lead agency to facilitate the implementation of the New Partnership for Africa’s Development (NEPAD) infrastructure initiatives.²⁹ The Regional Economic Communities (RECs) are considered the building blocks of the NEPAD programs and initiatives. To that end, AfDB has been closely cooperating with various RECs, such as the Arab Maghreb Union (UMA), Common Market for Eastern

and Southern Africa (COMESA), East African Community (EAC), and Economic Community of West African States (ECOWAS).³⁰

In 2014, EBRD launched the flagship biennial Western Balkans Investment Summit, with the goal of promoting the inflow of foreign direct investment and cross-border projects.³¹ The summit effectively marked the beginning of a new format of regional cooperation – today known as the “Western Balkans Six,” at the level of prime ministers.³² The EBRD-lead summits promote regional projects in the transport and energy sectors. They also touch upon “soft connectivity” topics, such as harmonizing legislation, removal of non-tariff barriers, strengthening the business environment in the region, and facilitating foreign investment.³³

AIIB opened its doors in January of 2016 and has not yet launched any substantial subregional integration programming.³⁴ The only approved project with a subregional focus is AIIB’s co-financing of the Trans Anatolian Natural Gas Pipeline (TANAP) together with other multilateral development banks.³⁵

IsDB has prioritized regional infrastructure and trade facilitation in its 2015–24 “10-Year Strategic Framework.”³⁶ Although IsDB was a co-financier of the Trans-Sahelian Highway and other similar projects, it has not formally institutionalized its subregional programming.³⁷

Institutions, Instruments, and Funding Mechanisms

Established in 2007, the ADB’s RCI Financing Partnership Facility (FPF) channels multidonor and single-donor funds for additional funding for a variety of modalities, such as technical assistance. Japan, for example, provides support for the Investment Climate Facilitation Fund.³⁸

As part of IDB’s Integration Strategy, two multidonor funds—Regional Infrastructure Integration Fund (RIIF) and Aid for Trade (AfT)—are being folded into an enhanced regional integration fund that will support initiatives to harmonize regional regulation, build capacity and institutions, and leverage integration software and hardware investments.³⁹

the Bank Group has been at the forefront in fostering donor relations and devising funding instruments for a variety of projects. As an example, the Middle East and North Africa Region’s Africa Multidonor Trust Fund was designed to address various themes, including regional integration.⁴⁰ It supports technical assistance for project preparation, analysis, capacity building, and knowledge sharing. The Bank Group has followed the Multi-Phase Financing Facility approach to develop a new “wholesale” instrument, the

Multi-Phase Programmatic Approach (MPA) that could be relevant for regional integration initiatives.

AfDB has taken on a leadership role in soliciting support from the donor community in undertaking various regional integration projects. As an example, with seed funding from the government of Canada, AfDB established the Africa Trade Fund to support capacity building.⁴¹ The Africa Legal Facility provides capacity building and advisory legal support to regional infrastructure and extractive industry projects. NEPAD - Infrastructure Project Preparation Facility (IPPF) Special Fund has been designed to assist African countries, RECs, and related infrastructure development institutions to prepare high quality, viable regional infrastructure projects that would be ready to solicit financing from public and private sources in support of the objectives of NEPAD.⁴²

EBRD has been actively involved in implementing China's ambitious Belt and Road Initiative (BRI).⁴³ Together with other MDBs, EBRD is working on mobilizing private sector investment for BRI.⁴⁴ With an estimated US\$ 900 billion budget, BRI can be a boon for deeper integration and trade facilitation throughout the region.⁴⁵ As outlined in the Strategic And Capital Framework 2016-2020, the bank is building up its Infrastructure Project Preparation Facility to provide assistance to governments in preparing and structuring cross-border projects.⁴⁶

AIIB has put in place two separate strategies – Financing Operations in Non-Regional Members⁴⁷ and Mobilizing Private Capital for Infrastructure⁴⁸ – that deal with donor management and project financing, which, among other things, envision that AIIB to “be the champion and leading institution to catalyze private capital for infrastructure investment in the region.” It remains to be seen how successfully AIIB implements those strategies and engages donor community at-large.

IsDB has many funds and mechanisms in place for financing important projects, but there seems to be no dedicated facility focused on regional integration.⁴⁹ IsDB President Hajjar's Five-Year Program envisions creating linkages with other MDBs and the donor community at-large, as well as building a sustainable financial model to undertake the bank's mission.⁵⁰ It remains to be seen how this translates specifically into IsDB's regional integration work.

Leadership in Developing Regional Integration Frameworks

There are no globally-standardized set of indicators to assess regional integration activities.⁵¹ Thereby, each of the MDBs are left to their own devices to create the frameworks necessary for the implementation of the various stages of regional integration projects.

ADB assisted in the development of the GMS Regional Investment Framework (2013–22) and CAREC 2020 Strategic Framework. It has also designed a results framework for monitoring and evaluation of the RCI Operational Plan 2016-20, based on an earlier evaluation of the RCIS.⁵²

In June 2016, IDB published its Integration and Trade Sector Framework Document that not only sets out the main challenges and lessons learned about regional integration, but also outlines dimensions of success, their lines of action, and activities.⁵³ Mechanisms were established at all levels to monitor and evaluate integration efforts, including evaluations of best practices, identification of operations contributing to integration, and developing a results framework with a comprehensive set of indicators.⁵⁴

While WBG has developed regional integration assistance strategy for Africa, the latest example of which is the “Strategic Framework for WBG’s Support for Regional Integration in Africa.”⁵⁵ The other five regions and subregions have not been given sufficient coverage in terms of crafting strategies. There is also an analytic framework in place for subregional regional integration assessment⁵⁶ but again focused in Africa region.

As part of its Results Measurement Framework, AfDB has developed a system of indicators for measuring regional integration. It has also developed a framework for transport and trade facilitation and knowledge products for value chain development, application of standards, cross-border mobile banking, international investment flows, and regional financial integration.⁵⁷

AIIB currently only has two approved frameworks for risk management and environmental and social matters. It is hard to tell when specific frameworks dealing with regional integration will be developed.

A review of existing literature and Annual Reports in the recent five-year period suggests that both EBRD and IsDB have not developed any regional integration frameworks.⁵⁸ On balance, there is an opportunity for the World BankGroup to lead the discussion on collectively identified regional integration frameworks from an outcome monitoring perspective.

Business Model Alignment for Regional Integration

ADB RCIS informs the institutional implementation of the RCI agenda, including a clear division of labor within ADB.⁵⁹ The Office of Regional Economic Integration (OREI) – established in 2005 – serves as the focal point for RCI knowledge and information sharing, together with the RCI Community of Practice (CoP).⁶⁰

Since 2010, when integration was designated one of its five institutional priorities, IDB has implemented a series of actions to deliver on this strategic objective. Measures included the articulation of a strategic vision, improvements to the bank's organizational structure and internal coordination mechanisms, and greater emphasis on external partnerships to catalyze resources and knowledge in support of the region's integration efforts.⁶¹ IDB Sectors have oriented their operations more toward integration and provided strategic support to Country Departments.

The World Bank Group has instituted its Africa Regional Integration Department, responsible for working with Bank Group staff, donors, and clients to incorporate regional approaches into country programs and to support regional bodies.⁶² Although such departments are not uniform across the Bank Group's structure, the Africa Regional Integration Department can serve as a blueprint for realigning business models for all future regional integration projects at the Bank Group and beyond. There is an opportunity to revisit the Bank Group's business model to adopt multicountry strategies or subregional or regional approaches in its programming.

AfDB's own 2012 evaluation of its regional integration programming identified shortcomings in the internal business model alignment of responsibilities, accountability, and coordination among the various departments.⁶³ The new strategy, adopted in 2014, envisions AfDB's Regional Integration and Trade Department (ONRI) providing strategic leadership and direction, ensuring that sector and thematic strategies and frameworks are aligned with the RIPOs and that the RIPOs is reflected in the business plans of ONRI and other departments.⁶⁴

EBRD does not have an overarching regional integration strategy or framework; therefore no accountability mechanisms are in place for their implementation.⁶⁵

AIIB has no distinct department responsible for mainstreaming regional integration policies within the organization, because such policies do not exist in the first place. Given the early stage of its operations and focus on cross-country infrastructure development, AIIB does have an opportunity to create a specific policy and department responsible for implementation, which would ensure business model alignment early on and embed regional integration in organizational culture.

A review of IsDB documents suggests that there is no clearly-defined process and structure for regional integration project implementation accountability.⁶⁶

In conclusion, table C1 presents the summative view of regional integration-specific efforts of multilateral development banks vis-à-vis that of the Bank Group:

Table C1: Benchmarking on Multilateral Banks alignment and execution on RI

RI Specifics	ADB	IDB	WBG	AfDB	EBRD	AIIB	IsDB
RI as a Corporate Strategy and/or Key Pillar (Explicit references)	Yes	Yes	No	Yes	No	Yes	Yes
Subregional Programmatic Approach (e.g. CAREC, SASEC)	Yes	Yes	No	Yes	Yes	No	No
Leadership on RI Issues in Development Coordination Council (e.g. Active Donor Management)	Yes	Yes	Yes	Yes	Yes	No	No
Leadership in Developing RI Frameworks	Yes	Yes	No	Yes	No	No	No
Business Model Alignment for RI (Distinct Department/Country Director accountability)	Yes	Yes	No	Yes	No	No	No

Source: IEG.

¹ ADB 2015, Thematic Evaluation Study; Asian Development Bank Support for Regional Cooperation and Integration

² ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

³ ADB. 2015. *Asian Development Bank Support for Regional Cooperation and Integration*. Thematic Evaluation Study. <https://www.adb.org/sites/default/files/evaluation-document/110946/files/adb-support-rci.pdf>

⁴ ADB. 2015. *Asian Development Bank Support for Regional Cooperation and Integration*. Thematic Evaluation Study. <https://www.adb.org/sites/default/files/evaluation-document/110946/files/adb-support-rci.pdf>.

⁵ https://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/Regional_Integration_Strategy_RIPoS_-2014-2023_-Approved_-_Rev_1_-_11_2014.pdf

⁶ https://www.aiib.org/en/about-aiib/basic-documents/_download/articles-of-agreement/basic_document_english-bank_articles_of_agreement.pdf

⁷ <https://www.aiib.org/en/policies-strategies/strategies/index.html#priorities>

⁸ https://www.aiib.org/en/news-events/news/2018/20180510_001.html

⁹ AIIB website; Policies and Strategies

¹⁰ Maurice Ellen 2017, AIIB Official: Regional Integration Creates Much Richer ASEAN

¹¹ IDB. Sector Strategy to Support Competitive Global and Regional Integration (Washington: 2011) <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=35824823>

¹² <https://www.iadb.org/en/about-us/overview>

¹³ <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=39933723>

¹⁴ <http://documents.worldbank.org/curated/en/420961516900319550/pdf/122899-WP-PUBLIC.pdf>

¹⁵ <http://www.worldbank.org/en/topic/regional-integration/overview#2>

¹⁶ EBRD. Strategic and Capital Framework 2016-2020 (London, 2015)

https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&ved=2ahUKEwillJ371L_cAhWDMd8KHYN0CkIQFjABegQIBRAC&url=https%3A%2F%2Fwww.ebrd.com%2Fdocuments%2Fcorporate-strategy%2Fstrategic-and-capital-framework-20162020.pdf&usg=AOvVaw2QEtrK0rwc4_110b_ccCHw

¹⁷ <https://www.ebrd.com/transition/integrated.html>

¹⁸ Review of EBRD's Basic Documents and Corporate Strategies. <https://www.ebrd.com/what-we-do/strategies-and-policies.html>

¹⁹ <https://www.ebrd.com/downloads/policies/sector/energy-sector-strategy.pdf> and <https://www.ebrd.com/downloads/sector/transport/transport-strategy.pdf>

²⁰ https://books.google.com/books?id=C48ne2iBgA8C&pg=PA30&lpg=PA30&dq=islamic+development+bank+articles+of+agreement&source=bl&ots=FeK-ttMlaI&sig=xDT0EN1pv_h0dF8zIdgZb612JZw&hl=en&sa=X&ved=0ahUKEwjp0JXKhOjbAhXRt1MKHbO6CXs4ChDoAQgoMAA#v=onepage&q=islamic%20development%20bank%20articles%20of%20agreement&f=false

²¹ <http://documents.worldbank.org/curated/en/898921468331238497/pdf/913820BR0DC0S000disclosed0100130140.pdf>

²² <http://documents.worldbank.org/curated/en/420961516900319550/pdf/122899-WP-PUBLIC.pdf>

²³ ADB. 2016. Operational Plan for Regional Cooperation and Integration, 2016-220.

<https://www.adb.org/sites/default/files/institutional-document/210686/rci-operational-plan-2016-2020.pdf>

²⁴ <https://www.iadb.org/en/research-and-data/regional-policy-dialogue/trade-integration-network>

²⁵ <https://publications.iadb.org/bitstream/handle/11319/7961/IDB-Support-to-Global-and-Regional-Integration-in-Latin-America-and-the-Caribbean.pdf?sequence=1>

²⁶ <https://publications.iadb.org/bitstream/handle/11319/7961/IDB-Support-to-Global-and-Regional-Integration-in-Latin-America-and-the-Caribbean.pdf?sequence=1>

- ²⁷ <http://documents.worldbank.org/curated/en/700111528428661825/pdf/REGIONAL-INTEGRATION-CAS-AFRICA-05112018.pdf>
- ²⁸ <http://www.worldbank.org/en/region/afr/brief/world-bank-group-sahel-and-great-lakes-initiatives>
- ²⁹ <https://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/nepad/>
- ³⁰ https://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/Regional_Integration_Strategy_RIPoS_-2014-2023_-Approved_-_Rev_1_-_11_2014.pdf
- ³¹ <https://www.ebrd.com/news/events/western-balkans-investment-summit.html>
- ³² <file:///Users/armen/Downloads/western-balkans-summit-paper.pdf>
- ³³ <file:///Users/armen/Downloads/western-balkans-summit-paper.pdf>
- ³⁴ <https://www.aiib.org/en/about-aiib/index.html>
- ³⁵ <https://www.aiib.org/en/projects/approved/2016/trans-anatolian.html>
- ³⁶ <http://www.idb-40.org/assets/2014/7/10/pdf/c9c583f7-c634-4f18-8f18-9d990b020372.pdf>
- ³⁷ <http://www.idb-40.org/assets/2014/7/10/pdf/59af0817-da25-41ed-b562-738d1f5a1493.pdf>
- ³⁸ ADB. 2018. *Regional Cooperation & Integration FPF (RCIFPF)*. Accessed June 18, 2018. <https://www.adb.org/site/funds/funds/regional-cooperation-integration-fpf>.
- ³⁹ <https://publications.iadb.org/bitstream/handle/11319/7961/IDB-Support-to-Global-and-Regional-Integration-in-Latin-America-and-the-Caribbean.pdf?sequence=1>
- ⁴⁰ <http://pubdocs.worldbank.org/en/310191438703885192/MNA-MDTF-Ops-Pcpls-July-2015-post-PCM-version.pdf>
- ⁴¹ https://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/Regional_Integration_Strategy_RIPoS_-2014-2023_-Approved_-_Rev_1_-_11_2014.pdf
- ⁴² <https://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/10000011-EN-NEPAD-IPPF-OPERATIONAL-GUIDELINES.PDF>
- ⁴³ <https://www.ebrd.com/what-we-do/belt-and-road/overview.html>
- ⁴⁴ <https://www.ebrd.com/what-we-do/belt-and-road/ebrd-and-bri.html>
- ⁴⁵ <https://www.ebrd.com/what-we-do/belt-and-road/overview.html>
- ⁴⁶ [file:///Users/armen/Downloads/strategic-and-capital-framework%20\(1\).pdf](file:///Users/armen/Downloads/strategic-and-capital-framework%20(1).pdf)
- ⁴⁷ https://www.aiib.org/en/policies-strategies/_download/financing-operations/Strategy-on-Financing-Operations-in-Non-regional-Members.pdf

- ⁴⁸ https://www.aiib.org/en/policies-strategies/_download/mobilizing_private/Strategy-on-Mobilizing-Private-Capital-for-Infrastructure.pdf
- ⁴⁹ <https://islamicmarkets.com/publications/islamic-development-bank-isdb-organisational-structure>
- ⁵⁰ <https://www.isdb.org/president/5-year-plan>
- ⁵¹ <http://documents.worldbank.org/curated/en/420961516900319550/pdf/122899-WP-PUBLIC.pdf>
- ⁵² ADB. 2018. *Regional Cooperation & Integration FPF (RCIFPF)*. Accessed June 18, 2018. <https://www.adb.org/site/funds/funds/regional-cooperation-integration-fpf>.
- ⁵³ <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=40394209>
- ⁵⁴ <https://publications.iadb.org/bitstream/handle/11319/7961/IDB-Support-to-Global-and-Regional-Integration-in-Latin-America-and-the-Caribbean.pdf?sequence=1>
- ⁵⁵ <http://documents.worldbank.org/curated/en/700111528428661825/pdf/REGIONAL-INTEGRATION-CAS-AFRICA-05112018.pdf>
- ⁵⁶ <http://documents.worldbank.org/curated/en/700111528428661825/pdf/REGIONAL-INTEGRATION-CAS-AFRICA-05112018.pdf>
- ⁵⁷ https://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/Regional_Integration_Strategy_RIPoS_-2014-2023_-Approved_-_Rev_1_-_11_2014.pdf
- ⁵⁸ Literature review of EBRD and IsDB documents
- ⁵⁹ ADB. 2018. *Regional Cooperation & Integration FPF (RCIFPF)*. Accessed June 18, 2018. <https://www.adb.org/site/funds/funds/regional-cooperation-integration-fpf>.
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- ⁶² http://siteresources.worldbank.org/EXTAFRREGINICOO/Resources/RID_fact_sheet.pdf
- ⁶³ https://www.afdb.org/fileadmin/uploads/afdb/Documents/Evaluation-Reports-_Shared-With-OPEV_/CODE%20Mutinational%20Operations%20-%20ENGLISH_web.pdf
- ⁶⁴ https://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/Regional_Integration_Strategy_RIPoS_-2014-2023_-Approved_-_Rev_1_-_11_2014.pdf
- ⁶⁵ Review of EBRD organizational structure
- ⁶⁶ Review of IsDB documents

Appendix D. Political Economy Analysis

Central Asia's Economic Performance

In this section, Central Asia region comprises the following five countries: Kazakhstan, Kyrgyz Republic, Tajikistan, Uzbekistan. It is a diverse region enjoying sustained economic growth (table D1). Kazakhstan and Turkmenistan are upper-middle income countries, while the Kyrgyz Republic, Tajikistan, and Uzbekistan have the lower-middle income status. Oil-rich Kazakhstan's GDP per-capita is almost 10 times higher than that of Tajikistan. Central Asian countries are home to 60 million people. Uzbekistan remains the most populous country in the region, counting 32.4 million people in 2017, followed by Kazakhstan with 17.8 million.

Table D1. Central Asia – Economic Indicators

	GDP (Current US\$, Million, 2016)	GDP per Capita (Current US\$, 2016)	GDP growth (%, 2016)	Projected GDP growth (%, 2018)
Kazakhstan	137,278.32	7,714.7	1.1	3.0
Kyrgyz Republic	6,551.29	1,077.6	3.8	4.0
Tajikistan	6,951.66	795.8	6.9	5.5
Turkmenistan	36,179.89	6,389.3	6.2	6.5
Uzbekistan	67,220.34	2,110.7	7.8	7.5

Source: World Bank, ADB Asian Development Outlook 2017.

The region is rich in natural resources such as oil, gas, coal, and uranium. Exports concentrate on Russia, China, and the EU, while the countries also expand their trade with Turkey, Iran, and Republic of Korea. Foreign direct investment (FDI) goes mostly to large-scale projects or the most profitable ones. For example, the largest oil and gas producers in Central Asia—namely Kazakhstan, Turkmenistan, and Uzbekistan attracted substantial amounts of FDI in the extractive industries. In recent years, international investors have increasingly become attracted by the strong market growth, affordable labor and energy costs, and increasing productivity gains, expanding the FDI to the automobile, food and beverage, chemical and healthcare sectors (UNCTAD, 2014).

In the Kyrgyz Republic and Tajikistan remittances are equivalent to one-third and half of GDP respectively. Given that economic growth depends on the exports of a few primary commodities or remittances, the region is prone to external shocks. In 2014 Central Asia was hit economically by a combination of low oil prices and economic slowdown in Russia. The countries were forced to let their currencies weaken together with the ruble. The region is now recovering, with regional GDP growth projected at 5.3 percent in 2018. Kazakhstan and Uzbekistan are making efforts to diversify their economies, and to encourage export-related manufacturing.

Evolution of regional integration initiatives

After the Soviet Union collapsed, the newly independent countries focused their efforts on state-building, while neglecting regional cooperation. The 1990s were indeed characterized by a process of “disintegration,” which resulted in the rupture of long-established intensive economic links between the states, leading to a significant economic decline in the countries in question. The newly independent states mostly engaged in bilateral trade relations with Russia and the EU, rather than cross-border trade among themselves. Despite abundant natural resources, there was little enthusiasm for expensive pipeline projects in the context of low commodity prices. Furthermore, after independence priority was given to creating national transport networks, as because the Soviet Union’s unified infrastructure system, domestic networks often crossed borders of neighboring countries.

Regional integration initiatives in the post-Soviet space started with the creation of the Commonwealth of Independent States (CIS) in 1991, to ensure an “amicable divorce” of the Soviet states. However, the leaders of newly independent states had divergent views as to the future role and evolution of the CIS. In 1994, Kazakhstan’s President put forward the idea of creating a Eurasian Union based on principles of respect for sovereignty and territorial integrity, equality, and non-interference in the internal affairs of member states. However, no practical steps were taken to implement the idea, because of reservations and lack of enthusiasm on the part of the other states.

The early 1990s saw other attempts by the leaders of Kazakhstan, the Kyrgyz Republic, and Uzbekistan to create their own supranational entity, the Central Asian Union (table D2). Turkmenistan was opposed to any collective structures, while Tajikistan was almost a Russian protectorate at that time (Brzezinski, 1997). For Kazakhstan, Russia was also a much more important partner than other Central Asian states. In this respect, experts noted that little integration could happen without Russia’s participation at that time (Akhmetov, 1995). Late 1990s-early 2000s saw concurrent attempts at creating regional integration in the post-Soviet space, where Russia had a leading role.

Table D2. Evolution of regional integration initiatives

1991	Establishment of the Commonwealth of Independent States (CIS)
1994	Establishment of the Central Asian Union by Kazakhstan, Kyrgyz Republic and Uzbekistan, later renamed in Central Asian Economic Community
1996	Central Asian Bank for Cooperation and Development was created
1996	Belarus, Kazakhstan, Russia and Kyrgyz Republic signed the Treaty on Increased Integration in the Economic and Humanitarian Fields
1998	Tajikistan joins the Central Asian Union
1999	Belarus, Russia, Kazakhstan, Kyrgyzstan and Tajikistan signed the Treaty on the Customs Union and the Single Economic Space.
2000	Establishment of the Eurasian Economic Community (EurAsEC) by Kazakhstan, Kyrgyz Republic, Russia and Tajikistan
2004	Russia joins the Central Asian Economic Community, which subsequently merges with EurAsEC
2006	Uzbekistan joins EurAsEC
2008	Uzbekistan withdraws from EurAsEC
2010	Russia, Belarus and Kazakhstan started implementing the Customs Union
2011	CIS Free Trade Agreement signed
2012	Russia, Kazakhstan and Belarus started creating a Single Economic Space
2015	Eurasian Economic Union came into being in 2015 comprising Armenia, Belarus, Kazakhstan, Kyrgyz Republic, and Russia

Overall, progress toward real cooperation in the region has been slow. The 1990s and early 2000s were characterized by only limited cooperation on infrastructure and transportation, with the idea being mostly promoted through the Central Asia Regional Economic Cooperation Program (CAREC) and the United Nations Special Program for the Economies of Central Asia (SPECA). The region witnessed strong economic recovery between the late 1990s and 2012, when a hike in commodity prices prompted exports of natural resources. China became a more important trading partner. One of the most

important regional projects of 2000s was the construction of a pipeline from Turkmenistan to China through Kazakhstan and Uzbekistan, implemented in 2009. China also built the China-Kazakhstan pipeline from the Caspian Sea, which became operational in 2005.

The Eurasian Economic Community (EurAsEC), formed in 2000, prepared the groundwork for the implementation of a customs union and subsequently a single market. Increased integration was also observed in the CIS framework, with the signing of the CIS Free Trade Agreement in 2011. Building on the progress of EurAsEC, the Eurasian Economic Union (EAEU) was created in 2015, comprising Armenia, Belarus, Kazakhstan, the Kyrgyz Republic, and Russia.

Several other regional organizations with overlapping memberships and mandates were created in the region, resulting in a “spaghetti bowl” of regional institutions, with most of them sharing the same problems: weak organization and funding, inconsistent engagement by key countries and national leaders and lack of involvement of the private sector and civil society (Linn 2012). A notable initiative is the Shanghai Cooperation Organization, which comprises all Central Asian states except Turkmenistan, while also bringing together the key external stakeholders Russia and China. The mandate of the organization, which was originally focused on common security, has been expanded since its creation in 2001 to include economic cooperation. CAREC is the most influential regional organization and has been successful in bringing together Central and West Asian countries, including China, and multilateral institutions. Its strongest engagement has been in the areas of transport and trade facilitation. Asian Development Bank (ADB) is the main funder of CAREC and serves as its Secretariat.

The recent political transition in Uzbekistan has opened a new space for regional integration initiatives. The new leader of formerly isolated Uzbekistan has signaled his willingness to break with the past, taking the lead in promoting regional cooperation for the purposes of fostering economic growth. The March 2018 meeting in Astana brought together the leaders of Kazakhstan, Uzbekistan, Tajikistan and the Kyrgyz Republic, and Turkmenistan’s Parliament Chairman. A major point raised during the meeting is that no outside power could solve Central Asian problems, other than the countries themselves. This development has likely opened a new era for Central Asian regional integration.

Relevance

Summary

1. Sectors such as infrastructure development (transportation and energy) and regional security have been indicated among national priorities by governments in Central Asia.
2. Regional Infrastructure, primarily Energy and Transport, are prioritized by regional organizations.
3. Priorities of multilateral development institutions are aligned with the client's national development priorities
4. The Bank Group's largest commitment in lending is in regional transport infrastructure, while its advisory focuses, through IFC, on financial infrastructure.

Regional integration and regional cooperation are two similar yet different concepts. Regional integration refers to a process leading to more interconnected economies. Both market-led, private sector-driven actions and government-led policies or collective initiatives could foster interconnected economies. In terms of collective policies and initiatives by governments, they can be either formally embodied in intergovernmental treaties or informally agreed upon by participating countries, which is then considered as regional cooperation. Though regional integration is a wider concept than regional cooperation, the two could mutually reinforce each other. Regional cooperation can accelerate and deepen regional integration, while enhanced regional integration can prompt or compel governments to cooperate for collective policies and agreements, as well as to internalize externalities created by integration.

Kazakhstan, Tajikistan, and Uzbekistan have considered regional integration in their national development priorities. As Kazakhstan aspires to become one of the 30 most competitive countries, among its strategic priorities are **regional security and increased infrastructure development**. In Uzbekistan regional integration has been reflected in priorities such as development and modernization of **road transport, engineering, communications and social infrastructure**, as well enhancing **inter-ethnic harmony and religious tolerance**. Tajikistan focuses on **transport and energy infrastructure, regional environmental policies, free trade zones, and economic corridors**. The Kyrgyz Republic is not reviewed in this section.

The Central Asian region is at the focus of several major initiatives aimed at better regional integration, such as CAREC, SCO, CIS and Eurasian Economic Union (EAEU). Except for SCO, all these organizations have prioritized **energy and transport**. Among regional organizations, CAREC is the only one to also focus on Tourism, while only EAEU prioritizes Finance and Banking, namely increasing access to finance and

developing an effective financial market of the Union. Besides security cooperation, its original focus, the SCO also currently focuses on trade and economic cooperation.

In Central Asia, the World Bank Group works together with or alongside partners, such as the European Union and European international financial institutions (such as the European Bank for Reconstruction and Development [EBRD] and European Investment Bank [EIB]), as well as Asian Pacific international financial institutions (ADB and AIIB). The Eurasian Development Bank (EDB) was founded as a regional development bank. It seeks out opportunities for integration between the countries and aims to strengthen existing production chains in the region, particularly in the infrastructure and industrial sector.

The priorities of multilateral development institutions are in line with the client's national development priorities. The sectors receiving most attention of all stakeholders are Energy, Transport, Private Sector Development, Natural Resources and Environment, and Finance. World Bank Group was the only institution among multilateral organizations to explicitly focus on Trade. Another aspect distinguishing the World Bank Group from other multilateral development finance institutions is that the WBG has stronger overlap with UN on sector priorities such as Social and Religious Integration, Governance, Human Capital Development and Education.

Despite the relatively small number of projects (the Bank Group has 61 supported projects in the five Central Asian countries), the Bank Group's lending portfolio in Central Asia comprises half of the Europe and Central Asia portfolio by share of commitment. This is because of the high cost of **regional transportation projects**. The Bank Group's intervention in Energy, Water, and Finance has only recently emerged at the advisory stage. A large amount of advisory support has been provided for **financial and economic integration**. More than half of advisory projects implemented by IFC or the World Bank focus on developing trade competitiveness, financial markets, and investment climate. **However, the share of Europe and Central Asia projects participating in the IDA Regional Window is lowest compared with other regions that prioritize regional integration.**

Political Economy Analysis

Many initiatives for regional cooperation exist in Central Asia; but such efforts have so far had only limited success as defined by tangible outcomes such as increases in intra-regional trade flows or FDI flows. Moreover, there has been a dearth of initiative aimed at regional integration by Central Asian states themselves, with countries mostly joining outside initiatives. The political economy analysis has thus been selected to account for the impediments to regional integration and identify the opportunities to promote integration considering the political economy dynamics.

The political economy analysis of regional integration in Central Asia adopts a problem-driven approach, following the World Bank's Problem-Driven Governance and Political Economy framework (Fritz, Kaiser, and Levy 2009) and *Problem-Driven Framework for Applied Political Economy Analysis* of the Overseas Development Institute (DFID 2009, ODI 2013). The analysis focuses on Kazakhstan, the Kyrgyz Republic, and Tajikistan as case studies. The problem-driven approach focuses on identifying a problem, opportunity, or vulnerability to be addressed.

The key questions that the analysis intends to answer regarding political economy of regional integration are the following:

- What drives and constrains regional integration in Central Asia?
- What factors accounted for the lack of regional integration in the past?
- Is the current environment conducive to regional integration?

The analysis considers three types of factors: structural, institutional, and actors (Fritz, Kaiser, and Levy 2009). Structural features are relatively slow to change and beyond the control of national stakeholders. Institutional features are formal or informal rules, which are more susceptible to change in the short to medium term. Actors or stakeholders are individuals or groups who have an influence over integration policies. The analysis includes the interaction of the three types of factors, such as how stakeholder interests or incentives interact with the institutional environment and structural features, and their impact on the specific challenges under consideration.

After considering structural factors, which Central Asian countries to a certain degree share, the analysis will cover the issues specific to the single countries. Sector-level analysis is also important, as different sectors have different political salience, visibility and a structure of incentives and constraints (Dihel and Jelenic 2016). The sectors under consideration are Energy and Water, Trade, Transportation, and Finance. More in-depth analysis could be performed at each sector level to analyze opportunities and challenges for regional integration pertaining to the sector, which remains beyond the scope of this report. Finally, cross-sector linkages could also be analyzed in more detail to understand the opportunities and building blocks towards regional integration.

The existing literature on political economy of regional integration is relatively small, but identifies some main factors contributing to regional integration. They are strong private sector support, at least one government taking the lead and a small number of actors (Brenton and Hoffman 2016). The case study considered these three factors, as well as the role of external actors in furthering regional integration in Central Asia.

Domestic political economy drivers.

Structural

Summary – Structural Drivers

1. Better connectivity will enable the countries to overcome the bottlenecks inherent in their land-locked position, reap benefits from their strategic location and create economies of scale
2. Similar economic structures concentrated on the export of a few primary commodities or labor have partially accounted for low intra-regional trade, but there exists a potential for economic diversification through regional integration
3. The growing population will put pressure on limited resources and require creating more opportunities, which could be developed through regional integration
4. Water resource sharing has been a major source of tension between the countries, but cooperation will be essential to developing hydropower and addressing water shortages in the region
5. Poor border delimitation has been contributing to tensions between neighbors, but recent political changes in Uzbekistan have enabled progress in border demarcation
6. Climate change adaptation will require the development of regional approaches in the future.

Central Asian countries' land-locked position and strategic location at the heart of the Eurasia region have affected their development opportunities. The Central Asia region is characterized by varied geography, with mountains, steppes, and deserts. The countries' land-locked position and relative remoteness from major economic centers affect their economic development. Nevertheless, their location is geopolitically important because of their strategic position at the crossroads of Europe, East Asia, and the Middle East, and proximity to Russia, India, and China. The Kyrgyz Republic and Tajikistan are the most geographically disadvantaged, being predominantly mountainous countries with small domestic markets, which prevents economies of scale from developing.

Different transition paths after independence have contributed to a lack of regional cohesion. The Central Asian states have developed at different rates and in different directions after the Soviet Union collapsed (Pomfret 2003). Whereas Uzbekistan adopted a gradual approach to market reform, Kazakhstan pursued a more aggressive strategy of liberalization. The Kyrgyz Republic was the fastest to transition to market economy,

liberalizing its economy and joining the WTO in 1998. Tajikistan plunged into a civil war right after independence, which persisted until mid-1997, causing destruction, loss of life and exodus of human capital. The country's development started only after the war had ended.

Similar economic structures reflected in export concentration on a few commodities have accounted for relatively low intraregional trade shares (Linn, 2012). Central Asia is rich in minerals and energy sources, namely oil, gas, coal, uranium and hydropower. Kazakhstan is blessed with oil and gas, as well as coal and uranium. The Kyrgyz Republic and Tajikistan are rich in hydropower sources. Furthermore, the region is also home to large cotton production, concentrated in Uzbekistan and Tajikistan. For the Kyrgyz Republic exports of gold account for about 10 percent of GDP. As noted above, Tajikistan and the Kyrgyz Republic are currently among the most remittance-dependent economies in the world.

The growing population is likely to put pressure on limited resources and require creating more job opportunities. The region experiences high population growth. Its young and educated population makes it potentially attractive for investors. However, limited employment opportunities in Tajikistan and the Kyrgyz Republic, as well as pull factors towards labor migration to Russia and Kazakhstan, have resulted in significant population outflow and brain drain. This could result in popular frustration, if the problem is not addressed in a timely manner. Currently, these possible negative pressures are offset by out-migration, but this solution creates external dependence and may not be sustainable in the long run.

Water resource sharing has been a continuous source of tensions since the demise of the Soviet Union. During the Soviet time, water resource sharing had been based on the centralized master plans for the development of water resources in the Amu Darya and Syr Darya river basins, which fell out of use following the breakdown of the USSR (FAO). Since independence, the countries have experienced tensions over the issue of storage and release, as upstream countries (Kyrgyz Republic and Tajikistan) want to develop their waters for hydropower generation, while downstream countries (Kazakhstan and Uzbekistan) want to have access to large amounts of water for irrigation purposes.

The potential for conflict remains high in the Fergana valley split between the Kyrgyz Republic, Tajikistan, and Uzbekistan. As an agriculturally fertile region, Fergana Valley is a major food source for Central Asia, and as such is densely populated. The valley is inhabited mainly by Kyrgyz, Tajik, and Uzbek people. The borders were artificially delineated during the Soviet time in an apparent divide and rule attempt, and each of the countries contains significant populations of the other two ethnic groups.

The situation is compounded by high population growth in the valley. Given the competition for limited water and agricultural resources and complex ethnic composition, Fergana Valley has a high conflict potential. These border areas are dependent on cross-border interactions, and can therefore benefit from regional integration. The situation remains complicated in Osh, in the Kyrgyz Republic, inhabited by Kyrgyz and Uzbek communities, where interethnic violent clashes resulted in the death of 400 Uzbek people in 2010.

The region has experienced frequent border disputes due to poor delimitation of borders as a legacy of the Soviet Union. Common water resources are also located in areas where border dispute potential is high. Following the change of leadership in Uzbekistan, there have been positive developments in demarcating the borders. The country was known to mine its borders with the Kyrgyz Republic and Tajikistan in the past. Most recently, the Uzbek and Kyrgyz leaders have made a breakthrough, having agreed to demarcate about 85 percent of their mutual borders.

Climate change adaptation and dealing with security threats will require the development of regional approaches. The severity of droughts in the region is likely to get more intense, while melting glaciers will impact disaster-prone Tajikistan and the Kyrgyz Republic. Concerns over environmental degradation have previously brought the five countries together in the effort to save the Aral Sea from drying out because of the over-usage of the sea for irrigation purposes. International Fund for the Aral Sea (IFAS) remains the only locally owned initiative with consistent level of engagement by the five states, but which nevertheless has struggled to meet expectations (Jenča, 2014). The region's proximity to Afghanistan make the countries more vulnerable to the spread of extremism and terrorism into Central Asia, which may become a disruptive factor. Tajikistan is also a transit route for illicit drugs from South Asia to Eastern Europe, which has been a point of contention with its neighbors (World Bank, 2014)

Implications for regional integration. The countries' geographic position makes regional connectivity essential to get access to markets, particularly for the mountainous Kyrgyz Republic and Tajikistan. Owing to the region's strategically important position, countries would also gain from the transit of goods through their territory. This in turn would create interdependence on each other's transportation networks, for which cooperation is necessary. For regional integration to be successful, issues related to poor border delimitation are still to be resolved in a sustainable way.

Cooperation between upstream and downstream countries over water resource sharing will be essential to developing hydropower and addressing water shortages in the region. Furthermore, there exists potential for diversifying the economies through better cross-border cooperation and creating regional value chains, whereby countries can reduce their reliance on a few export products and remittances. This would help the countries to be less vulnerable to external shocks. It could also lead to the much-needed creation of jobs, particularly in the vulnerable Fergana valley and other border areas.

Summary

1. Central Asian states are characterized by a top down approach to governance and strong role for the state in the economy.
2. Due to mutual mistrust, leaders have preferred bilateral over multilateral relations. Provisions of regional agreements appear to be vulnerable to deterioration of relations between the leaders
3. Private sector associations, although well developed in the Kyrgyz Republic and Kazakhstan, are yet to build effective regional links
4. Lack of harmonization of laws and regulations across different countries, corruption and weak rule of law affect the opportunities for regional cooperation
5. Informal economy is important, especially in the Kyrgyz Republic and Tajikistan, with unregistered cross-border trade also being significant.
6. Kazakhstan's leader favors the concept of Eurasian integration, but possible power transition in Kazakhstan and Tajikistan casts uncertainty over policy continuity.
7. To revive its economy, Uzbekistan is now taking the lead in promoting regional cooperation. A major point of contention with Tajikistan (i.e. Rogun dam) appears to be resolved.
8. The creation of the Eurasian Economic Union is also an important milestone in the regional integration landscape.
9. Central Asia will remain important for its two large neighbors (Russia and China), making the region vulnerable to competition of external actors for influence.

Climate change adaptation will also require the development of common approaches in the region, as will addressing common security threats.

Institutional drivers and actors

Central Asian states are characterized by a top-down approach to governance and strong role for the state in the economy. Except in the Kyrgyz Republic, which is a parliamentary democracy, power is concentrated in the presidency. The state plays a strong role in the economy as a legacy of Soviet institutions. Patronage relations between economic and political actors have been reportedly common. All five countries rank poorly in the Freedom house rating of countries in terms of their political and civil liberties. Only the Kyrgyz Republic is rated as “partly free” with all other countries rated as “not free.”

Difficult relations and mistrust between the leaders in the region resulted in their preference for bilateral over multilateral initiatives. Central Asian leaders have been historically concerned about national sovereignty and security in the face of regional integration, which stood in the way of more active engagement in regional integration initiatives. At the same time, the top-down governance nature in the region has prevented local government initiatives in border areas from developing (Dalbaeva 2018).

The private sector remains insufficiently developed, but there is a positive dynamic in the development of private sector associations. The private sector in the three countries still faces difficulties in gaining access to affordable credit, with state-subsidized loans being mostly available to state-owned enterprises. Small and medium enterprises (SMEs) experience difficulties to grow. It is also important to note that many of them, particularly in the Kyrgyz Republic and Tajikistan, operate in the informal sector, with transactions being made in cash. Private sector associations in Kazakhstan and Kyrgyz the Republic are relatively active and able to engage with decision-makers to further the needs and interests of whom they represent. However, they are yet to build strong regional links and cooperation. Despite their potential to become advocates of regional integration, fear of outside competition could also stand in the way of active involvement. For instance, in the Kyrgyz Republic local freight-forwarders are reportedly concerned about more competitive Uzbek companies, as Uzbekistan is opening up.

The challenges for private sector development and private sector participation in regional initiatives are asymmetric in the three countries. Kazakhstan is relatively more advanced and its companies are willing to participate in cross-border transactions, both as financiers and implementers. On the other hand, Tajikistan’s absorptive capacity and local content capacity is low, while Kyrgyzstan’s private sector continues to focus on the re-export from China.

Among other issues affecting cross-border cooperation are lack of harmonization in laws and regulations, weak rule of law, excessive bureaucracy and pervasive corruption

(table D3). The perception of corruption is high in all five countries. Corruption can put additional burden on the development of small and medium-sized enterprises (SMEs), while inability or unwillingness to control corruption at the border may undermine provisions of regional agreements. For instance, Kazakhstan has already expressed a concern about the smuggling of Chinese goods into the country through the Kyrgyz Republic. Informal cross-border trade is also significant and has been an important source of income and employment, especially for women (World Bank, 2012).

Table D3. Central Asia Indicators for Freedom, Corruption Perception and Wealth Equality

	Kazakhstan	Kyrgyz Republic	Tajikistan	Turkmenistan	Uzbekistan
Corruption Perception	31	29	21	19	22
Freedom score	22	37	11	4	7
Gini index	26.9	26.8	34	n.a.	n.a.

Sources: Transparency International 2017, Freedom House 2018, World Bank 2015.

Note: Corruption Perception: 0 = highly corrupt, 100 = very clean. Freedom house score: 0 = least free, 100 = most free.

Gini index: 0 = perfect equality, 100 = perfect inequality. For Turkmenistan and Uzbekistan recent data are not available.

The creation of the Eurasian Economic Union is an important milestone in the regional integration landscape. However, among Central Asian states only Kazakhstan and the Kyrgyz Republic are currently part of it. The Union has functioning institutions and has been making progress on harmonization of sanitary and phytosanitary requirements. However, provisions of its agreements are still vulnerable to deterioration of relations between the leaders. Following the spat between the leaders of Kazakhstan and the Kyrgyz Republic in December 2017, Kazakhstan imposed intensified border checks, causing massive delays on the border. The Kyrgyz authorities appealed to the World Trade Organization, in addition to the EAEU.

Selected Country-Level Analysis

Kazakhstan

Kazakhstan is a presidential republic with the power heavily concentrated in the president and the presidential administration. Kazakhstan has been run by the same leader since its independence. The Constitution was amended in 2007 to remove the limits on the number of terms for the president. The country has enjoyed high economic

growth, which has significantly elevated Kazakhstan's living standards. Since 2002, the country's GDP rose almost tenfold, raising the country to the upper-middle income status. Nevertheless, regional disparities persist in income levels, and access to quality infrastructure and public services, with most opportunities being concentrated in the country's few economic centers.

Currently, Kazakhstan prioritizes growth from non-oil sources and aspires to reach the OECD standards. After the slump in commodity prices slashed Kazakhstan's GDP growth to just 1.0 percent, less resources became available to divide among the ruling elite. It also became increasingly more difficult to keep up with popular expectations for raising living standards. In addition, Uzbekistan's opening up to trade and investment has prompted concerns in Astana that the neighbor might lure potential investors away (Foy, 2017).

The government maintains a stake in all major companies. Although most SMEs operate outside state control, they are unable to grow and compete with larger state-owned enterprises (SOEs). In 2016, the government embarked on a series of reforms and announced a major privatization initiative, aimed at reducing the state's presence in the economy and attracting foreign capital. The initiative has mainly concerned small and mid-sized firms, but the progress in privatizing the company's strategic assets has so far been slow. There are views that even if the program is successful, the state will still control much of the economic activities in the country, with a little impact on the overall competition environment (World Bank, 2017b).

Civil society organizations are invited to participate in consultative and advisory councils under government ministries, but their impact on government decision-making is limited to marginal issues (ADB, 2015). Furthermore, the government has been making efforts to weaken and ultimately close independent trade unions, since the strike of oil workers led to deadly clashes in 2011. However, private sector associations are quite strong and able to engage with the government on issues of concern to the business. The National Chamber of Entrepreneurs *Atameken* unites many private-sector associations with the aim to have a common voice representing the business community. However, it was noted during the field mission, that the government is more likely to prefer the policy options suggested by international financial institutions than follow advice from the business associations.

In foreign policy, Kazakhstan has historically adopted a **multi-vector approach**, as a way to balance its two big neighbors Russia and China. Kazakhstan's President has actively supported regional integration initiatives, but uncertainty prevails over what happens after succession. While Kazakhstan's president has supported the creation of the Eurasian Economic Union, the society is currently divided in this respect. A part of

the population generally favors Russian-led initiatives, due to strong cultural ties with Russia, a large percentage (over 20 percent) of Kazakhstan's population being Russian, particularly in the northern areas, and dominance of the Russian media. However, following the outbreak of the conflict in Ukraine, Kazakhstan has become more wary of close association with Russia.

However, expansion of Chinese companies in Kazakhstan might face some resistance among the local population. In 2016, the country already saw protests against the government plans to extend the lease of land to foreigners, which residents feared would facilitate Chinese companies' expansion.

Kyrgyz Republic

The Kyrgyz Republic is the only semi-parliamentary democracy surrounded by authoritarian neighbors. The country has witnessed political instability and internal tensions in the last decade. In 2017 the Kyrgyz Republic inaugurated its fifth president after the independence, who had been elected in a tightly contested election. The country had witnessed popular riots in the past, which ousted two of its presidents in 2005 and 2010. As a result, a new Constitution was approved in 2010, shifting the country from presidentialism to a parliamentary system.

Kyrgyz society remains fragmented, with election campaigns largely based on the divide between the northern and southern elites. These elites represent the more economically advanced and homogeneous north on the one hand and mostly agrarian and ethnically mixed south on the other. Furthermore, the southern cities of Osh and Jalalabad were the scenes of violent inter-ethnic clashes in June 2010, with roots of violence still remaining unaddressed. Overall, the Kyrgyz Republic is not immune from some of the same evils affecting its authoritarian neighbors: state capture, links between civil servants, business interests and politicians, and corrupt practices in procurement, which have eroded public trust in Kyrgyz institutions (World Bank, 2013).

The prime minister and the government are responsible for directing and executing economic policies. According to the UN, the policy-making process in the Kyrgyz Republic is often disjointed, insufficiently coherent, and multi-layered, with some core functions within the government overlapping (UN in the Kyrgyz Republic, 2016). Contributing to this is insufficient capacity of national institutions and understaffing of many government agencies.

The private sector mostly consists of micro-small and medium enterprises. The Kyrgyz Republic privatized a large share of its economy after the Soviet Union breakdown. However, this mostly concerned SMEs, while the privatization of larger state-owned companies has stalled in recent years due to a lack of political commitment (ADB, 2013).

The state ownership is most prominent in mining, electricity and water supply. The country has a large informal economy, which is estimated to be equivalent to 39 percent of GDP (UN, 2016). Informal enterprises constitute a major source of employment. Relationships are often based on trust, reputation, and personal contacts, which contributes to the lack of a strategic direction that would allow the enterprises to expand or export (Neufeld and Earle 2014). Furthermore, the Kyrgyz Republic is characterized by a **strong civil society**, and well-developed **private sector associations**. Nongovernmental organizations participate in political life and are involved in supervisory boards under different ministries (ADB 2011).

The Kyrgyz Republic also adopts a multi-vector approach to its foreign policy, where relations with Russia continue to play a dominant role. Kyrgyz leaders have been generally supportive of regional integration, especially Russian-led initiatives, because of close cultural ties and Kyrgyz migrant remittances. As the only democracy in the region, the Kyrgyz Republic has built productive relations with the West, attracting substantial foreign aid. However, the country's foreign policy has generally followed short-to medium-term objectives and financial needs, rather than long-term interests (Tynan, 2016).

Tajikistan

Tajikistan is a presidential republic with a strong executive branch. The power of the President and his party is far reaching. The Constitution has no limits on the number of presidential terms for the current president. Regional affiliation and patronage networks play a prominent role in political life (Heritage Foundation 2018).

Tajikistan does not have a conducive environment for private sector development. Key national assets, such as cotton and aluminum production, are concentrated in the hands of the elite. Companies not associated with the elite experience difficulties to grow, because of the elevated cost of capital, very high taxes and informal payments. It was noted during the field mission that if regional integration occurs, Tajik companies may prefer to move to Uzbekistan, which has better access to capital and growth opportunities. At the same time, competition coming from Uzbek companies could hit relatively less competitive local producers, while the government does not possess enough resources to subsidize local production. However, the government of Tajikistan may also be concerned that Uzbekistan's opening up may lead to domestic pressures for Tajikistan to reform.

Relations between the Tajik and Uzbek leaders have been historically very strained. However, Uzbekistan's new leader has cardinaly changed the country's approach to Tajikistan. A major point of contention between the two was the construction of the Rogun hydropower dam. Uzbekistan was severely opposed to the construction, as it

would affect its access to irrigation water during the summer. However, it has now signaled its support to the Rogun dam and may even invest in its construction. Tajikistan's relations with its neighbors have been also compounded by drug smuggling from South Asia to Eastern Europe through its territory.

With economic and security challenges facing Tajikistan, the country has limited capacity to provide for its needs. However, it has historically limited capacity to effectively cooperate with its neighbors due to past legacies of mistrust. The leadership is preoccupied with maintaining internal stability, which might become more difficult, in the context of a possible power transition and economic difficulties.

External actors

Central Asia remains vulnerable to the competition of external actors for influence, which could potentially lead to conflict between major players. Central Asia's strategic position and natural resources remain important to its neighbors. Russia has historically been the main external actor in the region. Currently, China has become more important as a trade and investment partner. More than half of Turkmenistan gas and a quarter of Kazakhstan's oil exports go to China. The geographic closeness of Central Asian countries to the Chinese Xinjiang province also makes them important for China's national security. Moreover, the westward shift of production in China away from the more expensive east makes Kazakhstan more important as a transit route, while China's "going out" strategy will prompt the country to look for new opportunities for its construction companies in Central Asia. Furthermore, China intends to finance massive infrastructure development projects in the region, as part of its Belt and Road initiative. Despite the importance of infrastructure development, this could raise the countries' level of public debt towards China, thereby increasing dependence on their big neighbor. About half of Tajikistan's debt is held by China already, and China is also a major investor in its energy sector. However, while political elites in Central Asia are generally willing to work with China, Chinese investors often encounter suspicion and xenophobia among the local population (Crisis Group, 2017)

Russia considers Central Asia part of its historical economic and regional interests. Ties with Russia are likely to remain close due to the importance of the Russian language, the existence of a large Russian diaspora in Central Asia and labor migration to Russia. Russia is also a major security provider for Central Asian states, with which it cooperates both bilaterally (Kyrgyz Republic and Tajikistan) and on a multilateral basis in the framework of the Collective Security Treaty. Furthermore, Tajikistan hosts Russia's biggest military base abroad. However, Russia is struggling economically and will likely find it difficult to meet the financial commitments already made to some Central Asian states (Stronski, 2016b). The Eurasian Economic Union, which is largely

led by Russia, has been making progress on regional integration. In the long term, China would like to create a free trade area between China and Central Asia, whereas Russia has been previously opposed to China's ambition to create a free trade area among SCO members (Crisis Group 2017). At present time, however, China's broad goals for the region do not contradict those of Russia, as both countries are interested in promoting economic development, political stability, containing violent extremism and keeping the West at bay (Stronski, 2018). Other major players in the region are the EU and the United States, whose influence, however, has been waning in recent years. The Transport Corridor Europe Caucasus Asia (TRACECA), which had been launched with the participation of the European Union, failed to achieve its objectives to increase trade due to high transportation costs. For the US the Central Asian region was especially important for cooperation in its fight against terrorism. The Kyrgyz Republic hosted an American military base established in the aftermath of September 11, which was closed in 2014. Furthermore, the United States has its own vision for the New Silk Road transport and trading routes linking Central Asia to South Asia. However, this vision has not yet materialized in concrete steps. The influence of major development banks is still significant in the region. However, it was noted in the case of Tajikistan that international financial institutions are no longer able to set the agenda to promote structural reforms, because the country is able to raise funds through the issuance of bonds. In the future, the Western-led development banks will have to increasingly compete with the Chinese banks offering more flexible financing. Figure D1 presents the summative view of the political economy.

Figure D1. Political Economy of Regional Integration in Central Asia – Summary Info-graphic



Sector-level analysis

Summary

1. Lack of interagency coordination and insufficient commitment to deal with politically sensitive issues, along with lack of involvement of some key stakeholders, has prevented the development of an agreement over water sharing and power plants' construction
2. Electricity subsidies in the Kyrgyz Republic and Tajikistan remain a persistent domestic challenge to the reform of the power sector
3. The near bankruptcy of the Tajik state energy company may represent a challenge for its engagement in cross-border initiatives
4. Information asymmetry resulting in a lack of knowledge about the demand-supply situation in neighboring countries has impeded the companies to expand regionally
5. Despite insufficient formal trade, informal cross-border trade has been active
6. Private companies operating in the transportation sector need better access to financing to be able to compete with state-owned enterprises
7. Weak financial sector represents a barrier for cross-border initiatives by private companies
8. The creation of a regional association of private credit bureaus has signaled very positive dynamics in the financial sector, but the laws on cross-border information sharing still need to be harmonized

Water and Energy

Much of Kyrgyz and Tajik energy (90 percent) is produced from hydropower, which generates a power surplus in summer and deficit in winter. At the same time, the countries suffer from unreliable supply of power, particularly during the winter. The energy infrastructure assets are rather outdated, poorly maintained and characterized by low efficiency. The electricity tariffs are subsidized and below cost recovery rate in both countries. Efforts to increase tariffs could make energy unaffordable to a segment of customers and face public resistance. This in turn impacts the energy companies' ability to make investments in service delivery improvements.

In Tajikistan the sector is dominated by Barqi Tojik, which is a vertically integrated company, covering generation, transmission and distribution. The company has incurred large debt and losses, and is currently on the verge of bankruptcy. However, the Tajikistan government has been making efforts to make the company commercially viable. In the Kyrgyz Republic, a National Energy Holding company was established in 2016, where shares of the country's principal energy companies were transferred with the purpose to improve the management and effective performance of the industry. In 2014, the Kyrgyz Republic introduced an independent sector Regulatory Agency, while in 2016 the policy was transferred under the State Committee on Industry, Energy and Subsoil Use. Tajikistan is yet to introduce an independent regulator.

Water in Central Asia is distributed unevenly, with the Kyrgyz Republic and Tajikistan relatively rich in water compared to their Central Asia neighbors. As mentioned above, divergent interests in managing water resources have led to tensions between upstream countries who want to use water for hydropower generation and downstream countries (Kazakhstan and Uzbekistan), who need water for irrigation purposes. The development of hydropower plants and transmission has been thus slow because of the lack of agreement on water resource sharing in the region. Generally, there is currently no regional master plan, with energy trade being bilateral rather than regional.

Some of the main problems for water management in the region are a lack of interagency coordination on inter-sectoral cooperation, pursuit of short-term rather than long-term interests by government officials, lack of commitment in dealing with politically sensitive issues, as well as the fact that some key stakeholders were not included in negotiations, such as national energy companies which were supposed to implement potential agreements (Adelphi 2017). Since water management has been considered a matter of national security, water cooperation has often been discussed between Ministries of Foreign Affairs, which were quite removed from the realities of water management (Adelphi 2017).

Trade, Transportation and Logistics

Historically, Central Asian economies rank quite low within the Europe and Central Asia region on trading across borders, except for the Kyrgyz Republic, which benefits from re-export of goods from China. Companies tend to trade with their traditional export partners, such as Russia, rather than among themselves. This is also partly because of information asymmetry; companies lack proper knowledge about the demand-supply situation in neighboring countries (Vakulchuk and Irnazarov 2014). Different phytosanitary requirements across different countries have also been reported as a major roadblock.

As mentioned above, informal cross-border trade has been significant in the region and has contributed to the overall objective of increasing trade and cross-border cooperation. This type of trade is not recorded in official trade statistics of the exporting nation and only occasionally recorded in that of the importing nation. Central Asian bazaars have provided income-generating opportunities in areas such as transportation of goods across borders, sale of goods in bazaars and warehousing. Despite its importance, cross-border trade is sensitive to border-related policies, such as visa requirements, restrictions on the entrance of foreign vehicles, unofficial payments at the border and other border charges (Kaminski and Mitra, 2012). For instance, an association of freight-forwarders in the Kyrgyz Republic mentioned significant difficulties for freight-forwarders with Kyrgyz citizenship to enter Uzbekistan, which is likely to change soon thanks to Uzbekistan's lifting of many restrictions. Cross-border trade between Uzbekistan and Tajikistan is expected to rise as a result of the visa lifting.

The regional trade and transportation sectors face challenges in both hard and soft infrastructure development. Railway networks, most of which were built during Soviet times, remain an important means of cross-border transportation in Central Asia and the primary means of natural resources transportation after pipelines. To increase the Central Asian countries' transit potential, the sector also needs to be harmonized with international standards. The development of regional transportation and cross-border trade is also hampered by delays, bureaucratic difficulties at the customs clearance and border control and informal payments, which raise the cost of doing business. The logistics sector currently lacks companies offering a full package of services (such as multimodal logistics).

Kazakhstan emphasizes the development of a strong transport sector as one of the key elements to diversifying its economy and strengthening economic growth. Because of the relatively low density of railway networks and lack of waterways in Kazakhstan, road transportation plays a crucial role. Although the quantity of assets in Kazakhstan's transportation sector is large, their quality is yet not adequate and in need of renewal. The government is currently taking actions to upgrade border-crossing points and streamline the process. In terms of private sector support, it was noted during the field mission that there are no government supported programs aimed at helping freight-forwarders buy new fleet. The situation is compounded by a high tax burden for the first-time registration of a vehicle, resulting in freight-forwarders' lack of interest in buying new vehicles. The railway sector is mostly state owned, with only state-owned organizations having access to subsidized loans.

The Kyrgyz Republic suffers from similar problems. The road transportation sector needs hard infrastructure improvements, while its freight-forwarders need access to capital to renew the outdated fleet. In addition, the Kyrgyz freight-forwarding sector is

extremely fragmented, with most operators being private drivers. Transportation companies are few and relatively small. Consequently, they suffer from information asymmetry, which could possibly be addressed through an information sharing platform about available regional opportunities.

Opportunities exist for freight-forwarders to exports agricultural products to Russia and other neighboring countries. As suggested by the Kyrgyz Freight-Forwarders Association, this could be done through the development of logistic centers across the country to connect the individual freight-forwarders with farmers, themselves being mostly individual small-holders. Freight-forwarding associations are supporting this idea and willing to obtain funding from international financial institutions.

Among the three countries the situation is most complicated in Tajikistan. Due to its geography and poor infrastructure development, coupled with cumbersome border crossing procedures, the country has some of the world's highest transportation costs (table D4). As a result, Tajikistan is poorly integrated in global and regional trade, while foreign freight-forwarders avoid transiting through the country. Vested interests in Tajikistan have prevented the liberalization of its transportation sector, especially aviation. Weak corporate governance, limited competition, distorted tariffs and inadequate regulatory oversight lead to some of the highest landing costs in the world (World Bank, 2014). Rail infrastructure is limited, mostly connecting Tajikistan's urban centers with Uzbekistan and operated by the state-owned Tajik Railways.

Table D4. Doing Business and Logistics Performance Index for Central Asia

	Kazakhstan	Kyrgyz Republic	Tajikistan	Turkmenistan	Uzbekistan
Trading Across Borders – rank	123	84	149	n.a.	168
Logistics Performance Index – rank	77	146	153	140	118

Source: World Bank - Doing Business 2018, Logistics Performance Index 2016.

The Logistics Performance Index allows for comparison across 160 countries. 1 = the best performing 160 = the worst performing country

Political changes in Uzbekistan have opened up new opportunities for regional trade, transport and logistics. Kazakhstan's business is in a good position to invest regionally, but the weak financial sector is impeding progress on this front. The Kyrgyz Republic could export agricultural and textile products. However, there are also concerns in less competitive countries, especially in the Kyrgyz Republic, that the national freight-forwarders might lose their jobs because of competition with Uzbekistan.

Finance

A weak financial sector is characteristic of all the three countries under consideration. Both the Kyrgyz Republic and Tajikistan are essentially cash-based economies. The shadow economy was reported as a persistent challenge in Tajikistan in this respect, resulting in unwillingness to share information through electronic payments. Mobile banking represents an opportunity to improve financial inclusion. Lending interest rates are high in all three countries under study, making it difficult for national firms to compete in international markets with foreign firms that might have access to cheaper and more flexible financing.

The microfinance sector in the Kyrgyz Republic and Tajikistan is strong and remains a key source of access to loans for SMEs. However, some regulations for micro-finance institutions are the same as those for commercial banks and should be changed. For instance, in the Kyrgyz Republic, it was pointed out that there is a requirement for collateral even for small loans, while in Tajikistan microfinance banks must be open 24 hours a day in 2018 (like any other financial institution during the tourism year).

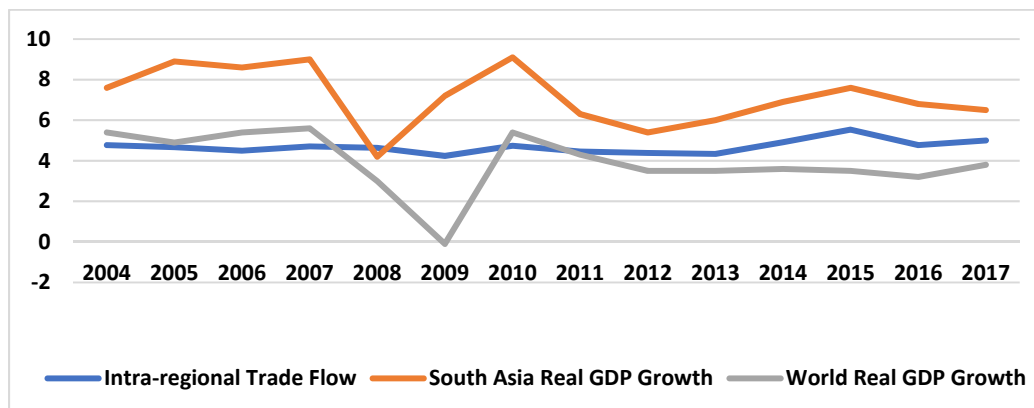
Although Kazakhstan's companies are able and willing to expand, the country's relatively weak financial sector still represents a barrier for cross-border initiatives. As trade between the countries develops, better links need to be established between the banks. A positive development in the region is the creation of a regional association of credit bureaus, comprising Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, and Ukraine. This will help to secure access to credit by migrants in host countries through a facilitation from credit bureaus. Some remaining issues concern the harmonization of the laws regarding sharing of borrowers' information. In the Kyrgyz Republic, credit bureau information is almost exclusively on individual borrowers, because financial institutions often do not want to share information on businesses.

Appendix E. Policy Coherence Analysis

Background

Home to 21 percent of World's population, South Asia also hosts the largest share of the poor in the World. One of the most dynamic regions in the World, South Asia experienced an economic growth of around 7 percent over the last decade¹, demonstrating a higher growth rate relative to the World. Foreign direct investment (FDI) is key to the future of South Asia's regional integration. FDI has been volatile in the short-term but is on an upward trend across South Asia. Throughout the last two years, FDI growth has been mostly positive throughout the region. In Pakistan, it increased strongly at the beginning of 2016, stabilized for some time, and then increased again by more than 50 percent in the third quarter of 2017, before declining 17 percent in the last quarter. Both India and Sri Lanka saw their FDI increasing very strongly in two of seven quarters. Compared to the beginning of 2016, FDI has increased by over a third in India and Pakistan, and by 45 percent in Bangladesh². Nevertheless, despite the region's astounding growth, poverty remains an anchor to development. Around 15.1 percent of South Asians or roughly 256 million people live under the poverty line as of 2013. Hundreds of millions more live slightly above the poverty line, more than 200 million live in slums, and about 500 million go without electricity.³ According to World Bank's Poverty & Equity Brief, the percentage of population living under the international poverty line (less than \$1.90/day 2011 PPP) is among the highest in India and Bangladesh (13.4 and 14.8 percent respectively)⁴.

Figure E1. *Real GDP Growth (Annual percent change) & Intra-regional trade flows (percentage of total international trade) within SAR*



Source: IMF World Economic Outlook (Real GDP Growth), and World Integrated Trade Solution (World Bank).

In terms of economic integration, South Asia is the least integrated region in the World, with intraregional trade accounting for less than 5 percent of the total international trade⁵. The South Asia region (SAR) comprises eight countries: India, Pakistan, Nepal,

Bangladesh, Afghanistan, Sri Lanka, Bhutan, and Maldives. This overall growth rate is the function of varying growth rates in different SAR countries, driven by different sectors. According to World Bank, growth in India is projected to accelerate to 7.3 percent this year, and to 7.5 percent in 2019 and 2020, reflecting stronger private spending and export growth. Sri Lanka's GDP growth may average around 4.5 percent over the medium term, reflecting a recovery from the effects on agriculture of last year's adverse weather disruptions, as well as robust consumption and investment growth. In Bhutan and Maldives, growth will continue to benefit from construction and services, and average 7.4 and 5 percent respectively over the forecast horizon. After the strong 2017 rebound from the effects of the devastating earthquakes, Nepal's GDP growth is forecast to moderate to 4.6 percent this year and to average 4.5 percent over the medium term. In Pakistan, GDP growth is expected to moderate to 5.0 percent in 2019 reflecting tighter policies to unwind vulnerabilities accumulated over the past years. In the medium-term, growth in Pakistan is expected to rebound to 5.2 percent on average in 2019 and 2020, reflecting firming exports, and especially robust investment growth in connection to the China-Pakistan Economic Corridor.

In 1984, the South Asia Association for Regional Cooperation (SAARC) was formed to promote regional trade, connectivity, and cultural exchange to achieve multi-faceted integration in South Asia. It aims to promote the welfare of the peoples of South Asia and to improve their quality of life through accelerated economic growth, social progress and cultural development in the region. In the recent summits, the member states renewed their resolve for collective regional efforts to accelerate economic growth, social progress and cultural development and emphasized on key issues like telecommunication, energy, climate change, transport, poverty alleviation, science and technology, trade, education, food security and tourism. Regional cooperation is seen as complementary to the bilateral and multilateral relations of SAARC Member States.⁶

Nepal is undergoing a historic transition. The new constitution adopted in 2015 defines Nepal as a democratic, decentralized, federal and secular republic. The Nepalese constitution of 2015 replaced the unitary governance system with 3-tier federalism, with governments divided between the federal, regional (state/province), and local levels. The 2017 elections in Nepal at the three levels resulted in a super majority government, offering prospects of a much-needed political stability. The transition to stable federalism in the country is underway, finding support from the WBG in the form of the new country partnership framework (CPF), focusing on three key areas: (i) strengthening public institutions for economic management, service delivery and public investment; (ii) promoting private sector-led jobs and growth; and (iii) enhancing inclusion for the poor, vulnerable, and marginalized groups, with greater resilience against climate change, natural disasters, and other exogenous shocks.

Given long historically turbulent relations, especially between the two biggest economies of South Asia—India and Pakistan—the overall climate for regional integration is very weak. This has given rise to subregions within South Asia. Regional integration takes place in one form or the other within these subregions: Pakistan & Afghanistan on the West, and Bangladesh, Bhutan, India, and Nepal (BBIN) on the East. Another form of regional integration in South Asia is the inter-regional integration, as demonstrated by CASA-1000 (Central Asia to South Asia) and Belt-Road Initiative (BRI) with China connecting to Central, South and Southeast Asia through various countries.

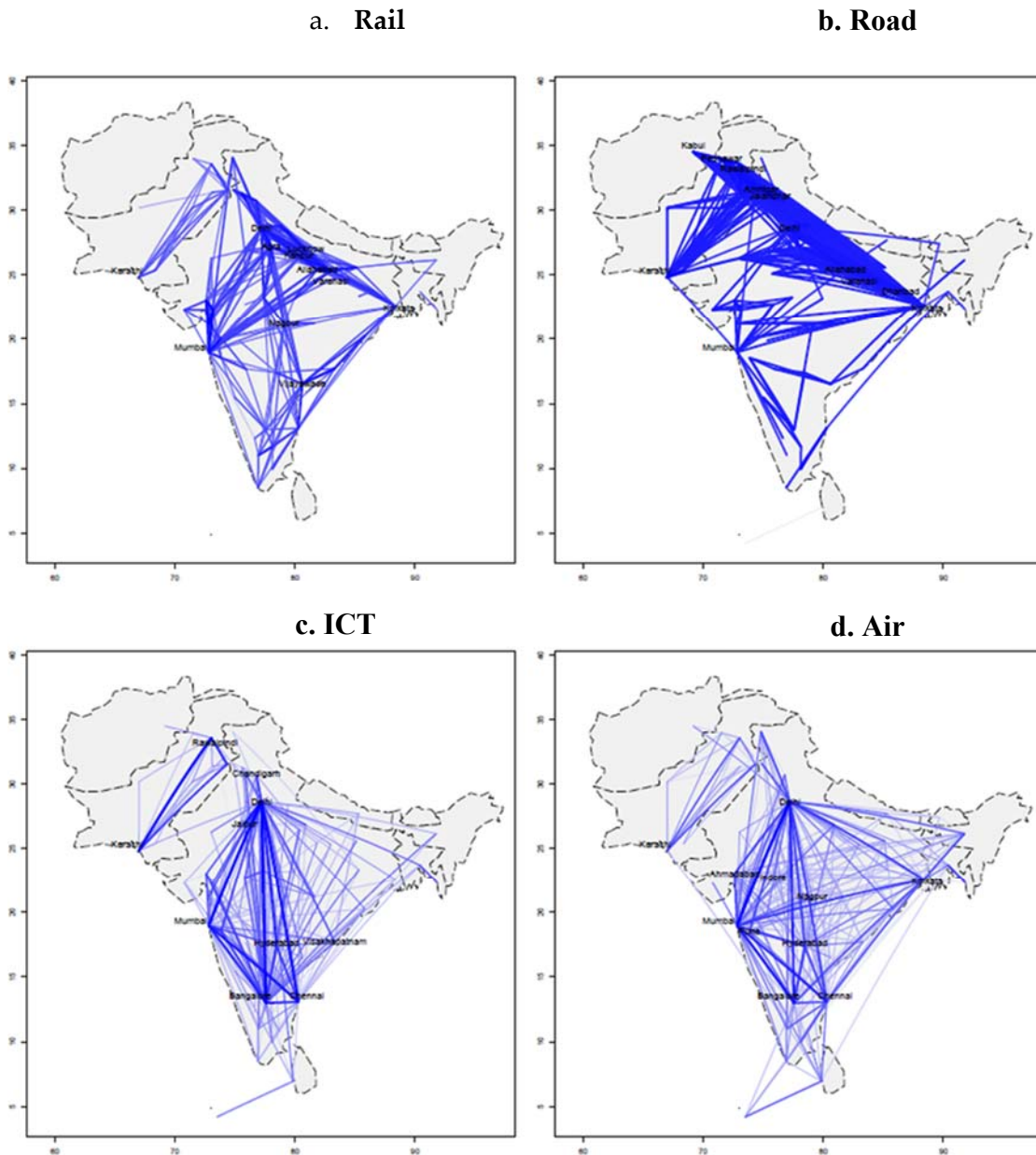
Given complementarities in the supply-demand of energy, and prevalent deficits in South Asia countries, electricity cooperation has been historically seen as a significant opportunity for cross-border trade. Many South Asian countries have engaged in bilateral electricity trade over the years, and the Bank Group continues to support such projects in the region (to be discussed later). Table E1 illustrates some of these cross-border initiatives under bilateral arrangements.

Table E1 Electricity cooperation in South Asia⁷

Participants	Cross-border Electricity Trade
India – Nepal	Nepal imported 793GWh electricity in 2013 from India over multiple interconnections.
India-Bhutan	Electricity import from Bhutan to India was 5556 GWh in 2013-14 (4627 GWh in 2012-13) from Hydro power stations at Tala, Chukha and Kurichu with a total export led capacity of 1416 MW. As per an umbrella agreement between the two countries, India assures a minimum of 5000 MW electricity import by 2020.
Pakistan-Iran	Pakistan imported 419 GWh electricity in 2014 from Iran, up from 375 GWh in the previous year.
Afghanistan-Central Asia	Import of 2,246.2 GWh electricity from Iran, Uzbekistan, Turkmenistan, and Tajikistan in 2011. CASA-1000 expected to enhance this trade.
Pakistan-India	Pakistan has submitted a draft MoU to India on importing electricity using a 1200 MW interconnection. There are also possibilities of CASA to be extended to India.
India-Sri Lanka	Feasibility studies for a 400-kV India-Sri Lanka have been conducted to support import of up to 1000 MW electricity from India.
India-Bangladesh	In 2013, power systems of India and Bangladesh were interconnected through a HVDC line that can support electricity export of up to 500 MW (expandable to 1000 MW in future) from India to Bangladesh based on negotiated price and market-based price.

Current infrastructure provides some connectivity throughout South Asia (except Afghanistan that has limited connectivity to the rest of the region). The road network is currently most developed within the region, offering highest connectivity. Air network also offers significant connectivity, potentially connecting all countries through air routes. In November 2017, a direct flight between Lahore and Delhi was introduced. In terms of regional connectivity, the most connected subregion within SAR is the North and Northeastern part of India that connects to Nepal, Bhutan, Bangladesh and Bhutan. Figure E2 illustrates the regional connectivity through infrastructure in SAR.

Figure E2 Four Network Layers Connecting South Asia

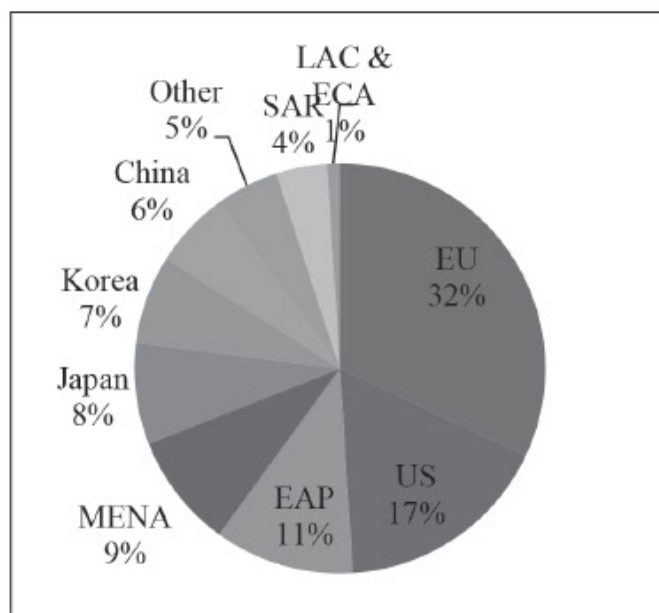


Source: World Bank, 2013.

As evidenced by previous research, the intraregional trade flows have been dwindling for a long time, owing to a culmination of various factors. Intra-regional trade in SAR is currently only 5 percent of total international trade, compared to much higher flows in well-integrated regions around the World, as can be seen in Table E2. Among many other reasons (to be discussed later), restricted FDI within SAR is also a significant contributing factor to low levels of intra-regional trade. Figure E3 below illustrates the FDI into SAR

from different regions/countries, as a percentage of total FDI. FDI from within SAR is second to lowest, totaling only 4 percent.

Figure E3 Sources of Foreign Direct Investment to South Asia



Source: Gould et. al. (2013).⁸

Table E2 Intra-Regional Trade for Different Regions

Region	Intra-Regional Trade as Percentage of Total Trade
<i>EU</i>	60
<i>East Asia</i>	35
<i>Southeast Asia</i>	25
<i>SAR</i>	5

Source: World Bank One South Asia Team.

Understanding Big Country–Small Country Dynamics and Policy Coherence at the Bank Group Level and at the Country Level

The case of Nepal and India illustrates how the region can build on the existing big-small country dynamics, capitalizing on the prevalent complementarities in the sectors of energy, trade, and transport. IEG has selected Nepal and India as one of the regional Integration case studies because of substantial World Bank Group support for regional integration in these two countries and given the highest level of cooperation between any two countries in the region. As mentioned above, given the big deficits of electricity in most South Asian countries and existing complementarities, the energy sector offers a huge opportunity for establishing a regional energy market, or at least begin by strengthening bilateral trade in the sector. The case study will look at evidence from field

and desk research to understand how India and Nepal are progressing in the sector, and what domestic factors enable or hinder their bilateral cooperation.

Understanding Policy Coherence

The potential gains from regional integration for countries in South Asia can be capitalized if these countries harmonize sector policies, and institutional coordination. In the context of a rapidly changing developing world, the global economy is becoming increasingly interconnected. World leaders argue that policy coherence can be a litmus test for countries' commitment to achieve sustainable development in a globalized and regional context (Mohammed, Amina J. 2015). In that regard, leveraging regional synergies is instrumental for implementing the SDGs development agenda. Even for the poorly integrated region of South Asia, economic opportunities and risks can reverberate easily and spill over across borders. Understanding policy coherence at different levels - within the Bank Group, between the Bank Group and counterparts, and within counterparts - becomes increasingly important because all South Asia stakeholders realize the significance of integration for the region, yet it somehow fails to take off.

A policy coherence analysis will entail looking at national priorities, The Bank Group's priorities in India, Nepal, and South Asia, and priorities set forth by regional organizations (SAARC). In theory, one can argue that international development goals of various stakeholders involved in regional integration are clear. However, such goals translating into action becomes a function of how domestic policies affect these goals. For example, trade with Bangladesh is a part of the RI agenda of India's National Development Plan, however, the protectionist local state policies put some stringent high-cost conditions on Bangladeshi battery exporters, deterring them to conduct business with Indian buyers. This is a classic example of policy incoherence (between national and state policies), that can negatively affect regional integration objectives in South Asia. This study will try to identify such aspects of policy coherence and/or incoherence in the energy sector between Nepal and India, and within the Bank Group (national and regional levels).

Strategies Mapping. The purpose of this exercise is to map strategies of major stakeholders involved in regional integration and step back to see how well they coincide to achieve their objectives. This mapping, combined with a review of operational support to regional integration can help visualize the 'intention-action' gap vis-à-vis regional integration in South Asia. Looking at this mapping (table E3), domestic policies' review, and findings from the field will largely inform the policy coherence analysis later in the study.

Three main objectives of regional integration under the Bank Group's South Asia Regional Strategy 2014 are:

Help put in place the building blocks for an integrated regional electricity market in South Asia (with links to Central Asia) to relieve energy shortages, which are a binding constraint to each country's prospects for sustainable and equitable growth.

Move South Asia toward East Asian levels of trade and investment in goods and services to enhance competitiveness and create more and better jobs for the over 10 million young people who will enter the work force each year for the foreseeable future.

Improve the in-country and cross-border authorizing environment (attitudes and policy) for RI by systematically building awareness and "championship" around the need for, and benefits from, increased regional cooperation. Building on analytical work on the costs of the status quo and high impact opportunities for cooperation, and by leveraging lessons from South Asia and global experience, the strategy will seek to both facilitate sustained action in priority areas where there is already sufficient demand across countries as well as to build support for new high priority areas.

¹ "World Economic Outlook". International Monetary Fund, 2018.

http://www.imf.org/external/datamapper/NGDP_RPCH@WEO/SAQ/WEOWORLD?year=2018

² South Asia Economic Focus, Spring 2018.

(<https://openknowledge.worldbank.org/bitstream/handle/10986/29650/9781464812842.pdf?sequence=4&isAllowed=y>)

³ World Bank Annual Report, 2017

(<https://openknowledge.worldbank.org/bitstream/handle/10986/27986/9781464811197.pdf>)

⁴ World Bank Poverty & Equity Brief, 2018.

(http://databank.worldbank.org/data/download/poverty/33EF03BB-9722-4AE2-ABC7-AA2972D68AFE/Global_POVEQ_SAR.pdf)

⁵ World Bank, 2018.

⁶ "South Asian Association for Regional Cooperation". International Democracy Watch, 2018.

<http://www.internationaldemocracywatch.org/index.php/south-asian-association-for-regional-cooperation->

⁷ "Cross-Border Electricity Cooperation in South Asia". Singh, A. et. al. World Bank (2015).

<https://openknowledge.worldbank.org/bitstream/handle/10986/22206/Cross0border0e0ration0in0South0Asia.pdf?sequence=1&isAllowed=y>

⁸ Gould, D., C. Tan, and A.S.S.Emamgholi (2013). Attracting foreign direct investment: what can South Asia's lack of success teach other developing countries? World Bank Policy Research Working Paper # 6696, Washington, D.C.

Table E3 Overview of Institutional and Regional Strategies and Relevance of Regional Integration

	Country Assistance Strategy 2004-2008	Country Assistance Strategy 2009-2012	Country Assistance Strategy 2013-2017	Twelfth Five-year plan (2012-2017)
India				
Overarching Objective	MDGs	MDGs	Economic growth, Poverty reduction, Shared prosperity	Inclusive growth & poverty reduction.
National Priorities	Improved governance, investing in people & communities, promoting private sector led growth	Achieving rapid, inclusive growth, ensuring sustainable development, effectiveness of service delivery.	Integration, Transformation, Inclusion	Agriculture, education, health, infrastructure development (including energy & roads), ICT, rural and urban development.
Regional Integration	Not a priority and not a part of programming in India	Still not a pillar of CAS, but a pillar for IFC FY 09-11 strategy, that becomes a significant part of overall WBG CAS.	Key outcome of the "Integration" engagement area	Not a priority for the NDP, but constitutes a minor part of programming. More emphasis is given to road and waterways connectivity to Thailand, Myanmar, and Bangladesh ("Look East Policy"). Another highlighted RI aspect was the realization of hydropower potential from Northeast and integration of Indian electricity grid with Bhutan and Nepal, to export surplus power to Bangladesh.
RI Energy Portfolio	Around \$75 million, with one IFC investment (Powerlinks) focusing on sub-national power deficits, with a very loose connection to RI by way of Tata's Hydro power operations in Nepal. A WB AAA study assessing regional power trade	n/a	n/a	500 MW between Bangladesh and India through Berhampur (India)–Bheramara (Bangladesh) 400 KV DC, 125 km line

			<p>along with 1 × 500 MW HVDC back to back asynchronous link.</p> <p>With Nepal: Upper Karnali (900 MW, with over 80percent export to India, giving NEA 27percent equity stake without investment)</p> <p>ARUN III (900 MW, also being implemented by Sutej, an Indian SOE)</p>
Nepal			
	Country Assistance Strategy 2004-2007	Country Assistance Strategy 2014-2018	Thirteenth National Development Plan (2013-2016)
Overarching Objective	MDGs	<p>to achieve job-centered, poverty-reducing, sustainable and broad-based economic growth, with the joint efforts of the government, private and community/co-operatives sectors;</p> <p>to develop physical infrastructure to support both the future federal structure of the nation and regional economic development;</p> <p>to emphasize inclusive and equitable development to achieve sustainable peace;</p> <p>to contribute to socioeconomic and social services;</p> <p>to make development results-oriented through ensuring good governance and effective service delivery; and</p> <p>to boost economic growth and stability by strengthening the private sector and promoting industrialization, trade and services.</p>	<p>MDGs;</p> <p>To upgrade Nepal from a least developed to a developing country by 2022;</p> <p>Bring about a direct positive change in the living standards of the general public by reducing the economic and human poverty prevalent in the nation</p>
National Priorities	Broad-Based Economic Growth (including expanded coverage and improved quality of electricity by greater engagement of the private sector), social sector development, and good governance.	<p>Pillar I: Increasing economic growth and Competitiveness: this includes an outcome area of Increased supply of electricity, including import, and improved access to reliable and affordable electricity within Nepal.</p>	<p>Develop hydropower and other energies;</p> <p>Increase the productivity, diversification and</p>

Appendix E

Policy Coherence Analysis

		Another outcome of this pillar relevant to RI is Improved transportation connectivity, internally and with India. Pillar II: Increasing inclusive growth and opportunities for shared prosperity	commercialization of the agricultural sector; Develop the basic education, health, drinking water, and sanitation sectors; Promote good governance; Develop roads and other physical infrastructure; Develop tourism, industrial, and trade sectors; Protect natural resources and the environment.
Regional Integration	Not a priority and not a part of programming in Nepal	Main outcome area	RI is embedded in almost every operating policy across different sectors, including energy and transport. At strategic level, national priorities are also aligned with SAARC development objectives of addressing regional and international commitments.
RI Energy Portfolio	n/a	\$138 million for WB-Lending projects on cross-border trade with India. Another \$8.5 million allocated for IFC infra-ventures in energy sector in Nepal, but they did not materialize due to limited institutional capacity and lack of political will.	Upper Karnali (900 MW, with over 80percent export to India, giving NEA 27percent equity stake without investment) ARUN III (900 MW, also being implemented by Sutlej, an Indian SOE)

South Asia

Institution	World Bank Group	SAARC
Policy Framework	South Asia Regional Strategy	SAARC Framework Agreement for Energy Cooperation (ELECTRICITY) South Asian Free Trade Agreement (SAFTA)

Appendix E Policy Coherence Analysis

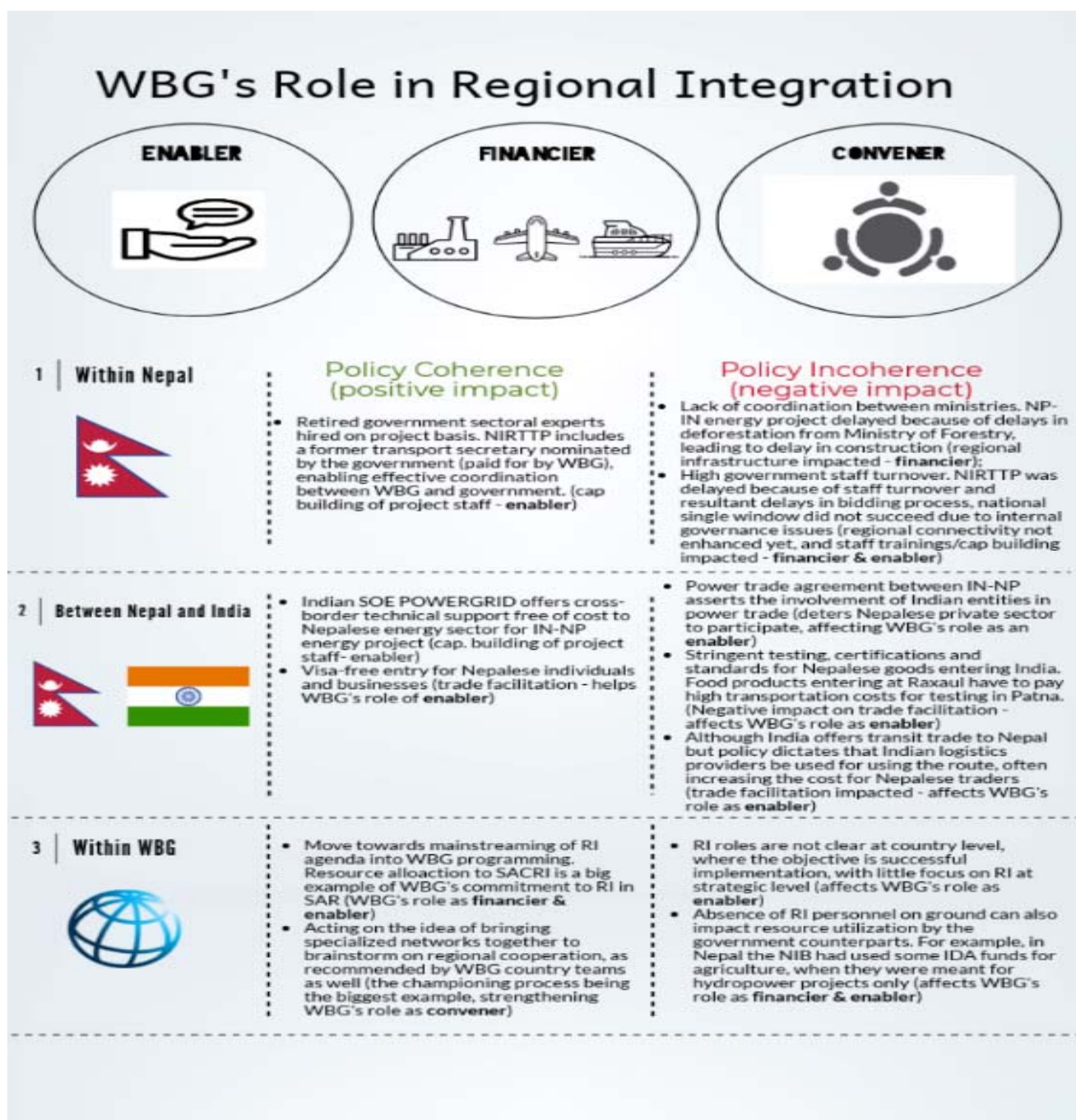
Overarching Objective	<p>Help put in place the building blocks for an integrated regional electricity market in South Asia (with links to Central Asia);</p> <p>Move SAR towards East Asian levels of trade and investment;</p> <p>Improve the in-country and cross-border authorizing environment (attitudes and policy) for RI.</p>		<p>Cross-border trade of electricity on voluntary basis subject to laws, rules and regulations of the respective Member States and based on bilateral/trilateral/mutual agreements between the concerned states.</p>	<p>eliminating barriers to trade in, and facilitating the cross-border movement of goods between the territories of the Contracting States;</p> <p>promoting conditions of fair competition in the free trade area, and ensuring equitable benefits to all Contracting States, considering their respective levels and pattern of economic development;</p> <p>creating effective mechanism for the implementation and application of this Agreement, for its joint administration and for the resolution of disputes; and</p> <p>establishing a framework for further regional cooperation to expand and enhance the mutual benefits of this Agreement.</p>
Regional Integration RI Energy Portfolio	Main outcome area		n/a	<p>Main outcome area</p> <p>No mention of energy or energy trade.</p>
		<p>Central Asia-South Asia (CASA) 1000 Electricity Transmission Project (FY14, US\$1,160m of which IDA US\$510m);</p> <p>Pakistan-India Electricity Transmission and Trade Project (FY15, US\$180m est.);</p> <p>Nepal Hydropower Development (FY15-16, Funding amount TBD).</p>		

Source: IEG.

Based on the above, given the inexperience of South Asian countries in cross-border initiatives and the prevalence of a restricted regional market, institutional and state policies become the driving force behind the regional integration agenda. As discussed earlier, policy coherence is instrumental in the implementation of economic development agenda and becomes increasingly relevant in the context of a politicized region that needs strong government commitment to engage in any cross-border initiatives. Policy coherence (or incoherence) applies when reviewing domestic policies of countries, their policies vis-à-vis trade partners, the Bank Group's own policies and structure, and the alignment of Bank Group policies with national priorities.

The strategies review summarized in Table 2 shows us that WBG's country strategies and regional strategies are aligned with national priorities of Nepal and India. However, the impact and usefulness of these strategies and policies is determined by seeing how well they are aligned with the practices in the field. For example, India and Nepal's bilateral relations have been consistently very positive, with both countries committing to strong trade relations at the policy level. However, Nepalese exporters bringing food items into India through Raxaul crossing are required to get their commodities certified from Patna (over 200 km away) before being allowed to cross into mainland India to reach Calcutta. This is an example of policy incoherence, where a certain policy forged at strategic level may not be implemented effectively due to incoherent practices or lower/state-level policies being different from federal policies. It is useful to understand policy coherence given the Bank Group's internal structure and how policies affect bilateral relations between India and Nepal in the context of regional integration. Policy coherence/incoherence can have a positive/negative impact on Bank Group's own role as the enabler, financier, and convener of regional integration in South Asia. The lessons on policy coherence were found through evidence of existing practices from the field, review of Bank Group, regional and national strategies in South Asian countries and the region as a whole. These findings are summarized in the infographic (figure E4) below.

Figure E4 Infographic on Policy Coherence in South Asian Regional Integration



Source: IEG Findings from Field and Desk Research.

Appendix F. Consensus Analysis

This section presents the consensus analysis derived from structured interviews and donor coordination council workshops in Central Asia and South Asia as part of the regional cases, derived from meeting with several groups of stakeholders. table F1 presents the results from Central Asia, by stakeholder groups versus the consensus views (positive, negative, or neutral), and table F2 presents the results from South Asia.

Table F.1. Central Asia: Feedback on World Bank support by stakeholder type

	Negative	Neutral	Positive
Government	1. Delay in lending approval and procurement	1. WB is leading on Energy and Water, while ADB is leading on Transport	1. The WBG's support is aligned with national priorities in terms of sectors 2. WBG's influence is high, as is that of other IFIs 3. WBG's lending rate is competitive 4. Technical assistance that benefits from global expertise 5. Concessional financing and grants are very appreciated 6. Institutional capacity development is appreciated (especially in Kyrgyz Republic and Tajikistan)
Private Sector Clients	1. <i>Delays in lending approval by IFC (ECT)</i> 2. <i>IFC lending rate is no longer competitive (Optima, FMFB)</i>	1. IFC is less active in the market than ADB and EBRD	1. IFC support to credit information bureaus is a big success
Business Associations (freight-forwarders and national chambers of commerce)	1. Insufficient engagement with business associations both in consulting with them and providing access to financing	1. Harmonization of regulations is needed across different Central Asian countries to support regional trade and transportation sectors, where the WBG can provide support 2. <i>Support is needed to develop capital markets (Atameken)</i>	1. WBG has influence on national decision makers
Development Partners	1. Weak local presence with projects being	1. Better collaboration with the private sector is needed	1. WBG's influence is significant, especially on

Appendix F Consensus Analysis

managed remotely from the headquarters	2. Technical assistance is needed to harmonize standards across the countries	policy-making and large- scale investment 2. Concessional financing and grants are WB's competitive advantage 3. WB can provide advisory services based on global expertise
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Source: IEG structured interviews, data obtained from clients and Bank Group Staff during field missions and desk reviews.
Note: Consensus on a specific item was based on factors cited by at least three stakeholders during the interviews.

Table F.2. South Asia: Feedback on the World Bank support by stakeholder type

	Positive	Negative	Neutral
WBG TTL/CMU	<p>The RI agenda is being pursued, which is a much-needed push for the region;</p> <p>WBG leveraging its convening power to mainstream RI agenda in regional dynamics</p>	<p>WBG is not the leader in RI, it needs to collaborate more with ADB and other DPs.</p>	<p>It will be helpful to incentivize RI initiatives, currently they are just outsourced to country teams;</p>
Government counterparts	<p>WBG's robust analytical support;</p> <p>WBG's financial resources and budget support is very helpful;</p> <p>WBG's sectoral expertise.</p>	<p>Complexity in project design;</p> <p>Delays in implementation due to reporting requirements;</p> <p>Often ambitious objectives;</p>	
Private Sector	<p>WBG's role as a convener holds the key to unlock RI potential by bringing stakeholders like sector associations and private sector companies together</p> <p>Companies working with IFC have benefitted from management/capacity building support.</p>	<p>Limited support by IFC, especially advisory services;</p>	<p>WBG's underutilized convening power has the potential to integrate financial sectors across borders;</p> <p>Financial instruments like political risk guarantees can really help mobilize FDI;</p> <p>In Nepal, IPPs are not given the incentive to export in USD, when the project agreement and FDI comes in USD. WBG's support can really incentivize the private sector in this area.</p>
Development Partners	<p>WBG's analytical support to project preparation is very useful;</p> <p>WBG is proactive in coordinating activities other agencies;</p> <p>WBG's convening power is very helpful in bringing</p>	<p>WBG's RI agenda is not clear and generally not fully reflected in country program and interactions with country teams.</p>	<p>WBG can play an important role in inter-ministerial coordination.</p>

strategic partners and
resources together.

Source: IEG structured interviews, data obtained from clients and Bank Group Staff during field missions and desk reviews.

Note: Consensus on a specific item was based on factors cited by at least three stakeholders during the interviews.

Appendix G. Lessons from Regional Integration Operations

This section provides a summary of lessons of experience gleaned from a review of all closed, self-evaluated and validated Bank Group projects from the RI portfolio. The lessons are then categorized as lessons focused on internal issues and external issues.

Lessons- internal issues

Project Preparation & Design

Improving preparatory assessments of the capacity and commitment of stakeholders is a central theme to project preparation and design lessons across all sectors (P075776, P090731, P074525, P108368, P116595). The need for **early engagement** with relevant stakeholders and partners is emphasized for an appropriate assessment of the depth of commitment, and of the feasibility of targeted interventions. Based on these lessons, the design of a regional project should be strongly grounded on a clear need for a regional intervention, a common understanding of objectives among all countries, and clearly defined implementation arrangements, prior to Board approval (P090731, P104670, P110616, P115414, P116595). In the case of the Eastern African Agricultural Productivity intervention (P112688), ensuring that sufficient time was spent on such coordination and collaboration improved the relevance, alignment, and impact of agricultural research activities at the country level.

For some projects, internal lessons point to overambitious project design, particularly in the Transport sector (P078643, P079734), where lessons state that more consideration should be given to the institution's financial and human resource constraints (P099833, P070256). The E. Africa Trade & Transport Facility intervention (P079734), for example, entailed trade and transport facilitation activities in addition to railway concession activities across four countries; essentially rolling six projects into one.

In a few cases, the time window of availability of IDA-resources is perceived as constraining to project preparation time. This is particularly significant in the ICT sector, where coordination between participating countries was critical to project design (P100635, P108368, P116542). In the case of the Organization of Eastern Caribbean States (OECS) E-government for Regional Integration Program (P100635), the World Bank team attempted to prepare the project prior to the closure of the IDA funding window. This resulted in an overambitious design because of the poor appraisal of local capacities and national ownership, affecting the project's readiness for implementation in the four participating countries. Similarly, the availability of IDA resources rushed the submission of the AFR: Central African Backbone (P116542) intervention for Board approval, despite

the withdrawal of Cameroon—the central pillar and largest economy among the participating countries. This made the conditions of Financing Agreement effectiveness unrealistic, leading to the cancellation of grants.

Some lessons suggest that the complexity of regional projects should be addressed through flexible project design (P098248, P090656). In the case of the Eastern Nile Planning Model project (P103639), design focused on attaining objectives rather than rigid implementation modalities. This allowed for adaptive management, and for implementation to happen despite Egypt and Sudan's freezing of Nile Basin Initiative activities. However, for the Global Environment Facility: Governance and Knowledge Generation project (P118145), though flexibility in design allowed for better alignment to the needs of beneficiaries, it also weakened the project's results framework.

Monitoring and Evaluation

Relating to monitoring and evaluation (M&E), lessons in the Finance & Markets and Environment & Natural Resources sectors emphasize the need for a proper M&E results framework, with clearly stated indicators aligned with project development objectives (P072202, P074525, P092473, P099833). Two projects in the Transport sector point to the importance of capturing both regional and national dimensions in M&E frameworks (P083751, P108368). This can improve the assessment of causal linkages between project outputs and outcomes and help in streamlining regional projects into country programs. As emphasized throughout interventions, M&E should be focused on outcomes rather than process issues.

Project Management & Implementation

In project management & implementation, many lessons also arise in the context of project restructuring and redesign relating to Energy, Environment & Natural Resources, Finance & Markets, and Transport (P090656, P105329, P090731, P118145, P099733, P116542). Lessons emphasize the value of continuous monitoring of project performance to recognize the need for project restructuring early-on. However, project redesigns require careful analyses of consequences and compensatory measures to be successful. In the case of ECSEE APL2 – Albania (P090656), simple restructuring was critical to the successful achievement of development objectives. On the other hand, the project performance of the CEMAC Regional Institutions Support intervention (P099833) suffered from required restructuring not taking place when it needed to.

Across projects in the Environment & Natural Resources, Water, and the Finance & Markets sectors (P077187, P090731, P092473, P074525, P099833, P093826), **lessons in project management & implementation call for arrangements to be made and properly documented.** The SRB M. Water Res. Dvpt APL (P093826) implementation agreement and

close collaboration between implementing agencies kept the project moving forward despite three military coups in four of the countries. Simple and streamlined processes with an appropriate selection of project activities are necessary to regional interventions with broad geographical coverage to address coordination challenges, and to avoid subsequent delays. Relating to implementation plans, some lessons from Transport and Water sector projects point to unrealistic implementation timeframes set to achieve project development objectives (P079749, P083751, P116595). The West Africa Transport & Transit Facility project specifies that longer implementation time is required for activities that relate to behavioral and practice changes (P079749).

Lessons – external challenges

Political Economy / Country Context

Consideration for political economy issues and country context is the most common external theme across all sectors. Three projects pointed to the importance of carefully assessing the advantages of a regional intervention, specifically, with consideration to political contexts, regulatory regimes, and institutional set-ups of participating countries (P105331, P096058, P093826). As emphasized in a number external lessons, the inherent complexity of projects involving multiple countries, implementing agencies, and competing priorities requires a careful assessment of related risks and opportunities to ensure the feasibility of a regional intervention (P096068, P074011, P082502, P087003, P104523, P079610, P083751, P108368, P117652).

This is especially true for infrastructure investments in the Energy and Transport sectors where attention should be placed on assessing both supply-side and demand-side trends ex-ante (P082502, P105329, P117652, P083751, P108368). The example of the West African Gas Pipeline project (P082502) emphasized the lack of attention placed on supply-side risks and consequently, the difficulty of enforcing specific agreements without practical sanctions. As explained in the ICRR, the project's risk assessment focused on economics and finances, which were critical to the participation of private oil companies, however, assessment of the risks to the project development objective of improving competitiveness in the three countries' energy sectors were lacking. The ET/Nile Basin Initiative: ET-SU Interconn (P074011) lessons explains that the inherent complexity of transmission projects is compounded by political economy challenges. This should be considered in project design through the provision of contingencies and adequately reflected in targets.

Partnerships

Lessons relating to partnerships applied to projects across sectors. The need for strong commitment from partners was emphasized in projects in Energy sector (P090656, P105331). However, many lessons applied broadly to multidonor partnerships,

specifically in the Environment & Resources and Water sectors (P075219, P075776, P103189, P105711, P116595, P070256). These emphasized the need to streamline institutional procedures when other multilateral agencies are involved, and to ensure that responsibilities are shared to minimize the burden of processes. The Africa Stockpiles projects' lessons in the Environment & Natural Resources sector state that clarity on oversight and coordination responsibilities should be ensured through concise, time-bound and budget-related terms of references for all partners to improve implementation (P075776, P103189, P105711). This was reiterated by the EN 1st Joint Multipurpose Program ID (P116595) lesson, which states that it is critical to develop and agree on terms of engagement that specify required resources (financial and personnel) and level of effort required from the various stakeholders.

Client Engagement and Institutions

The need for sound and consistent client-engagement was also highlighted across sectors. As emphasized across lessons in project design, it is critical to ensure ownership and commitment at the country level to ensure sustainability (P095169, P105331, P072202, P077187, P087003, P079610, P078643). The lesson from GEF Livestock Waste Management (P079610) explains that the project succeeded in gaining strong commitment from all stakeholders through the integration of project interventions with governments' mainstreamed programs and implementation through existing institutional mechanisms. The GEF Building IABIN – Inter-Am Biod project (P077187) lesson adds to this. Although this specific intervention was built on strong country ownership through existing political and global processes, the related lesson states that **engagement from national focal points remained low due to lacking incentives** for all levels of participants to engage.

Access to institutions with strong technical knowledge benefit projects in the Agriculture, Environment & Natural Resources, Finance & Markets, and Water sectors, projects (P112688, P098243, P112456, P093826). However, two of the lessons in Agriculture and Finance & Markets emphasize that ensuring the sustainability of access to this knowledge is key. Projects in the Water and Finance & Markets sectors also state that coordinating bodies and **regulatory institutions** are necessary to cooperation (P112456, P110616, P117170). In the GEP Coordination & Capacity Building NASA project in MENA (P117170), the Arab Water Council (AWC) was said to play a crucial role in coordinating with all participating countries, which helped the project coordination units in project implementation. The AWC had national and regional links and could ensure efficient coordination and help in knowledge sharing and exchange at the regional level.

Appendix H. IDA Regional Window

This section provides an overview of the IDA Regional Window (RW) Program. The following sub-sections describe the evolution of the regional window, a review of the IDA RW portfolio, comparisons of the portfolio and results vis-à-vis the non RW-supported interventions, the review of the rationale for Africa regional concentration through the window and the results on the review of spillover effects from IDA RW supported interventions.

Evolution of IDA RW

The Bank Group enhanced its support to regional integration by launching a pilot regional program in 2003 under the IDA13 replenishment. Over the last 14 years, the IDA regional program expanded substantially in terms of resources allocation and geographical and sectoral coverage.

IDA14 introduced a 20-percent cap on national IDA contributions to regional projects to provide an additional incentive for countries with small allocations to participate in RI efforts. In 2009, IDA15 piloted regional grants of up to 10 percent of the regional IDA envelope to regional institutions supporting the implementation of IDA regional projects. Under IDA16 (2011–13), the total commitments of regional projects supported by the IDA regional program reached US\$4.3 billion to support 48 projects across five regions. And while infrastructure still represented the largest share (92 percent by number) of projects financed by the IDA regional program, support to the health sector and fragile and conflict-affected states (FCS) experienced a notable increase. The project eligibility criteria were revised to better serve the purpose of supporting regional integration. Under IDA16, to better support FCS countries, the minimum number of countries required to leverage regional IDA program funding was adjusted from three to two, provided one country is an FCS state. Under IDA18 (2018–2020), given the persistent unmet demand for the program, the IDA Regional Program was increased significantly to SDR5 billion. This envelope includes SDR1.4 billion for a newly established refugee sub-window for IDA countries that host refugees, with the aim to promote more effective, equitable and sustainable solutions to refugee crises.

Source: IEG summary based on IDA reviews and Bank Group Strategy documents.

IDA RW Criteria for supporting regional projects

To be eligible for support under the IDA's regional program, initiatives must:

a) Involve three or more countries, all of which need to participate for the project's objectives to be achievable and at least one of which is an IDA country. The required

minimum number of countries is reduced from three to two if at least one IDA FCS participates in the regional project;

b) Have benefits that spill over country boundaries (e.g., generate positive externalities or mitigate negative ones across countries);

c) Have clear evidence of country or regional ownership (e.g., by ECOWAS or SADC) which demonstrates commitment of most of participating countries; and

d) Provide a platform for a high level of policy harmonization between countries and be part of a well-developed and broadly-supported regional strategy.

In addition to the regional project eligibility criteria described above, two additional criteria are applied to prioritize projects, including:

e) Regional projects should avoid funding primarily national-level investments with regional resources. The specific investments proposed within a regional project should have clear externalities, not just the regional concept itself; and

f) Given the high demand for IDA regional project financing, IDA funding should be considered only once other options have been ruled out. Leveraging other resources and working with development partners are strongly encouraged.

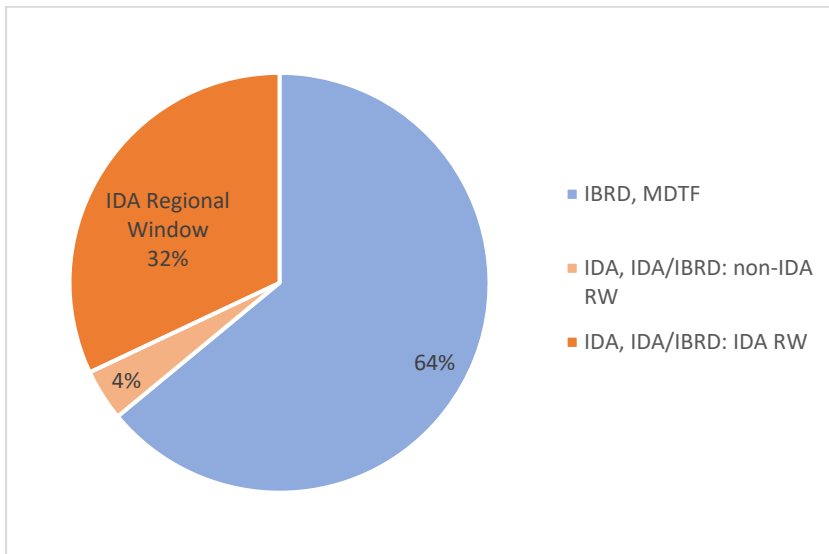
IEG Portfolio Review and Analysis

There's an increasing trend IDA regional support in terms of project number and allocation. 67 countries¹ were covered by IDA Regional Window, 140 projects² utilized IDA Regional Window during the evaluation period (Figure H1). \$14b commitment from IDA. Covered 75 percent of IDA and IDA/IBRD investment projects in the World Bank RI portfolio. Majority of the loan offered by the IDA regional window was through credit. Though grant is in high demand according to interviews with clients, due to the original design purpose,³ most of the recipients are regional institutions. Individual countries that received the grant are mainly those affected by fragility, conflict, and violence (FCVs) (table H1). A large amount of IDA regional window beneficiary countries are FCVs, landlocked countries, and small states (figure H2). All IDA landlocked countries and small states were covered from the window, accounted 27.4 percent and 7.3 percent of the total window commitment accordingly; 39.3 percent of the commitment was invested in FCVs (Table H2). However, still, several regional integration projects were qualified but not supported from the window.⁴ Overall, there are 187 RI projects that are delivered through IDA or IBRD/IDA agreement IPF projects. 47 of them didn't get resources from the window. Tables H3 and H4 present additional information on IDA Regional Window contributions by loan-type and beneficiary client group types.

Appendix H

IDA Regional Window

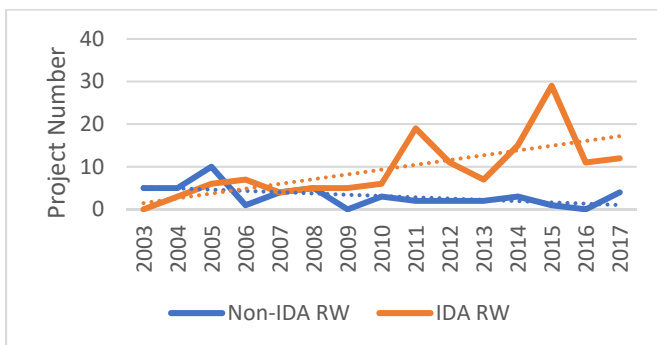
Figure H.1. Share of IDA Regional Window Funded Projects in RI World Bank Lending Portfolio (All lending instrument type included)



Source: IEG.

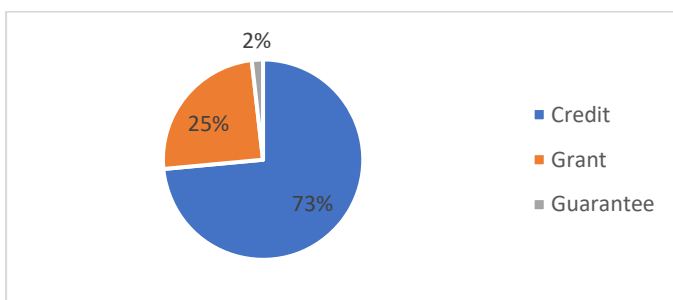
Note: IBRD = International Bank for Reconstruction and Development; IDA = International Development Association; MDTF = multidonor trust fund; RW = Regional Window.

Figure H2. Evolution of Projects Using IDA Regional Window (IDA RI IPF projects only)



Source: IEG.

Figure H3. IDA Regional Window Commitment by Loan Group



Source: IEG.

Table H1. Commitment by Loan Group

Loan Group	Regional Window CMT. (\$m)	The share of Total IDA RW CMT.
Credit	5718.29	73.52%
Grant	1919.50	24.68%
Guarantee	140.00	1.80%
	7777.78	100.00%

Source: IEG.

Table H2. IDA Regional Window Commitment to Landlocked/FCVs/Small States

	Countries Covered (# and %)	Commitment Amount (\$m)*	The share of IDA RW
Small States	17 IDA Countries 100%	\$0.61b	7.3%
Landlocked	21 IDA Countries 100%	\$2.3b	27.4%
FCVs	37 N/A	\$3.3b	39.3%

Source: IEG.

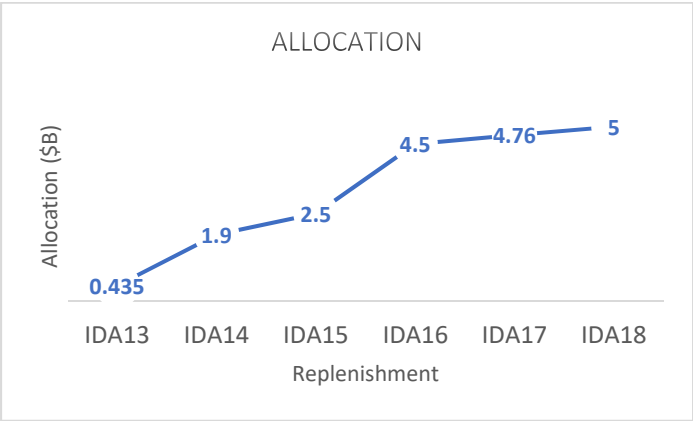
Note: *There is overlap between commitment on Small States, Landlocked, and FCVs.

Comparison of Regional Integration projects with and without IDA regional window funding

Growing; However, Imbalanced Resource Allocation

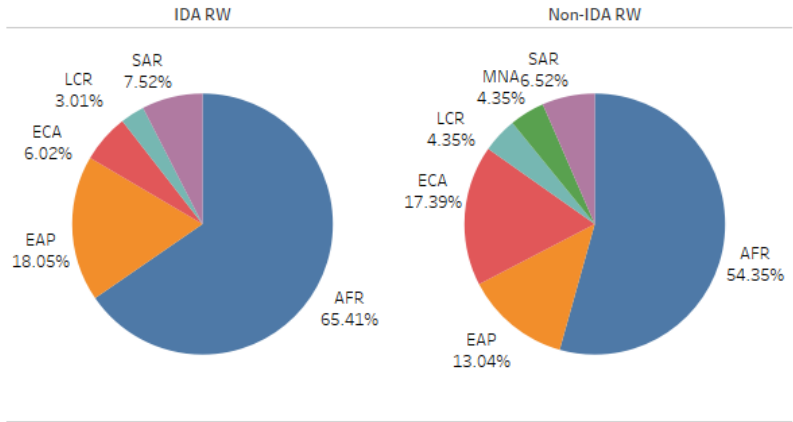
During the five cycles, IDA RW allocation grew from US\$0.4 billion to nearly US\$5 billion in IDA18 (figure H4). Though nearer to the estimated frontier,⁵ Sub-Saharan Africa is still crowded by IDA regional integration projects. No matter whether the group received the window support or not, in terms of project numbers, the share of Africa projects in the regional integration portfolio is much higher than that of other regions; 65 percent for the window-funded portfolio and 54 percent for the IDA portfolio without the window support (figure H5). However, a large amount of ECA IDA regional integration projects in Europe and Central Asia did not benefit from the IDA regional window. Only 50 percent of IDA investment project financing (IPF) projects in ECA gained investment from the window, while that number for other strategic prioritized regions like Sub-Saharan Africa and South Asia were only about 20 percent (figures H6, H7, H8).

Figure H.4. IDA Regional Window Allocation



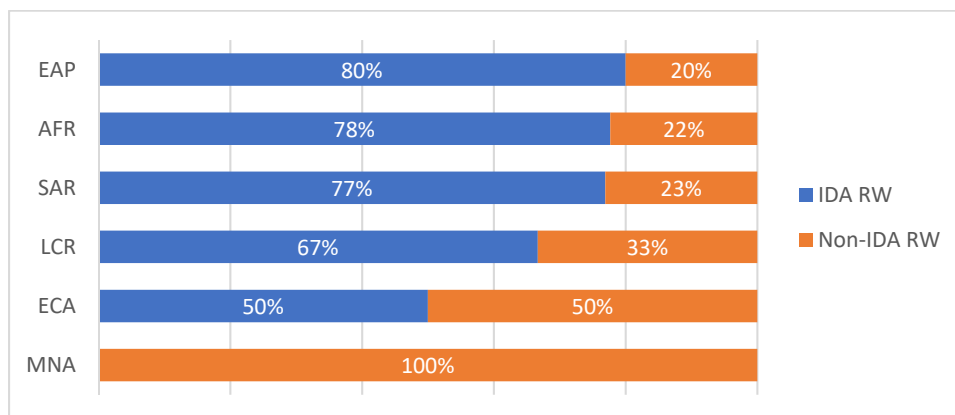
Source: IEG.

Figure H5. Region Distribution (by percentage of number of projects)



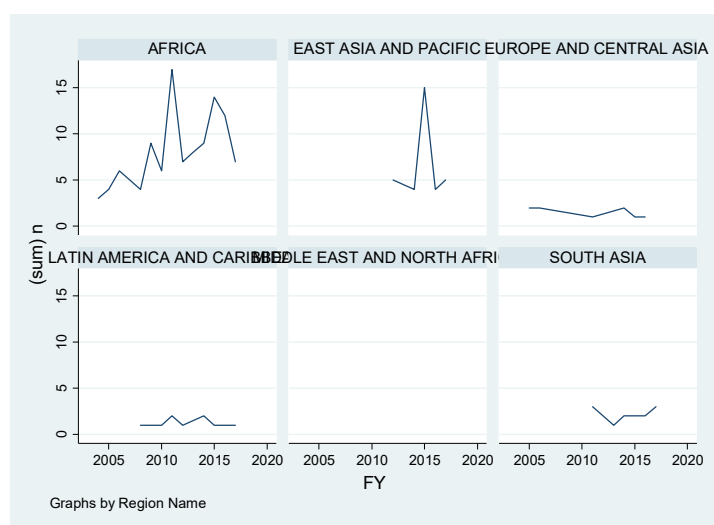
Source: IEG.

Figure H6. Share of Projects Benefited from IDA RW by Region (percent of project numbers)



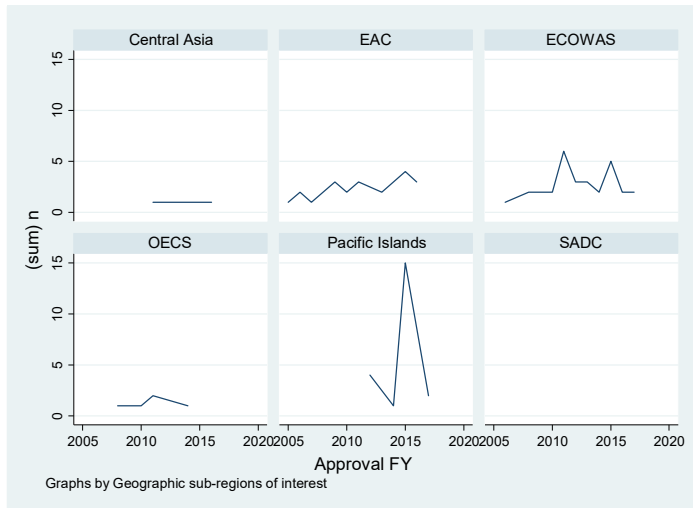
Source: IEG.

Figure H7. IDA Regional Window Project Evolution by Region



Source: IEG.

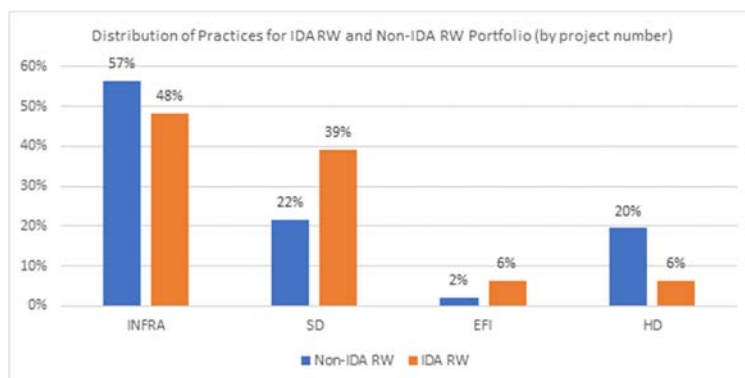
Figure H8. IDA Regional Window Evolution by Subregion



Source: IEG.

Both the IDA Regional Window and non-IDA Regional Window portfolio concentrate on the infrastructure sectors; however, the Regional Window portfolio covers more projects in the social development sectors, especially on the regional public goods sectors like the environment and water. Accordingly, 100 percent and 95 percent of the IDA regional integration investment projects in the water sector and the environment sector were funded by the IDA Regional Window (figure H9).

Figure H9. Intervention Type Comparison



Source: IEG Portfolio Review and Analysis.

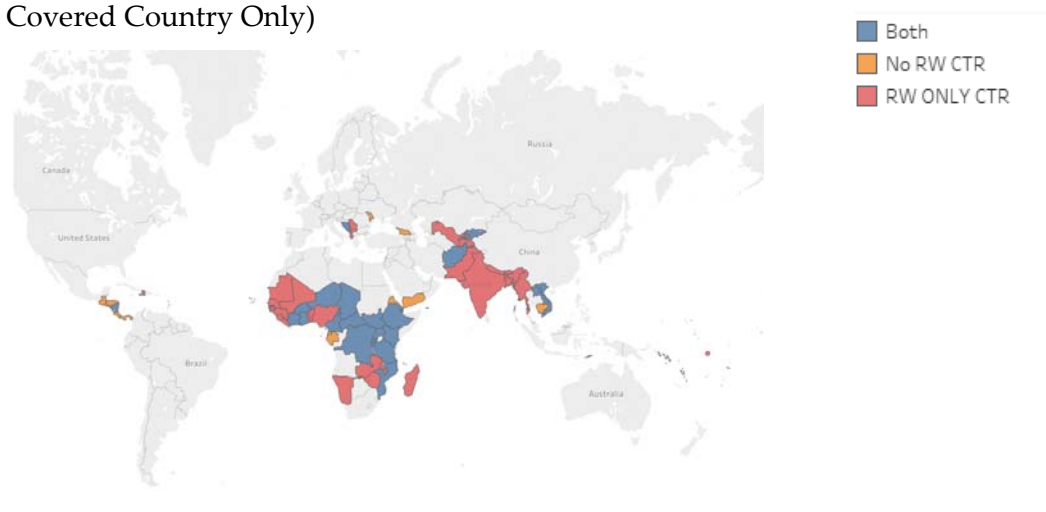
Note: INFRA = Infrastructure; SD = Social Development; EFI = Equitable Growth, Finance, and Institutions.

Focused but some clients left behind

Although 81 percent of recipient countries of the IDA regional window are FCV, landlocked countries, or small states, six IDA or “blend” countries with delivered IDA regional integration projects but with no coverage by the window in the evaluation

period (figure H10). For example, the IDA country Cambodia implemented, overall, one regional integration investment lending project (P105329 GMS Power Trade Project) to enhance regional power trade within the Great Mekong Subregion. This project relied exclusively on \$18.5 million IDA grant to Cambodia but with no IDA regional window allocation.

Figure H10 Country Coverage (IDA, IBRD/IDA Agreement-Type Investment Project That Covered Country Only)



Source: IEG.

Table H3 Countries Implemented IDA RI Project but not Covered by the Window

Country	Lending Category	FCV	Small State	Landlocked	Project Number
Eritrea (multi-country IDA project)	IDA	1	0	0	1
Cambodia	IDA	1	0	0	1
Kosovo	IDA	1	0	1	2
Moldova	Blend	0	0	1	1
Timor-Leste	Blend	1	1	0	1
Yemen, Rep.	IDA	1	0	0	1

Source: IEG.

Though grants from the IDA Regional Window are in high demand among client countries, regional institutions are still the main recipients. Except for 10 countries that benefited from the window only through the grant (all the countries are either landlocked, small states, or FCV countries), mainly the recipients are regional institutions like Dar es Salaam Corridor Committee (table H4).

Table H4. IDA Regional Window Grant Only Recipients

Country	small	statelocked	Income group	FCV
Countries Afghanistan	0	1	Low income	1
Burundi	0	1	Low income	1
Comoros	1	0	Low income	1
Kiribati	1	0	Lower middle income	1
Maldives	1	0	Upper middle income	0
Marshall Islands	1	0	Upper middle income	1
Micronesia, Fed. Sts.	1	0	Lower middle income	1
São Tomé and Príncipe	1	0	Lower middle income	1
Tuvalu	1	0	Upper middle income	1
Haiti	0	0	Low income	1
Regional Institutions AAU				
AUC				
CCARDESA				
Central Asia (institution)				
Dar es Salaam Corridor Committee				
ICGLR				
IGAD				
India Ocean Commission				
Regional Institution				
Regional Institution (Pacific Community)				
WAPP Secretariat				

Source: IEG.

AFR Concentration

IEG review of IDA RW MTRs and other related documents revealed the following key reasons why the regional program is concentrated in Sub-Saharan Africa.

- The IDA Directors at inception intended for the Regional Window to finance projects in Africa, particularly infrastructure projects in Sub-Saharan Africa to increase the global competitiveness of the region.
- There is increasing need and demand for regional projects in Sub-Saharan Africa which is strengthened by the realization of regional integration as a strategic development priority by African leaders.
- IDA Regional Window projects are strongly aligned with the strategic priorities of African regions as outlined in the Country Assistance Strategies.
- Regional economic communities (RECs) in Africa have also embraced the regional integration agenda and have benefited from IDA Regional Window funding.

- As long as other regions do not increase their demand for regional projects, the majority of IDA Regional Window funding will finance projects in Sub-Saharan Africa once there are well-designed and eligible projects in the region.

The above rationale suggests the strong directionality provided by the Africa Regional Integration Assistance Strategy, the confluence of political will from the client countries, RECs, and Bank Group business model adjustments, new mechanisms and strategic prioritization.

Review of spillover effects

Economic conditions abroad—including growth rates and income levels—are thought to influence a country's growth through several channels.⁶ The most obvious channel is trade linkages: a rise in trading partners' growth leads to an increase in their demand for imports, which then contributes directly to an increase in the net exports of the home country. Moreover, the positive implications of trade for economic growth are not limited to countries that run surpluses, because countries can benefit from technology transfers and other efficiency gains associated with regional and international trade. With growing foreign direct and portfolio investment, the spillover effects of trading partners may also be transmitted through financial linkages. Further, literature suggests the interest among regional actors, and economic geographers use spillover effects to analyze regional growth dynamics. The interest arises from the fact that spillovers represent pure externalities producing noncompensated advantages for receivers, that could lead to ad hoc interventions by the regional actors. Finally, there may be indirect effects, with business and consumer confidence in major countries influencing confidence in other countries as reflected in this evaluation's theory of change.

For the purposes of this evaluation, spillover effects will refer to spatial spillover effects within a region and exclude fiscal spillovers or financial linkage spillovers within and across regions. Although a large variety of spillovers have been studied and identified, three well-diffused concepts (table H5) emerge which will be used to identify the effects of the World Bank Group's regional integration portfolio, and specifically the IDA Regional Window portfolio,⁷ namely,

- Knowledge Spillovers*⁸: A non-excludable and non-rivalrous good (Romer, 1990), knowledge does not solely remain within an organization or agency but spreads around thereby creating value for other firms or organizations without any compensation mechanism (Fischer, 2006). Examining the evidence for knowledge spillovers becomes crucial because it provides the rationale for government incentives in knowledge creation. The identification of locally or regionally bound spillovers can be of support in identifying specific areas to intervene in. *For example, evidence suggests that the WBG's Championing process and Communications Strategy in South Asia in the*

power sector is leading to knowledge spillovers in Inland Waterways and Tourism sectors in the same region.

- b. *Industry Spillovers*⁹: The concept of industry spillovers is widely applied to the effects created by multinational firms on indigenous firms within a country. It encompasses a wide variety of interaction mechanisms among firms through which job creation, productivity increases, and technological advancements and tools are transferred from one firm to another or from one country to another. Industry spillovers can be positive or negative. *For example, in the context of regional integration, evidence suggests that increases in Credit Scoring and reporting activities in Central Asia, increased the level of productivity and training for Financial sector banking professionals who could advice their clients appropriately. Similarly, at the country level, technological advances and best practices in credit reporting systems from one Central Asia country was transmitted to another through the procurement of credit reporting infrastructure from a multinational firm from Italy and from cross-support.*

Table H5: Spillover Types from Regional Integration

<i>Kinds of spillovers</i>	<i>Knowledge spillovers</i>	<i>Industry spillovers</i>	<i>Growth spillovers</i>
<i>Characteristics</i>			
<i>Definition</i>	Creation of values for a firm or an organisation thanks to knowledge created by other firms or organisations	Creation of values for a firm or an organisation thanks to the performance of another firm in the same or different sectors	Creation of growth potentialities of a region thanks to the growth for other regions
<i>Economic nature</i>	Knowledge as a public good Technological externalities	Productivity enhancing elements as technological and pecuniary externalities	Growth enhancing opportunities as public goods Technological externalities
<i>Level of analysis</i>	Firm level Regional level	Firm level Industry level	Regional level
<i>Expected effects</i>	Only positive	Positive and negative	Positive and negative

Source: IEG.

- c. *Growth Spillovers*: The most general concept of spillovers treated in literature is the growth spillovers where a region or subregion grows thanks to the actions and behavior of neighboring regions or subregion respectively. Neighboring countries typically can take advantage of each other's capital and labor availability if facilitated through labor flows and appropriate regulations. Regional spillovers can be defined as those growth enhancing elements of one region that exert positive or negative effects on other regions. *For example, developments in the East African Community because of regional infrastructure and regional public goods development led to increase in labor*

mobility from non-EAC countries and development of trade linkages within non-EAC member countries.

Conclusions: Based on the above framework, project documents and completion reports were analyzed for all active and closed IDA Regional Window-supported interventions to assess the level of spillover effects achieved and to validate the ex-ante claims and expectations of such interventions. The overarching conclusion of this analysis is that IDA Regional Window-supported projects did not meet the spillover effects ex-post.

¹ For regional projects, country information is from recipient country list at project level from DFI supplemented by IEG RI team's project document review.

² IDA regional window funded project list was provided by DFI, additional financing projects were not counted as an individual project.

³ Guidelines for Accessing IDA Regional Program Funding in IDA18
<https://spappscsec.worldbank.org/sites/IdaDesk/IDA18/Pages/docs/IDA%20Regional%20Program%20Guidelines.pdf>

⁴ According to DFI, only IDA regional projects that are IDA IPF operations are eligible for IDA regional program.

⁵ Naeher, Dominik. 2015. An Empirical Estimation of Asia's Untapped Regional Integration Potential Using Data Envelopment Analysis. © Asian Development Bank.
<http://hdl.handle.net/11540/5113>. License: CC BY 3.0 IGO.
<https://www.adb.org/sites/default/files/publication/172903/ewp-445.pdf>

⁶ Aurora, Vivek, Athanasios Vamvakidis, Economic Spillovers, IMF Finance and Development, 2005

⁷ The rationale for this purposeful sampling is sound since expectations of spillover effects is a key criterion for undertaking projects with IDA RW commitments.

⁸ Almenida and Kogut, 1999; Maier, Sedlacek, 2005; Coe and Helpman, 2005; Fischer, 2006; Holod and Reed, 2008

⁹ Barrios, 2003; Grunfeld, 2002; Audretsch and Feldamn, 2004; Venables, 1999, Moreno et al, 2003

Appendix I. Econometric Analysis

This section details IEG's econometric work related to evaluating the contribution of the World Bank Group to furthering regional integration (RI) over the period 2003–17. For this evaluation, IEG estimated a macro-level difference-in-differences model of regional integration in the trade and transport sectors. This focus on trade and transport is due to the historical emphasis of regional integration efforts, the relative wealth of relevant data, and the sectors' focus on "hard" infrastructure improvements as opposed to "soft" advisory services, capacity building, standards harmonization, and technical assistance.

IEG's analysis indicates that there appears to be a weakly positive relationship between increased intra-regional trade (a proxy for regional integration) and Bank Group regional integration project-level interventions in the trade and transport sectors. The results suggest that the Bank Group's regional integration–focused transport and trade projects are associated with a one percent increase in intra-regional export intensity.

MODEL

The model is designed to capture the effect of regional integration projects in the transport sector on increasing intra-regional goods trade. It is a variation of a difference-in-differences model with staggered treatment times, which allows for a control group of countries that did not receive new World Bank Group funding for regional integration projects during the specified timeframe of 2003–17.

- Difference-in-differences: compares the average change over time in the outcome variable (export intensity) for the treatment group (countries with WBG RI transport project), compared to the average change over time in the outcome variable (export intensity) for the control group (countries without a WBG RI transport project).
- Fixed effects: Fixed effects models assume that the treatment effect (association between regional export intensity & the existence of a WBG RI transport project) is constant across countries.

The difference-in-differences coefficient of interest is δ . There may be selection bias in the treatment and control groups due to the retrospective nature of the analysis.

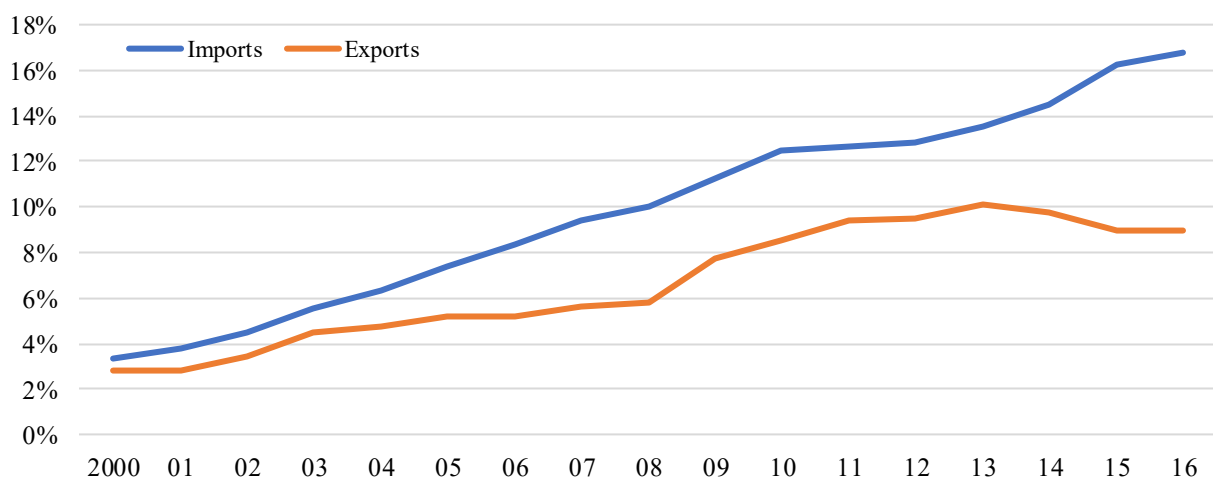
It is hypothesized that δ would be positive, since an aim of many regional integration–related transport projects is increasing intra-regional trade. However, it is also expected to be a very small effect, given several primary limitations. The first limitation is the small scale of World Bank projects relative to all other relevant factors in intra-regional trade. Second, increased trade is an imperfect proxy for increased RI in the transport sector.¹ Third, the model is limited by the binary "project or no project" dummy

analysis, which does not account for variation in project size or speed of implementation.

Rather than using an overall regional trade intensity index ($[exports\ to + imports\ from\ regional\ group] / [export\ to + imports\ from\ world]$), an export-focused regional trade intensity index ($exports\ to\ regional\ group / exports\ to\ world$) is used in the econometric model. This measure is selected for two reasons. First, the export measure is more directly linked to Bank Group interventions, even for multi-country projects related to regional integration. By improving within-country trade and transport infrastructure and operations, a country would hypothetically have a greater ability to export to its regional neighbors. However, these within-country improvements do not always have a direct relationship to the regional export capacity of neighboring countries, which may or may not be involved in similar reforms and upgrades (because of Bank Group project scope, domestic political will, etc.). Second, using the export measure alone controls for the emergence of China as a major player in the global trading system. Over the time period of this evaluation, China has gone from a minor source of imports for other developing countries to in many cases the primary origin; this trend is more pronounced with imports from China than with exports to China. Given that trade with China would not be defined as “intra-regional” for most countries in this sample, the inclusion of imports in a trade intensity index would introduce a substantial unobserved factor unrelated to regional integration efforts. This second point is illustrated graphically in figure I1:

Figure I1. Developing Countries’ Trade with China

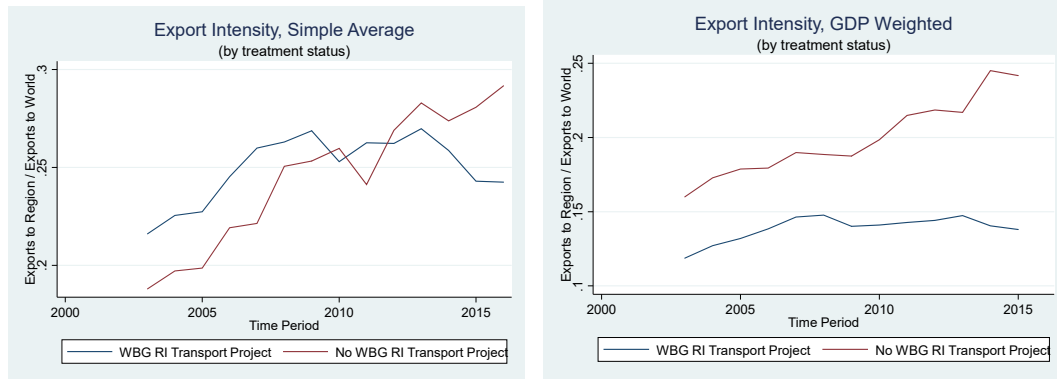
(in percent of total imports or exports)



Note: "Developing Country" here refers to the following WBG regions: ECA, LAC, MNA, SAR, SSA. EAP excluded.
Source: IMF Direction of Trade Statistics.

Prior to model formulation, the data is presented visually. As such, Figure i2 displays the trend lines of intra-regional trade intensity between countries in the control group (those without any closed IBRD-IDA² regional integration trade and/or transport projects³ initiated in the 2003–17 timeframe) and the treatment group.

Figure I2. Intra-Regional Export Intensity Ratio, by Treatment Status



Source: IEG analysis.

At first glance, this figure might imply that Bank Group funding for regional integration was not particularly successful. However, in the context of the limitations described earlier, there are a variety of reasons why these figures do not provide the whole picture. First, it is possible that regional export intensity for countries with Bank Group projects could have declined more in the absence of these interventions. Second, the control group of countries could have active (but not closed) Bank Group projects, or could have started multi-year Bank Group regional integration projects prior to the evaluation period. Third, bilateral or other donors could be involved in regional integration work for some countries in the control group.

Following this initial visual investigation, an appropriate difference-in-differences model was formulated. The general form of the model is as follows:

$$Y_{ist} = \alpha + \beta(X_{it}) + \gamma(treatment_s) + \delta(D_{st}) + \mu(crisis_t) + \lambda(trendcrisis_t) + \theta(Y_{is(t-1)}) + \varepsilon_{ist}$$

where

- Y_{ist} is a regional export intensity index, or the proportion of exports to the WBG region divided by total exports to the world;
- X_{it} are various country characteristics (such as Institutional Investor Country Risk Ratings, Logistics Performance Index, Doing Business rankings, Country Policy & Institutional Assessment index, a dummy indicating landlocked countries, etc.);

- $treatment_s$ equals 1 if the country is in the treatment group, and 0 if in the control group (this variable is necessarily omitted under country fixed-effects models);
- $D_{st} = treatment_s * d_t$ is a dummy variable which equals one for a “treated” country (that is, a country with a closed transport regional integration project initiated between 2003-2017) in the post-treatment period (i.e., starting with the earliest project approval in that country) and is zero otherwise;
- $crisis_t$ is a dummy variable which equals 0 prior to 2008, and 1 for 2008 and after; and,
- $trendcrisis_t$ is a linear time trend ($trend_t$) interacted with $crisis_t$.

RESULTS

Several key estimations are presented in table I1. In each, the treatment effect δ is highlighted:

Table I3. Baseline Regressions

	(1)	(2)	(3)	(4)
	est1	est2	est3	est4
treat	0	-0.0115*	0	0
	(.)	(0.00657)	(.)	(.)
ri	0.0108**	0.00747	0.0102**	0.0108***
	(0.00490)	(0.00598)	(0.00491)	(0.00369)
crisis	0.0104	-0.0000539	0.0107	0.0100*
	(0.00750)	(0.00771)	(0.00736)	(0.00600)
trendcrisis	-0.00136**	-0.00111	-0.00144**	-0.00125**
	(0.000637)	(0.000702)	(0.000658)	(0.000538)

Appendix I
Econometric Analysis

landlocked 0 0.00803** 0 0

(.) (0.00394) (.) (.)

iicrr_ipo -0.0371

(0.0321)

lpi_ipo 0.00942

(0.00704)

L.eg_int 0.660*** 0.952*** 0.659*** 0.714***

(0.0565) (0.00809) (0.0565) (0.0620)

L.iicrr_ipo -0.00257 -0.0201 -0.0406*

(0.0106) (0.0293) (0.0208)

L.lpi_ipo -0.000931 0.0105 0.00566

(0.00417) (0.00695) (0.00614)

_cons 0.0722*** 0.0277*** 0.0648*** 0.0633***

(0.0206) (0.00933) (0.0206) (0.0212)

Observations 1458 1457 1457 1444

Countries 114 113 113 112

R-squared 0.473 0.473 0.544

FE/RE FE RE FE FE

Robust SEs Yes No Yes Yes

Standard errors in parentheses.

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Note 1: $L.eg_int$ is a 1-period lag of the dependent variable.

Note 2: Similarly, $L.iicrr_ipo$ and $L.lpi_ipo$ are 1-period lags of the interpolated

IICRR & LPI variables. Lags introduced to control for the possibility of reverse causality.

Conclusions: Table I¹ demonstrates that the relationship between WBG RI interventions in the trade and transport sector and intra-regional trade appears to be weakly positive at the macro level. Other than one of these specifications,⁴ the difference-in-differences treatment effect δ is positive and significant, indicating that WBG RI-focused transport and trade projects are associated with a one percent increase in intra-regional export intensity. This aligns with the initial hypothesis.

¹ As a robustness check, relevant projects from the former Trade & Competitiveness Global Practice excluded from the treatment list, to focus only on Transport sector projects. This did not alter the findings in a meaningful way.

² IFC and MIGA are presently excluded due to data availability issues.

³ Additional financing projects were excluded.

⁴ The random effects specification *est2*, which the Hausman test rejects as inappropriate for these data.