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Regional Public Goods in Official Development Assistance

Marco Ferroni

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REGIONAL PUBLIC GOODS IN OFFICIAL DEVELOPMENT ASSISTANCE

Marco Ferroni [*]

I. INTRODUCTION

One of the roles of official development assistance is to promote the delivery of public goods not provided by the market or by recipient governments in the absence of such assistance. This includes the provision of international public goods, a challenge that has attracted growing attention in recent years. The case for international public goods, separable into global and regional public goods, arises from the collective action problems and strong externalities that are associated with such transnational challenges and threats to stability as financial contagion, rising inequality, the spread of communicable diseases, cross-border crime and conflict, or the degradation of shared natural resources. International public goods include the knowledge, standards and rules required to address these challenges, the institutions that monitor and enforce the rules, and the benefits that arise and are shared indiscriminately among countries.

Transnational development challenges -and the hard edges of globalization- are becoming more visible as countries become more interdependent and are more actively pursuing integration. Controlling these challenges and harnessing the opportunities of globalization and integration requires international cooperation. Sovereign nations must work together, and in the process must assert their sovereignty in new ways, that is, through contributions to mutually beneficial interdependence. However, collective action among sovereigns is difficult to achieve. Barrett (forthcoming) explains why this is so, and why supplying global and regional public goods is more difficult than creating national and local ones. The production of national and subnational public goods is facilitated by the institutions and the taxation authority of the state. There is no comparable arrangement to foment the supply of international public goods. Different countries and their citizens value the benefits of public goods differently. This makes coordinating their production demanding (World Bank [2001a]).[1]

Experience shows that international organizations and official development assistance can help. International organizations can act as catalysts for collective action. In the past they have been central to the provision of public goods through their ability to convene; generate and transfer knowledge; assist global and regional negotiations; and transfer funding (World Bank [2001a]). This paper looks at their role as catalysts and as sources and conduits of funding for regional public goods.

Regional public goods convey shared benefits to neighboring countries (countries within the region) and come in two forms: final and intermediate. Final goods are broad outcomes or manifestations of well being, such as peace, the absence of extreme poverty, a more stable global financial system, or a well-managed physical environment. They are the products of intermediate steps that themselves have some of the characteristics of public goods. Shared policy frameworks, regimes (such as regional integration schemes), institutions, and joint investments

* Office of Evaluation and Oversight, Inter-American Development Bank. Helpful comments by Robert Devlin, Ashoka Mody and Stephen Quick are gratefully acknowledged.

1 There are reasons to think that the challenges of coordination rise with the number of players involved. The presumption, therefore, is that coordination problems in creating regional public goods are less severe than in pursuing truly global ones.

are examples of intermediate regional goods. Regional goods also arise when individual countries induce beneficial cross-border spillovers (regional “bads” arise in the case of undesirable spillovers). An epidemiological policy that improves domestic health while creating the externality of reduced transmission of pathogens and disease across borders is an example of an action generating a beneficial spillover (box 1).

Regional goods are often of a mixed nature, meaning that their benefits are not wholly public or shared by the countries in the region. Mixed goods bestow a combination of national and transnational benefits. Regional policies to pursue transnational benefits tend to be in short supply, because countries’ first interest is their own national advantage. Countries acting on their own typically do not take into account the costs or effects of their actions on others. While governments often recognize that they could further their countries’ national advantage by the right combination of national and regional policies, this by itself is usually not sufficient to overcome barriers to collective action.

In recent years, however, the demand for regional public goods has grown in the context of intensified efforts at regional integration worldwide. Nations are undertaking these efforts with the aim of generating benefits that are shared by participating countries and cannot be obtained autonomously. The pursuit of commercial integration leads to, and indeed requires, cooperation in areas beyond trade, including infrastructure, finance, labor codes, public health, environmental standards, law enforcement, and other fields. Regional integration, therefore, provides a strong rationale for the study of regional public goods.

The objective of this paper is threefold: to review the demand, and the case, for regional public goods in the light of growing integration; to report on the response of certain international organizations and the system of official development assistance to perceived growth in the demand for these goods; and to analyze the challenges of financing regional public goods. The paper is premised on the notion of complementarity between national and regional policies, the latter being seen as complements to, not substitutes for, the former.

International organizations are increasingly active in the area of regional public goods. Cook and Sachs [1999] deplore what they view as a low level of involvement in the provision of regional public goods on the part of official agencies. This paper suggests, on the contrary, that official interest is strong and that operational involvement in the preparation of regional public goods (much of it researchable from the web sites of different institutions) is growing. The paper shows that the Inter-American Development Bank (IDB), for example, has supported regional integration and cooperation aimed at producing regional and subregional public goods for many years. Thus an absence of awareness on the part of official agencies cannot explain today’s undersupply of regional public goods. The undersupply is a consequence of collective action difficulties, countries’ inability (politically or because of limited institutional capacity) to take the national measures that are needed to carry joint projects forward, and constrained multilateral instruments to catalyze action. As a consequence, multilateral institutions face disincentives to lend and governments to borrow for the provision of regional public goods. In addition, grant-based funding faces constraints.

The analysis of financing in this paper focuses on activities and benefits that call for funding by the public sector. The paper explores lending practices and the need for grants, and suggests some scope for innovation in the financing of regional public goods.

Box 1. Regional Public Goods Defined

Public goods generate shared benefits, and public "bads" create shared costs (World Bank [2001a]). The benefits' spatial reach determines whether we have a local, national, regional or global public good. The benefits of a pure regional or global public good are "non-rival" (one country's consumption does not subtract from the amount available to other countries) and "non-excludable" (no country can be excluded from benefiting). Most regional and global public goods are not pure, but they all have significant elements of non-rivalry and non-excludability (Kanbur [2001]).

Adapting Kanbur's analysis, three kinds of regional public goods (or, more precisely, activities to pursue regional public goods) can be distinguished:

- Non-country specific investments in knowledge, dialogue, basic research into technologies meant to be in the public domain (vaccines, etc) and negotiation of agreement on shared standards and policy regimes.
- Inter-country mechanisms for managing adverse cross-border externalities or creating beneficial ones, e.g., coordinated public health measures to contain the spread of disease across borders; investments in cross-border infrastructure to enhance the preconditions for growth through trade and integration; creation of regional institutions to facilitate solutions in areas ranging from financial and banking stability to the sustainable management of shared environmental resources.
- Country-specific action to take advantage (or enable absorption) of the benefits created under the two modalities above. This will create national public goods such as improved institutional or governance indicators and enhanced development outcomes. It will also mitigate negative cross-border externalities emanating from these countries. (A cross-border externality occurs when action or inaction of one country has consequences for others.).

World Bank [2001a] has termed action of the first and second type "core" and action of the third kind "complementary"-see Section IV of this paper.

II. REGIONAL INTEGRATION AND THE DEMAND FOR REGIONAL PUBLIC GOODS

Regional public goods cannot be discussed nowadays without reference to the worldwide trend toward regional integration. Regional and subregional commercial integration agreements have proliferated in the last 10 to 15 years. Most countries are now members of at least one such agreement (see the appendix to this paper). Membership in regional agreements has grown for political reasons, as a substitute for the missing global round of trade negotiations, and perhaps because an imitation syndrome is at work (World Bank [2000b]). Whatever the motivation, a historical trend toward regional groupings and cooperation is under way, complementing unilateral policies and multilateral cooperation.

The new regionalism was particularly evident in Latin America in the 1990s. Regional and subregional integration in the Americas has accompanied the process of broadly based structural reform that includes the state's withdrawal from direct economic activity, the promotion of private sector initiatives, and an opening to world markets (Devlin and Estevadeordal [2001]; for further information on integration and trade in Latin America and the Caribbean see IDB [2000]).

The proliferation of integration efforts is evidence that the demand for regional public goods is growing (CEIP [2001]). The numerous agreements indicate an increasing willingness on the part of participating governments to engage in joint problem solving in selected areas of public policy. However, the road between articulating a demand for economic integration and actual, effective integration is arduous and long. To date trade blocs have yielded only limited integration among poor countries (box 2). They have worked better for more well-off countries; in cases where middle-income or transition countries were connected to the Organisation for Economic Cooperation and Development (OECD) economies through preferential arrangements; or, as in the case of the European Union, accession agreements.

Box 2. Central American Integration

The case of Central America illustrates the difficulties of integration among poor countries. Achievements under the Central American Common Market, which was established in 1960 and modified in 1993, have not lived up to the expectations outlined in the political discourse over the years. The gains from trade integration in the form of widely spread scale, competition, and income effects have remained elusive. Integration and external competitiveness are held back by huge development problems in the constituent countries. By contrast, with the advent of peace in the region in the early 1990s, private actors began to promote the spontaneous integration of certain markets: banking and financial services, hotels, air transport, certain types of manufacturing, and retailing. As a result, intraregional trade and investment have grown considerably, driven by pragmatism rather than a particular political vision. To put this achievement on a firmer footing and set the stage for further expansion of investment and trade, governments must step in and provide rules of the game and an improved incentive framework to deepen integration. This includes the provision of better infrastructure, built and operated privately, where appropriate; the harmonization of policy in different fields; and the improvement of the determinants of competitiveness and economic performance through more effective national measures.

The achievement of economies of scale and income convergence in regional agreements presupposes deeper integration than has been negotiated or achieved in most cases. The measures that are called for -reduced nontariff barriers; harmonized standards and rules, such as product safety rules; better cross-border infrastructure; improved customs procedures and border crossings; and other national measures that eliminate sources of trade friction and increase competition- are politically difficult to take. Regional agreements can assist by locking countries into reform commitments, accelerating -and increasing the credibility of- reciprocal measures to deepen integration. They can also help overcome negative neighborhood effects, that is, the pulling down of better performers by less well-performing neighbors.[2] However, the structural characteristics of poor neighboring economies may limit the economic gains that regional trade agreements can achieve and may cause the benefits to be distributed unevenly. Experience with integration agreements among poor countries suggests divergent economic outcomes and an absence of mechanisms to distribute gains equitably (World Bank [2000b]). Examples of setbacks and conflict resulting from real or perceived asymmetry abound.

However, efforts at regional integration are here to stay. Technology, the evolution of the global economy, and global geopolitics after the end of the Cold War are conducive to international and regional cooperation, although the specter of backlashes cannot be entirely dismissed. While some of the economic advantages pursued through regional commercial cooperation could be obtained through autonomous action and nonpreferential liberalization, other benefits, such as the regional stability expected from integration and the strengthening of a group's bargaining power relative to other trade blocs, cannot be realized without cooperation. For developing countries regional integration affords opportunities for liberalization and reform in a more controlled and predictable setting than that encountered in a multilateral context. It also provides strategic impulses for development in areas beyond trade, leading to an induced demand for cooperation in different fields, for example, infrastructure, the harmonization of regulatory systems in finance, and product safety (Devlin and Ffrench-Davis [1998]). By creating incentives and frameworks for cooperation, regional integration agreements contribute to problem solving and the rationalization of the use of shared resources in a range of domains, some of which are discussed in the next section.

[2] Easterly and Levine [1997] estimate that neighborhood effects may shave economic growth in Sub-Saharan Africa by up to 1 percentage point. The World Bank [2000a] notes that sometimes neighborhood effects may be merely reputational, a kind of "guilt by association mortgage" hanging over better performing and more reform-minded members of a community.

III. STRENGTHENING NATIONAL DEVELOPMENT OUTCOMES THROUGH REGIONAL COOPERATION

Regional policies and programs can complement national development efforts in many areas: providing regional transport solutions and efficient patterns of energy trade, boosting national measures to overcome information barriers, stabilizing and regulating financial markets, containing endemic diseases, dealing with natural disasters, and preventing environmental degradation. In these and other policy domains externalities and public goods arise, in principle, in three forms: beneficial cross-border spillovers, reduced harmful spillovers, and improved national outcomes—the ultimate test of the merits of international cooperation. The following paragraphs discuss the rationale for regional cooperation in different policy domains.

Transport

The coordination of transport infrastructure among neighboring countries is important for economic development. Surface transport is tied to geography, and location and geography play a role as determinants of development prospects (Gallup, Sachs, and Mellinger [1998]). Transport costs are one mechanism through which location can affect incomes and economic growth. They are typically high for remote regions and landlocked developing countries. They need to be brought down for trade between producing and consuming regions in different countries to flourish.

In the past regional cooperation in the field of transport and other infrastructure has proven difficult to manage. Coastal countries may not consider it in their interest to improve and maintain roads or railroads for the benefit of landlocked neighbors (Cook and Sachs [1999]). However, the climate for regional cooperation is improving in many parts of the developing world. While bilateral and regional conflicts continue to obviate trade and cross-border cooperation in some parts of the world, global political and economic trends have been fostering openness and integration. As a result, greater readiness to look at infrastructure from a transnational point of view is apparent worldwide. For example, the South American Regional Infrastructure Plan unveiled at the summit of South American presidents in September 2000 identifies 12 key corridors linking the continent's countries. The plan addresses transportation, energy, and telecommunications needs along these corridors and provides for an integral and multisectoral approach to infrastructure development in coming years, with financing from the private sector, the IDB, the Corporación Andina de Fomento, and other institutions (IDB [2001]). The recognition that regional integration cannot proceed without regional transport and infrastructure solutions is spreading in the developing world.

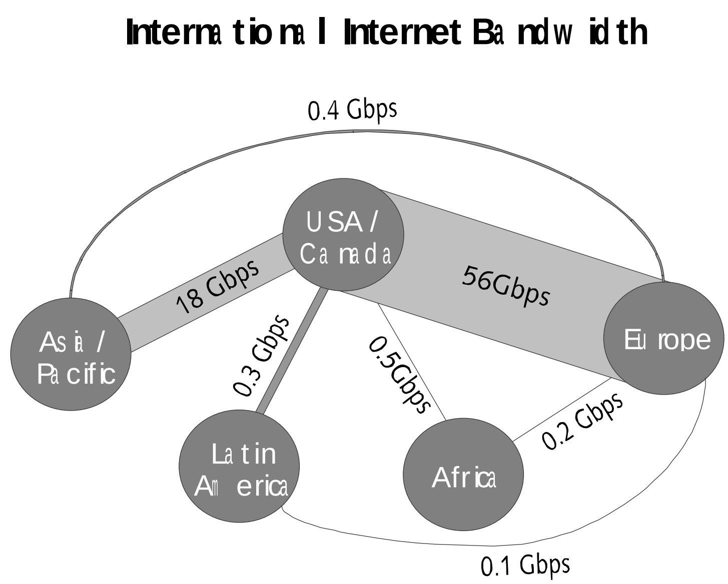
Energy

A growing number of developing countries is also attempting to improve energy efficiency by integrating the supply and distribution of energy. Making the supply of electricity more reliable and lowering unit costs requires competition and the attainment of economies of scale. This calls for small countries to integrate their power grids. Sparrow and Masters [1999] provide estimates of cost savings from electricity trade in southern Africa. Efforts at creating cross-border grids are under way in the Baltic countries, the Greater Mekong Subregion (ADB [2001]), and elsewhere. In Central America work is under way to develop a regional power grid and create an integrated market for electricity serving a population of 34 million. Operating under a 1996 framework treaty signed by the six countries of the region, the initiative supports the establishment of an institutional and regulatory framework and funds investments to upgrade infrastructure for the transmission and distribution of power across borders. Framework agreements of this kind are a prerequisite for countries to begin to abandon costly self-sufficiency policies, but as always, the real challenge is implementation. In the absence of a strong overall integration platform, historical differences in regulatory structures and institutional weaknesses can make rationalizing the power sectors of neighboring countries a difficult proposition.

Data Transmission and Telecommunications

The infrastructure enabling telecommunications and data transmission is a core resource that countries need to compete in the global economy. While improving information infrastructure is largely a national issue, regional cooperation is needed to provide and regulate system backbones. Satellites and fiber optic cables tend to serve more than one country, and thus the transnational scale of competition among providers helps determine the price and quality of telecommunications and Internet services in individual countries (Cook and Sachs [1999]).

FIGURE 1



Note: Gbp = Gigabits (1'000 Mb) per second.
Sources: ITU adapted from TeleGeography

The capacity of the system backbones serving developing countries deserves special attention. Backbone capacity serving developing countries is small compared with that at the disposal of OECD economies, a reality that has led to the emergence of a bandwidth divide as technology shifts from switched circuits to a packet-switching universe (DOT Force [2001]). Based on International Telecommunication Union data as of late 2000, figure 1 above shows that the bulk of Internet connectivity in gigabits per second is between the United States and Europe, and to a lesser extent, between the United States and the Asia-Pacific region. Africa has very thin lines reaching Europe and the United States, while the Latin American link to the United States is somewhat more robust, but frail with Europe. This situation forces local Internet providers in developing countries to purchase expensive international links to reach provider backbones in the North, raising the cost of access to users in poor countries. Cost increases from this source are additional to those that may arise from regulatory deficiencies and monopolistic market structures in these countries. Bandwidth considerations are thus an important aspect of the improved fiber loops that are needed to enhance connectivity (ITU [2001]).

Financial Markets and Foreign Direct Investment

The possibility of cross-border financial contagion and, again, the desirability of bringing about economies of scale, are among the considerations in favor of regional approaches to regulating and stabilizing financial markets. Indeed, the absence of a regional focus is one reason why observers believe that financial sector reforms in Sub-Saharan Africa during the 1990s were disappointing (World Bank [2000b]). The integration of the financial sectors of small, poorly-diversified economies can help lower both the costs and risks incurred by banks and financial service firms. Integration is often achieved through transborder consolidation of the industry. Policy measures promoting financial integration include harmonizing payments procedures, commercial and financial law, accounting standards, and prudential supervision.[3] They also include appropriately endowed regional institutions to promote integration, help prevent crises through appropriate surveillance, and contribute to the stabilization of markets as a first line of defense, leaving the function of lender of last resort to global institutions such as the International Monetary Fund (Agosín [2000] Ocampo [2001]).

In the competition for foreign direct investment, regional blocs can become a market brand and a means of recognition for potential investors. The bigger the regional market and the greater the locational advantages, the more attractive a bloc is likely to be to foreign investors (Devlin and Ffrench-Davis [1998]). These forces are likely to favor integration agreements among better-off economies at the expense of groupings of poorer countries.

Public Health

Like financial contagion, communicable diseases, from AIDS to foot and mouth disease, call for transnational cooperation, because pathogens and financial disturbances do not stop at national borders. Human activity, including migration, travel, and trade, and natural agents, such as bacteria and viruses, insects, water-borne illnesses, and other forces, spread disease across borders. In this situation one country's negligence can easily nullify a neighboring country's epidemiological efforts. Coordinated international action can help.

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[3] Bank regulators' hands are likely to be strengthened when they can explain their actions with reference to standards and norms that are also applied by their peers in neighboring countries.

Perhaps the best example of what a judicious combination of national and regional approaches can achieve is the River Blindness (onchocerciasis) Control Program in West Africa. The program (now extended to all oncho-endemic countries in Sub-Saharan Africa) has operated since 1974 through a coalition of African governments, local communities, international organizations, bilateral donors, the business sector, foundations, and nongovernmental organizations. It combines a regional focus with capacity building at the national and local levels, including the training of hundreds of epidemiologists, entomologists, and other specialists in national ministries of health and the signing on of tens of thousands of community health workers. River blindness, a debilitating disease transmitted by a fly, is now all but eradicated from the original program area, leading to enormous economic gains and improvements in the quality of life of affected communities and individuals. The river blindness coalition has been held together by a strong sense of purpose shared by the participants, the right combination of leadership and submission on the part of individual contributors in accordance with their comparative advantages, a step-by-step approach following precisely defined and phased objectives, and the right amount of flexibility and compromise in execution.[4]

Other Policy Concerns

This list of policy concerns in which regional cooperation can profitably complement national measures is incomplete. It could be extended, for example, to cover law enforcement, preservation or restoration of peace and security, management of natural resources and the environment, maintenance of cultural heritage, and research cooperation and knowledge sharing. Watershed management is particularly relevant in the realm of natural resources. On shared river systems, the use of water resources in one country can profoundly affect the quantity and quality of water available in downstream riparian countries. Diminishing water availability and water quality constrain economic development and can generate tensions, if not outright conflict. International law in the area of shared waters provides some guidance, but no universally accepted standards are available for the utilization and management of shared waters.[5] Riparian countries must search for cooperative solutions unique to their circumstances.

The International Consortium for Cooperation on the Nile is currently attempting to do this for the Nile River Basin. Like the River Blindness Control Program, the consortium, established in 1999, is a multiactor partnership of governments, donors, advocacy groups, the private sector, and international organizations. Its objective is to improve the management of the Nile River Basin, a resource shared by 10 countries from Egypt to Uganda, all of which suffer from water shortages and are affected by what from the collective viewpoint are suboptimal patterns of use of the Nile.[6]

Perspective

Examples such as the International Consortium for Cooperation on the Nile and other recent international initiatives and integration agreements indicate that cooperation among developing countries is on the rise. The recognition that regional policies and programs can generate dividends in terms of improved development outcomes at the national level appears to be

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4 See *http://www.worldbank.org/gper/ocp.htm*.

5 John Briscoe, personal communication; see also the report on the 1998 International Round Table on Transboundary Water Management at *http://wbln0018.worldbank.org/essd.nsf*.

6 See *http://www.worldbank.org/afr/nilebasin.*

spreading. This is a welcome development from the point of view of donors and aid recipients interested in development effectiveness. It does not mean that the challenges of collective action have become less formidable than they used to be. When it comes to individual initiatives, time-honored challenges such as political tensions, lack of trust, and high coordination costs persist, as do the difficulties of engineering equitable solutions acceptable to all parties.

Based on the considerations advanced in this and the previous sections, it is possible to formulate some requirements that should be fulfilled for regional cooperation to yield the full measure of benefits being pursued. First, regional cooperation must be extended far enough to make meaningful improvements possible. Eradicating the scourge of river blindness in West Africa took a generation, and appropriate national measures to keep the disease vector at bay will need to continue indefinitely. Eradication would not have been possible without persistence. Similarly, concluding a trade agreement is one thing, but persisting in the difficult effort of deepening integration, which may be needed to consolidate benefits over time, is quite another. Regional cooperation in the policy domains discussed earlier calls for long-term commitments on the part of those involved.

Second, participating countries must take the complementary national measures needed to enable them to contribute to, and absorb, the benefits of transnational cooperation. This is the hard part, more difficult than signing an international agreement and committing to the course of action that it implies. Regional cooperation consists of national measures taken in accordance with some agreed international plan. The absence of, or lags in, complementary national measures can bring the best collective action framework to naught.

Third, in the interest of sustainability, losers (or countries that gain less than others from cooperation in a given field) must be compensated to keep the coalition of actors and the pursuit of cooperative solutions alive.

Fourth, contracting parties should bind themselves with treaties or agreements that are self-enforcing where this is feasible, because of the absence of supranational authorities capable of exacting compliance. Barrett (forthcoming) shows that the requirement of self-enforcement reduces the number of feasible cooperative solutions.

These are demanding conditions, and they are seldom completely satisfied. Nevertheless, protagonists of regional initiatives ignore them at their risk.

IV. REGIONAL PUBLIC GOODS IN OFFICIAL DEVELOPMENT ASSISTANCE

The system of official international assistance underwritten by bilateral aid agencies and multilateral institutions operates fundamentally on a country-by-country basis. At the same time it is responding to the call for regional and global public goods. Bilateral agencies and multilateral institutions bring different instruments to the task. Bilateral agencies promote regional or global endeavors indirectly by supporting activities coordinated by multilateral organizations. In financial terms, this support often takes the form of dedicated trust funds administered by multilateral agencies, mostly on a grant basis. Through their country programs, bilateral agencies can promote activities that help generate desirable cross-border externalities and can foster capacity in recipient countries that enables these countries to contribute to and take advantage of (or absorb) international public goods.

Because of their wide-ranging membership, multilateral agencies enjoy special legitimacy in promoting regional and global action. Such institutions, especially regional and subregional organizations, are stepping up their analysis of, and operational engagement in, regional activities. They promote transnational cooperation through a variety of functions: generating information, analyzing options and alternative courses of action, providing negotiation platforms and brokering agreements, supervising and enforcing standards and sanctions, and channeling financial resources.

This section reviews the evolving engagement of some multilateral entities and then presents evidence on the allocation of official flows to international public goods. Among the multilateral development banks, the IDB, the Asian Development Bank (ADB), and the World Bank are increasingly active in regional endeavors, the IDB and the ADB in their respective geographic areas of concentration and the World Bank in Sub-Saharan Africa, often in cooperation with the African Development Bank. The institutions intermediate grant funding from different sources to support regional integration and cooperation and experiment with regional loans to produce certain types of public goods and cross-border externalities. Through the credit enhancement instruments of their private sector arms they also support private investment in cross-border infrastructure. In general, they are engaged in the search for innovative ways to leverage their own resources for the purpose of promoting regional cooperation.

The Multilateral Development Banks and Regional Public Goods

The IDB, the ADB, and the World Bank illustrate the trend toward growing multilateral involvement in the production of regional public goods. The IDB has fostered regional cooperation since its inception, and during the 1990s expanded its involvement in the context of new and unprecedented interest in regional integration in Latin America and the Caribbean (Iglesias [2000]). In addition to country-level programming, the bank programs operations at the regional and subregional levels and carries out research on regional integration. The Integration and Regional Programs Department serves as a focal point for regional issues, an institutional innovation not found in other multilateral development banks.

The IDB supports policy analysis and negotiation processes related to trade integration efforts at three levels: subregional (the Caribbean Community and Common Market, the Andean Community, the Central American Common Market, the Southern Common Market, and bilateral agreements), hemispheric (the proposed Free Trade Area of the Americas), and global in the context of negotiations at the World Trade Organization. In the financial area the IDB promotes the application of international standards that are needed both to preserve stability and promote financial integration. In regional infrastructure the IDB manages a portfolio of cross-border investments in transport infrastructure, border crossings, and energy, including gas pipelines. As an example, a privately owned and operated gas pipeline project received financing from the IDB's private sector window in 2000, together with support from a consortium of commercial banks, for a pipeline connecting northern Argentina and southern Brazil. New initiatives the IDB will support include the South American Regional Infrastructure Plan and the Plan Puebla-Panama, a recently unveiled regional development initiative covering southern Mexico and parts of Central America.

The IDB has long provided technical assistance on a regional basis. Regional technical cooperation supports research and knowledge management, training, and the creation and strengthening of institutions that foster regional integration. In 1999 the IDB created the Regional Policy Dialogue, a forum for policy discussion and strategic thinking in key areas pertaining to national development and Latin America's insertion into the global economy.[7] The dialogue covers a variety of policy areas, including trade and integration, macroeconomic and financial policy, public management and transparency, poverty and social safety nets, education and human resources, and the environment and natural disaster management. It establishes networks of government officials proposed by the IDB's borrowing members, sponsors comparative studies that analyze experiences within and outside the region, maintains web-based resources, and organizes meetings and the dissemination of good practice. The IDB's regional policies and programs are financed by the bank's administrative budget, income from the Fund for Special Operations (the IDB's concessional window), donor trust funds, and limited lending.

The ADB supported regional policies and programs throughout the 1990s and has had a policy on regional cooperation since 1994. The bank's mission statement on regional cooperation states that the "ADB fosters economic growth and cooperation in the region, collectively and individually, and uses its resources for financing development in the region, giving priority to regional, subregional, and national projects".[8] Regional endeavors the ADB has supported include the promotion and institutionalization of economic cooperation in the Greater Mekong Subregion; the support of the Indonesia-Malaysia-Thailand growth triangle; the promotion of subregional cooperation in South Asia; and the fostering of trade cooperation among China, Kazakhstan, the Kyrgyz Republic, and Uzbekistan. The ADB supports regional technical cooperation and policy forums in areas ranging from the social sectors to competition policy, and from regional energy cooperation to telecommunications and health. Spending on regional technical cooperation is on the rise. The ADB also supports a growing number of regional road construction and rehabilitation projects financed by coordinated loans extended individually to the participating countries. More recently, the ADB's Regional Economic Monitoring Unit initiated regional economic monitoring to complement economic and financial surveillance at the national and global levels.

The World Bank tends to focus on global rather than regional cooperation, in keeping with its global nature and membership. The number of global partnerships supported by the World Bank

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7 See *http://www.iadb.org/int/DRP/index.htm*.

8 See *http://www.adb.org/countries/cooperation.asp*.

has surged in recent years, with two-thirds of about 80 such partnerships being at most five years old. (The River Blindness Control Program is one of the oldest partnerships supported by the Bank.) As far as regional activities are concerned, the World Bank has concentrated on Sub-Saharan Africa, although all the World Bank's operational regions recognize the relevance of regional policies and programs. The World Bank has also sponsored regional activities in the Mekong Delta and the Caribbean. Together with the Commonwealth Secretariat, the Bank has recently supported work on the special development problems and external assistance needs of small states (Commonwealth Secretariat and World Bank [2000]). The regional public good expected from this takes the form of improved policies by both donors and the countries concerned, leading to better development outcomes.

Regional cooperation and capacity building in Sub-Saharan Africa is undergoing a renaissance at the World Bank based on growing demand on the part of African governments, regional institutions, and donors for more systematic and coordinated approaches to regional integration (World Bank [2000a] [2001b]). Subregional integration is accelerating in Sub-Saharan Africa (see the appendix to this paper). As a result, the incentives to support regional cooperation are improving. Bank officials now believe that some past regional projects that failed were not conceived in the context of a coherent integration strategy. Today, the Bank sees the African subregional integration agreements of the 1970s and 1980s as having lacked the national support and cohesion needed to build sustainable regional partnerships. In today's new environment for regional cooperation, the World Bank is extending support to the preparation of a strategy for the Economic and Monetary Community of Central African States and for West Africa, following one for southern Africa and the Common Market for Eastern and Southern Africa that has existed since 1999. An active pipeline exists, much of it for regional technical cooperation. This is funded from the Bank's budget, the Institutional Development Fund (a grant program managed by the Bank), a grant from the African Development Fund (the concessional window of the African Development Bank), limited International Development Association grants, donor funds, the Bank's Project Preparation Facility, and funding from the Global Environment Facility for selected environmental concerns.

Growing Allocation of Official Flows to International Public Goods

The estimates now available regarding the allocation of official flows to international public goods attest to the growing involvement of official agencies in endeavors of transnational scope. Estimation of the share of official development spending devoted to international public goods is not straightforward, because the applicable data source—the OECD's Creditor Reporting System—does not permit information to be broken down according to whether spending categories are intended to generate multicountry or single country benefits. The World Bank [2001a] has proposed separating development spending into core and complementary expenditures. Core expenditures finance regional and global programs undertaken with a multicountry interest in mind, for example, regional technical assistance to develop shared rules and standards that can help safeguard financial stability. Core expenditures also finance (coordinated) development activities that focus on individual countries, but whose benefits spill over to other countries. The first type of core expenditure aims to create international public goods. The second type aims to create mixed goods as defined earlier. Complementary expenditures finance country-specific activities that enable developing countries to take advantage of the international public goods and the desirable cross-border externalities emerging from core activities. The national public goods created in the process may in time mitigate negative cross-border externalities emanating from these countries.

Ignoring spending on physical infrastructure, much of which is now financed privately, official spending on core and complementary activities in four areas (health, the environment, knowledge enhancement, and peacekeeping and security) amounted to about US$15 billion per year in the second half of the 1990s, up sharply from the 1970s and 1980s (World Bank [2001a]). This includes trust funds, country-based bilateral spending, and multilateral concessional and nonconcessional lending.

Te Velde, Morrissey, and Hewitt (forthcoming) offer more detailed analysis of the allocation of aid to international public goods. Neither their study nor the World Bank's distinguish empirically between regional and global public goods because of data limitations.

Further analysis would not only have to make that distinction, but would also have to address two other issues. The first is how the donor community prioritizes the international public goods that it wishes to support. Priorities always emerge through a combination of analysis and political processes, but setting priorities for international public goods is both less well established than country programming and more complicated, in part because it involves a larger number of actors than the donor-recipient country relationship at work in country programming exercises. The second is whether spending on international public goods is additional to spending on country programs (Te Velde, Morrissey, and Hewitt doubt the existence of financial additionality). Compared with the alternative of solely country-focused assistance, the judicious combination of support to national and transnational problem solving is expected to yield additionality in terms of development impact. By the analysis advanced in this paper, this is the rationale for going transnational. The nature and size of this additionality in specific instances deserves to be investigated more systematically.

Further increases in official spending on international public goods would have to be justified by evidence regarding their development impact on the ground. However, while such evidence can probably be produced, resource constraints arising from disincentives to lending for international public goods and from the limited availability of grant-based funds will likely cap the growth of spending on international public goods in the future as they have in the past.

V. THE FINANCING OF REGIONAL PUBLIC GOODS

Official finance to support the production and absorption of regional public goods comes in the form of loans and grants. Loans are the more abundant resource, and should therefore be used before grants whenever possible. They are also preferable because of their tendency to strengthen borrower ownership of the activity in question and their educational role in promoting a credit culture in recipient countries where this may be needed. However, loans may not work for all aspects of international public goods. The choice between loans and grants is informed by the distinction between core and complementary activities pertaining to the production and absorption of international and regional public goods.

We defined core activities as activities to create international public goods and as measures to create mixed goods. The selection of the right funding instrument is relatively straightforward in the case of the first kind of core activities and in the case of complementary activities. It is more complicated in the case of mixed goods.

Core activities of the first kind tend to call for grant-based funding, whereas complementary activities can be financed using loans. Borrowers have an incentive to take out loans for complementary activities that support absorption, because the associated benefits accrue to them, spilling over to others only in terms of higher-order effects. The loans would be concessional or nonconcessional, depending on the status of the borrower as an International Development Association or an International Bank for Reconstruction and Development country, to use World Bank parlance.

Grants

The case for grants for core activities arises because these activities generate benefits that invite free-riding. Nonpaying parties cannot be excluded from the benefits being created. Hence partnerships such as the Consultative Group on International Agricultural Research, a global program, or the more recently established Regional Fund for Agricultural Technology in Latin America and the Caribbean are funded on a grant basis (the latter is funded by an endowment provided by its regional member countries and institutions). Grant-based global and regional programs coordinated by the different multilateral development banks are similar in terms of their basic orientation and objectives. They promote research, knowledge management, emergency preparedness, training and institution building, and policy discussions among bank member countries to create awareness and possibly consensus regarding ways to address certain problems. The IDB's Regional Policy Dialogue is funded on a grant basis, and it is difficult to see how this could be otherwise. Another example of a grant program sponsored by the IDB is the Inter-American Institute for Social Development, set up to provide strategic capabilities to the social area management teams of the governments of Latin America and the Caribbean.[9]

However, while grants are necessary for some kinds of programs, their allocation, governance, and management can be challenging. Because they are free, an element of moral hazard may be associated with grants. The demand for grants is unlimited, by definition. Donors, international

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9 See *http://www.iadb.org/indes*.

organizations, and issue-focused civil society groups formulate numerous calls for activities intended to produce international and regional public goods. In this situation, having transparent and participatory methods for setting priorities is extremely important, and the provenance of grant funding is important in this context. The multilateral banks must strike the right balance between grants funded from the administrative budget (controlled by all members in accordance with their voting rights) and funds made available by individual donors.

The multilateral banks and their shareholders must also be transparent with respect to the issue of burden sharing. The allocation of income derived from lending operations to finance international public goods represents a cost to the banks' larger borrowers (the borrowers that do not have access to concessional resources), because it leads to increased loan charges to meet income targets. In the eyes of the nonborrowers: "Because the loans are subsidized by their guarantee of the [banks'] liabilities, the effect on the cost of borrowing is not a measure of the cost of financing regional or global public goods" (CEIP [2001] p. 31).

Other issues that must be addressed include the leverage that grant funds should induce, for example, via cost sharing among the beneficiaries; the relationship between the grantor and grantees, which should be arms-length; and the assurance that innovation is being fostered under grant programs. Further aspects include the existence of an exit strategy, clarity with respect to subsidiarity or the subordination of grants to lending, and grantor awareness that an entitlement mentality could spread among grantees, which could tie up funds in the long-term that might more appropriately go to new endeavors. Therefore, while the call for grant funding for the production of international public goods is justified, the free nature of this financial resource (free from the recipients' point of view) should not detract from the need for ambitious, goal-oriented standards of deployment and rigorous monitoring and evaluation.

However, grant programs are often not evaluated, except in the case of large and long-standing programs that are known to have produced important international and regional public goods, for example, the River Blindness Control Program. Unpublished evaluation reports produced by some of the multilateral banks indicate that many small grant programs and regional technical cooperation activities do not have well-defined monitoring systems and are not systematically evaluated. The developmental impact of some long-standing grant programs administered by international agencies is not well documented. Thus calls for grant funding to support the provision of international and regional public goods should go hand in hand with calls for adequate monitoring and evaluation.

Loans

When it comes to financing mixed goods, borrowers hold loans in low esteem. They are reluctant to take on loan charges when they cannot capture most of the benefits expected from the investment financed by the loan. Countries' reluctance to borrow is likely to grow with the magnitude of the expected cross-border externality relative to national gain. Eradicating (or greatly lowering the prevalence of) tuberculosis in an endemic country yields a higher gain to that country than to others as long as much of the world is still prone to this disease, but eradicating the remaining pockets of poliomyelitis yields a larger gain to the rest of the world than to the few developing countries in which the disease occurs sporadically. Similarly, preserving forests and biodiversity may produce a larger gain for the rest of the world than for individual forest-rich lands. Should these countries be the only ones to pay for vestigial disease eradication campaigns or the preservation of natural resources? Or should they be compensated by those benefiting from the externalities?

Compensation brings up the issue of differential pricing for services that generate cross-border benefits. Differential pricing has recently been on the table in discussions spearheaded by the Group of Seven on the products and governance of the multilateral banks. The discussion has not focused explicitly on financing global and regional public goods, but it could be extended to this topic. In between grants and regularly priced nonconcessional loans at near-market rates, there is room for a gradient of incentives in the form of differentially priced concessional loans that would compensate borrowers for precious externalities originating from their territory.

The World Bank [2001a] argues that differential pricing, that is, lower interest charges for some investment loans, needs to be judged on efficiency grounds, because it does not expand the envelope of resources. Differential pricing would, in theory, permit fine-tuning of subsidies for different kinds of international public goods, but it could also be difficult to administer, with administration likely becoming a politically charged exercise. Multilateral financial institutions have basically offered two kinds of loans -concessional and nonconcessional- for many years, with borrowers' eligibility for each type being a function of their income and (implicitly) creditworthiness. The addition of an international public good criterion, while worthwhile, could complicate matters considerably. Borrowing and nonborrowing shareholders would have to engage in negotiations to agree about which international public goods to pursue, and nonborrowing shareholders would have to admit the principle of loan subsidies for the better-off developing countries that do not qualify for concessional loans.

In the absence of differential pricing, loans will need to be combined with grant funding in appropriate combinations to foster the production of mixed goods. This is already being done in the form of hybrid financial products combining concessional or nonconcessional lending and grant-based cofinancing from bilateral donors. The Global Environment Facility is a source of grant-based cofinancing for operations that address global environmental issues, but the facility is small in relation to needs, as are the resources that bilateral donors have been able to make available. No dedicated international funds for priorities other than the global environment are available (though the international community has recently agreed to establish a global AIDS fund). Funds for regional priorities are even scarcer. In addition, grant funding tends to go largely to the poorest countries, which is appropriate from the point of view of fostering development within national confines, but may be inappropriate if one seeks to maximize cross-border externalities in key areas of transnational public policy.

In principle, a solution exists to the problem of financing such endeavors as cross-border infrastructure and campaigns to combat contagious disease: multicountry loans taken out jointly by the members of a spillover community or by countries that otherwise stand to benefit from coordinated action. In practice, however, such loans are difficult to manage. The difficulty lies in figuring out and obtaining agreement on who should pay what share of the cost of borrowing. This makes it difficult for official financial institutions to employ their basic financial instrument, a government-guaranteed loan, to support the creation of international and regional public goods.

World Bank Experience with Multicountry Loans

The portfolio of multicountry or regional loans held by multilateral development banks is small. The World Bank, for example, has extended less than 50 regional loans in its entire history. Table 1 shows 44 multicountry projects by region, sector, and when they were approved. Of these operations, 27 were located in Sub-Saharan Africa, 9 in the Caribbean, 4 in Latin America, 2 in Europe and Central Asia, and 1 each in the Middle East and North Africa and South Asia. The concentration in Africa and the Caribbean may be explained by the particularly small size of national economies in these regions, prompting a search for economies of scale through regional cooperation (see Ferroni and Hassberger [2000]).

Every loan shown in the table represents a world of challenges and arrangements, making meaningful comparisons difficult. Nevertheless, these loans essentially employed variations of three lending modalities: single country loans with a binational (or regional) objective embedded in binational (or regional) agreements, loans to multinational entities such as subregional development banks and special purpose companies established for the project, and individual coordinated loans to participating sovereign borrowers.

TABLE 1

WORLD BANK REGIONAL PROJECTS: DISTRIBUTION BY SECTORS AND DECADES

	AFRICA	THE CARIBBEAN	LATIN AMERICA	EUROPE AND CENTRAL ASIA	MIDDLE EAST AND NORTH AFRICA	SOUTH ASIA	TOTAL BY SECTOR	1960'S	1970'S	1980'S	1990'S	2000'S
Finance	7	5					12		3	4	3	2
Transportation	6			1	1		8		4	2		2
Electric Power	3		2				5			3	2	
Oil And Gas	2		2				4	1		1	1	1
Telecommunications	3	1					4	1	2		1	
Environment	1	1		1			3				2	1
Agriculture	1					1	2	1	1			
Industry	2						2		1	1		
Water Supply	1						1				1	
Education		1					1			1		
Health	1						1					1
Public Sector Management		1					1				1	
Total By Region/Decade	27	9	4	2	1	1	44	3	11	12	11	7

Source: Ferroni and Hassberger [2000]

The Indus River project is perhaps the most famous example of the first kind of loan arrangement in the history of multilateral development banking. In September 1960, India, Pakistan, and the World Bank signed the Indus Water Treaty, which governs the use of the waters of the Indus River system. Signature of the treaty marked the end of a long-standing dispute between India and Pakistan. Under the treaty the Indus Basin Development Fund of almost US$900 million (subsequently augmented by a further US$300 million) was established to finance the construction of irrigation and other works in Pakistan that were needed to enable the country to use and develop its share of the Indus River system. Contributions from Western governments and World Bank “single-country” loans to Pakistan financed the fund.

The second type of regional loans with which the World Bank experimented was fraught with difficulty. In the 1970s it included a number of finance and infrastructure loans extended to subregional entities. For example, several World Bank loans to the Banque Ouest Africaine de Développement sought to strengthen the borrowing institution’s development role and contribution to regional integration. The loans helped finance feasibility and engineering studies for regional infrastructure projects, as well as some of these projects themselves. According to an internal project completion report, the World Bank deemed the projects successful at strengthening the recipient intermediary, but encountered significant problems at the subproject level because of difficulties in obtaining government commitment for regional projects. This caused the authors of the report to conclude that regional and subregional projects, involving more than one country, are scarce and difficult to realize. Similar conclusions emerged from regional infrastructure projects in East Africa. Six different loans extended by the World Bank to the Caribbean Development Bank between 1976 and 1994 also faced problems, compounded by difficulties related to the World Bank’s guarantee requirement, which called for sovereign subloan guarantees from each Caribbean Development Bank borrowing country to which loan proceeds were on-lent. The exasperated authors of a project performance audit report at the time indicated that the amount of administrative work required to provide these guarantees cannot be exaggerated.

Multinational projects are much more complex and risky than national ones. Synchronizing project phases in different countries can be difficult. In addition, participating countries face different political and economic circumstances and cycles, and may proceed at different rhythms because of differences in institutional capacity. This can be a source of tension if one party is holding the others back. These and other issues can translate into high transaction costs that can deter well-meaning potential participants and international organizations.

The third type of regional program lending, a set of individual coordinated loans to sovereign borrowers, has not been tried much, but would appear to be promising as a way to overcome disincentives to borrowing, and thus to regional cooperation. The new Multicountry HIV/AIDS Program for Sub-Saharan Africa supported by the World Bank seeks to channel resources to countries and regional organizations to strengthen and expand disease prevention and care measures under a joint policy approach. Individual country operations are meant to proceed according to local rhythms reflecting implementation capacity under national action plans, but following a regional approach. There would seem to be considerable scope for innovation along these lines. A joint approach would enhance impact and eliminate free-riding and disincentives to take out loans, and would thereby make more resources available to address urgent issues of transnational scope. The resources certainly exist; multilateral development banks have been lending less in recent years than they could have. However, the approach calls for a strong advocacy and collective action-enhancing role by these institutions. The challenge of obtaining agreement on a common platform of action can be daunting.

The wider deployment of the described approach to coordinated lending would make it necessary for the institutions to overcome internal organizational setups that militate against communication across divisions and departments responsible for different countries belonging to the same spillover group. More generally, the culture of approaching problems from a regional point of view would have to be further strengthened, and the institutions' administrative budgets would have to accommodate what must be assumed to be heavy transaction costs of building partnerships and coalitions for joint action financed on the basis of loans. Coordinated loans extended under a common policy framework, but permitting as much national autonomy in program execution as possible without jeopardizing the common framework, would appear to offer the best scope for purposeful, loan financed, regional cooperation.

VI. CONCLUSION

The worldwide trend toward regional integration creates incentives for cooperation in a range of policy domains beyond international trade. Multilateral and bilateral institutions known for their country focus are supportive of this trend and are increasingly engaged in regional policies and programs. Their aim is to realize the development dividends at the national level that can be expected from investing in core and complementary activities related to international and regional public goods. The paper analyzes how regional public goods are being financed through lending and nonlending operations and clarifies the circumstances under which lending is possible and when grant funding is in order. There is some scope for innovation in regional lending, with the instrument of choice being a program of coordinated loans offered to and taken out by countries that belong to a given spillover community. Brokering arrangements of this kind is challenging, but the rewards could be substantial in an era in which growing international interdependence calls for an increased supply of regional public goods.

APPENDIX

MEMBERSHIP OF SELECTED MAJOR REGIONAL INTEGRATION AGREEMENTS AND YEAR OF FORMATION

Industrial and Developing Economies

European Union (EU): formerly European Economic Community (EEC) and European Community (EC), **1957**: Belgium, France, Germany, Italy, Luxembourg, Netherlands; **1973**: Denmark, Ireland, United Kingdom; **1981**: Greece; **1986**: Portugal, Spain; **1995**: Austria, Finland, Sweden.

European Economic Area (EEA): **1994**: EU, Iceland, Liechtenstein, Norway.

Euro-Mediterranean Economic Area (Euro-Maghreb): bilateral agreements, **1995**: EU, Tunisia; **1996**: EU and Morocco.

EU bilateral agreements with Eastern Europe: **1994**: EC, Hungary, Poland, **1995:** EC, Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Romania, Slovak Republic, Republic of Slovenia.

Canada-US Free Trade Area (CUFTA): 1988: Canada, United States.

North American Free Trade Area (NAFTA): 1994: Canada, Mexico, United States.

Asia Pacific Economic Cooperation (APEC): **1989**: Australia, Brunei Darussalam, Canada, Indonesia, Japan, Republic of Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, United States; **1991**: People's Republic of China, Taiwan (China), Hong Kong (China); **1993**: Mexico, Papua New Guinea; **1994**: Chile; **1998**: Peru, Russia, Vietnam.

Latin America and the Caribbean

Andean Pact: **1969**: revived in 1991, Bolivia, Colombia, Ecuador, Peru, Venezuela.

Central American Common Market (CACM): **1960**: revived in 1993, El Salvador, Guatemala, Honduras, Nicaragua; **1962**: Costa Rica.

Southern Common Market, Mercado Común del Sur (MERCOSUR): 1991: Argentina, Brazil, Paraguay, Uruguay.

Group of Three (G3): **1995**: Colombia, Mexico, Venezuela.

Latin American Integration Association (LAIA): formerly Latin American Free Trade Area (LAFTA), **1960**: revived 1980, Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela.

Caribbean Community and Common Market (CARICOM): **1973**: Antigua and Barbuda, Barbados, Jamaica, St. Kitts and Nevis, Trinidad and Tobago; **1974**: Belize, Dominica, Grenada, Montserrat, St. Lucia, St. Vincent and the Grenadines; **1983**: The Bahamas (part of the Caribbean Community but not of the Common Market).

Africa

Cross-Border Initiative (CBI): **1992**: Burundi, Comoros, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe.

East African Cooperation (EAC): **1967**: formerly East African Community (EAC), broke up in 1977 and recently revived, Kenya, Tanzania, Uganda.

Economic and Monetary Community of Central Africa (CEMAC): **1994**: formerly Union Douanière et Economique de l'Afrique Centrale (UDEAC), **1966**: Cameroon, Central African Republic, Chad, Congo, Gabon; **1989**: Equatorial Guinea.

Economic Community of West African States (ECOWAS): **1975**: Benin, Burkina Faso, Cape Verde, Côte d'lvoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo**.**

Common Market for Eastern and Southern Africa (COMESA): **1993**: Angola, Burundi, Comoros, Djibouti, Egypt, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Rwanda, Somalia, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe.

Indian Ocean Commission (IOC): **1984**: Comoros, Madagascar, Mauritius, Seychelles.

Southern African Development Community (SADC): **1980**: formerly known as the Southern African Development Coordination Conference (SASCC), Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia, Zimbabwe; **1990**: Namibia; **1994**: South Africa; **1995**: Mauritius; **1998**: Democratic Republic of the Congo, Seychelles.

Economic Community of West Africa (CEAO): **1973**: revived in 1994 as UEMOA, Benin, Burkino Faso, Côte d'lvoire, Mali Mauritania, Niger, Senegal.

West African Economic and Monetary Union (UEMOA or WAEMU): **1994**: Benin, Burkina Faso, Côte d'lvoire, Mali, Niger, Senegal, Togo, **1997**: Guinea-Bissau.

Southern African Customs Union (SACU): **1910**: Botswana, Lesotho, Namibia, South Africa, Swaziland.

Economic Community of the Countries of the Great Lakes (CEPGL): 1976: Burundi, Democratic Republic of the Congo, Rwanda,.

Middle East and Asia

Association of South-East Asian Nations (ASEAN): **1967**: ASEAN Free Trade Area (AFTA) was created in 1992, Indonesia, Malaysia, the Philippines, Singapore, Thailand; **1984**: Brunei Darussalam; **1995**: Vietnam; **1997**: Myanmar, Lao People's Democratic Republic; **1999**: Cambodia.

Gulf Cooperation Council (GCC): **1981**: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates.

South Asian Association for Regional Cooperation (SAARC): **1985**: Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka.

Source: World Bank [2000b].

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