The 2006 ADB Annual Meetings

Ministerial Round Table and High Level Seminars on:

Infrastructure Development and Regional Integration

Jointly Organised with the UN Economic Commission for Africa

Ouagadougou Conference Centre, 15-16 May 2006

SYNTHESIS REPORT

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Abbreviations

ACP	:	African, Caribbean, Pacific
ADB	:	African Development Bank
ADF	:	African Development Forum
AFREC	:	African Energy Commission
AGOA	:	Africa Growth and Opportunity Act
AHODA	:	Harmonization of Business Law in Africa
AMCOW	:	African Ministerial Conference on Water
APRM	:	African Peer Review Mechanism
AU	:	African Union
AWF	:	African Water Facility
CET	:	External Tariffs
DAC	:	Development Assistance Committee
EBA	:	Everything but Arms
ECA	:	Economic Commission for Africa
FDI	:	Foreign Direct Investment
FTA	:	Free Trade Areas
G8	:	The Group of Eight (G8) consists of Canada, France, Germany, Italy, Japan, Russia, the United Kingdom, and the United States.
HIPC	:	Heavily Indebted Poor Countries
HSGIC	:	Heads of State and Government Implementation Committee
ICA	:	Infrastructure Consortium for Africa
ICT	:	Information and Communication Technology
IFF	:	International Finance Facility
IMF	:	International Monetary Fund
IPPF	:	Infrastructure Project Preparation Facility
IPPF	:	Infrastructure Projects Preparation Facility
LDCs	:	Less Developed Countries
MDGs	:	Millennium Development Programme
MFIs	:	Micro-Finance Institutions
MLTSF	:	Medium to Long-Term Strategic Framework
NEPAD	:	New Partnership for Africa's Development
NGOs	:	Non Governmental Organizations
NICs	:	Newly industrialized countries
NTF	:	Nigeria Trust Fund
ODA	:	Official Development Aid
OECD	:	Organization for Economic Co-operation and Development
PCCF	:	The Post-Conflict Countries Facility
PPP	:	Public-Private Partnerships
PRSPs	:	Poverty Reduction Strategy Papers
RECs	:	Economic Communities
REC-TCC	:	Regional Economic Communities Transport Coordination Committee
RMCs	:	Regional Member Countries
RWSSI	:	Rural Water Supply and Sanitation Initiative
SADC	:	Southern African Development Community
SSATP	:	The Sub-Saharan African Transport Policy
STAP	:	Short-Term Action Plan
UNECA	:	United Nation Economic Commission for Africa
UNTACDA	:	United Nation Transport and Communications Decades for Africa
WTO	:	World Trade Organization

Preface

The African Development Bank Group (ADB) Annual Meetings have traditionally been preceded by a Symposium designed to address major issues/ themes of concern for the development of Africa. In recent years, the symposium has been conceptualized and organized in close collaboration with the UNECA whose Ministerial Conference coincided with that of the ADB Annual Meetings.

The symposium has over the years provided an opportunity for fruitful exchanges between policy makers and development practitioners, on policy issues having bearing on Africa's economic development. It normally attracts an audience of about 500 participants including Ministers, Central Bank governors, leaders from the private sector and the civil society as well as development practitioners around the world.

In this year 2006, the Ministerial Round Table discussions were devoted to the theme "Infrastructure Development and Regional Integration: Issues, Opportunities and Challenges". They were followed by two High-Level seminars on (i) "Infrastructure Development and Regional Integration: Getting the Policy Framework Right"; and (ii) "Infrastructure Development and Regional Integration: Meeting the Investment needs. They all took place on 16 May 2006 in Ouagadougou, Burkina Faso.

This report is a synthesis of the key issues discussed and the main conclusions reached, with a special emphasis on the implications for the African Development Bank.

1. Introduction

It is of general acceptance that the development of social and economic infrastructure is critical for economic growth and achieving the Millennium Development Goals (MDGs) in Africa. Increased market size through regional integration and lower prices through the exploits of economies of scale, are examples of the impact of infrastructure development and regional integration in enhancing economic growth, improving living standards and reducing poverty.

Despite the aforementioned benefits, infrastructure and regional integration have played a very limited role in Africa's social and economic development. The infrastructure gap in Africa is huge, both in terms of access and quality, and in all the sectors. Recognizing this, in the past few years, there have been growing concerns and initiatives on how to scale up and sustain infrastructure development on the continent. There is the need for further consultation, analysis, coordination and harmonization of these different initiatives and efforts to ensure effective implementation. In the first instance, it is necessary to undertake a critical analysis of the issues and constraints, and development of an appropriate Policy Framework for Infrastructure Development and Regional Integration. Infrastructure development requires substantial capital expenditures, which have historically been financed through the public sector. Given the increasing demands on public funds, addressing the issue of mobilizing additional resources, particularly from the private sector, to meet the Investment Needs for Infrastructure Development and Economic Integration has become imperative.

The objective of these series of discussions was to highlight key challenges related to Infrastructure Development and Regional Integration in Africa; to discuss how to get the policy framework right to create an enabling environment for scaling up infrastructure development of the continent; to explore what are the investment needs for expanded infrastructure and ways of meeting them and; to highlight the role of Governments, Regional Economic Communities (RECs), Financial Institutions, Donor Community, Public Private Partnerships and Infrastructure Funds.

2. Investment Needs and Resource Requirements

Infrastructure is broadly defined as the facilities, structures and associated equipment and services that facilitate the flows of goods and services between individuals, firms and governments. Conventional infrastructure includes: public utilities, such as power, telecommunications, water supply, sanitation and sewerage, and waste disposal; public works, such as irrigation systems, schools, housing and hospitals; transport sectors, such as roads, railways, ports, waterways and airports; and research facilities such as laboratories and related equipment.

Infrastructure is therefore regarded as a key lever for development. It cuts across all sectors of activity and contributes to improve public welfare through services provision to the population and therefore it largely contributes to the achievement of Millennium Development Goals, especially concerning water supply, but also in the domains of education and health. This contribution to welfare has also an indirect impact: it gives credibility to the institutions in place and therefore reinforces political stability.

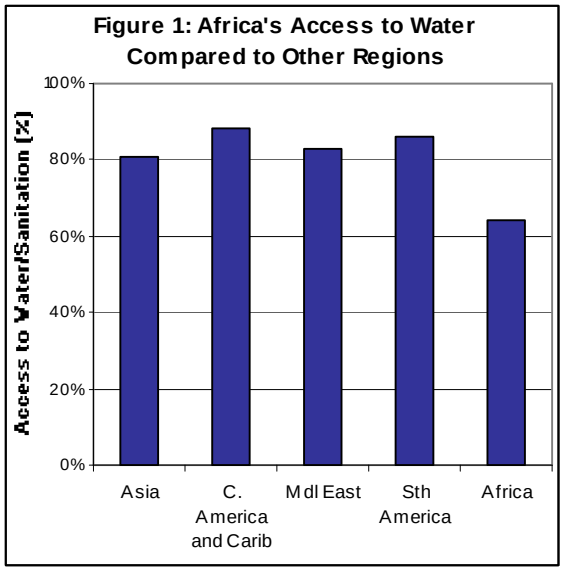
At the same time the importance of regional infrastructure development cannot be overemphasized. Transport infrastructure is at the heart of regional integration as it supports the movement of people and goods across borders. Africa's internal and external trade flows through its roads, railways, inland waterways, ports and airports. Therefore, an efficient and

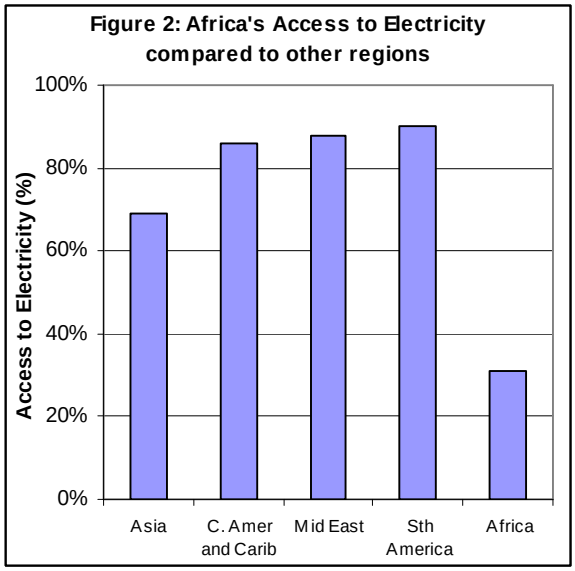
integrated transport system will facilitate national and international trade and factor mobility. An integrated communications system in the continent will spur growth of trade and finance and reduce production and service costs by enhancing the accessibility and affordability of information, and linking Africa regionally and with the rest of the world

2.1. Africa situation regarding infrastructure

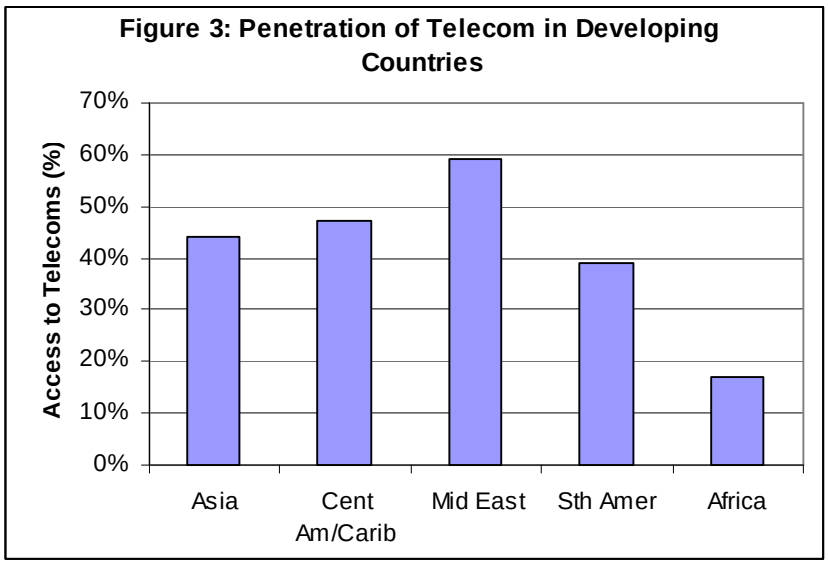
Africa's needs in terms of infrastructure are many and varied. There is a large infrastructure deficit, both in terms of access and quality, to be filled in all the sectors (transport, energy, ICT and water) as indicated in figures 1, 2, and 3 below.

For instance, the level of access to electricity in Africa is only 30 percent, compared to over 75 percent for other Less Developed Countries (LDCs). Access to water and sanitation is about 65 percent compared to 80 percent for other LDCs; access to roads is 34 percent compared to 50 percent for other LDCs, while the penetration rate for telecommunication is less than 13 percent compared to 40 percent in other LDCs. This situation has resulted among others in Africa's low rates of economic growth, reduced share of world trade and lack of international competitiveness. The high transaction costs arising from poor infrastructure adversely affects development of the African economies, hinders private sector development, and the flow of Foreign Direct Investment (FDI), and seriously affects the social services coverage, particularly for the rural population.





In the decade immediately following independence, the public sector made some important contributions to promote infrastructure development. Newly independent countries inherited, in most cases, inadequate and outward-oriented infrastructures designed largely to serve the metropolis. Most African States maintained the status quo but also sought to leverage the existing structures to foster infrastructure development. However, like in other developing regions of the world, the majority of Africa's basic infrastructure utilities were characterized by weak management and poor development strategies, systematic under-investment and gross inefficiencies, which led to the accumulation of huge deficits. As a result, public utilities were increasingly unable to satisfy the growing customer demand and became a drain on the public budgets.



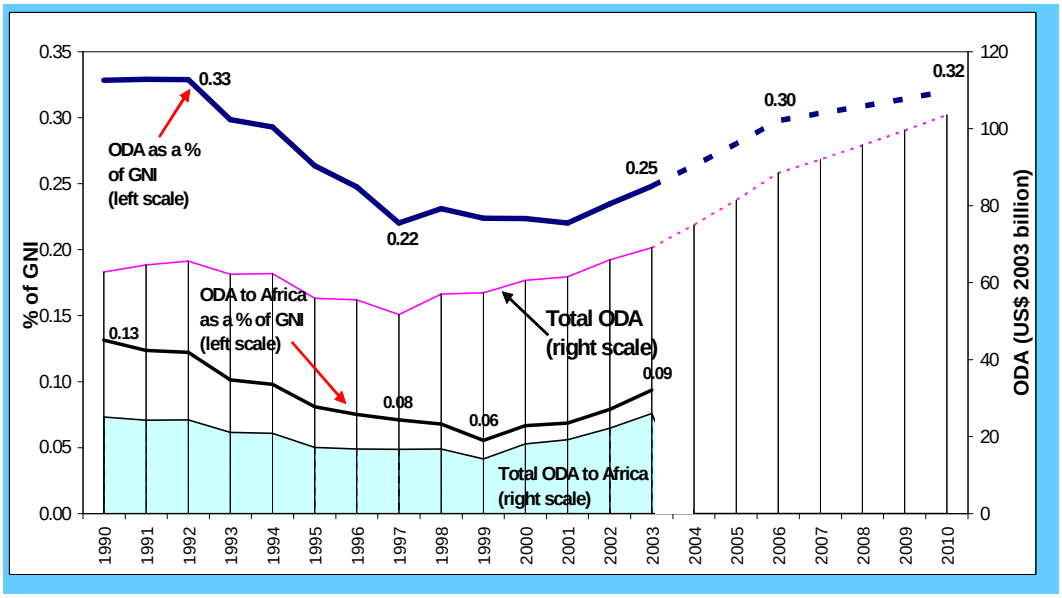
By the mid-1980s, the situation had become unsustainable, and led to the widespread adoption of structural adjustment programmes, with reform and restructuring of infrastructure, parastatals being central to these reforms. While sector reforms also focused on policy and regulatory frameworks intended to increase domestic and foreign private sector participation in infrastructure, private capital flows were mainly attracted to the ICT and energy sectors, leaving the other areas of infrastructure under-funded. Moreover, private capital went to a few countries where commercial viability was assured. As a result, Africa's infrastructure has continued to trail the world both in terms of quantity and quality. Because of the magnitude of the Africa's infrastructure deficit, the financing challenge requires concerted efforts from all funding agencies in order to achieve the desired development impact and the MDGs.

2.2. Trends in Development Aid to Africa

In the last few years, there has been a growing realization (e.g., Monterrey Consensus, NEPAD Initiative, Commission for Africa and Gleneagles G8 Summit) of the need to scale up investments to bridge the infrastructure gap in Africa and achieve a minimum of 7% annual growth rate required to meet the Millennium Development Goals (MDGs). Regarding infrastructure, the Commission for Africa Report deriving from the NEPAD programmes estimates the financial requirements for infrastructure in Africa at US$ 20 billion, which represents about 30 percent of the total resource requirements for growth.

With respect to Official Development Aid (ODA), the Commission for Africa has called for its immediate doubling to Africa, up to $50 billion a year. In addition, it has called for 100 percent debt cancellation and urges rich nations to drop trade barriers and remove agricultural subsidies that hurt poor countries. These calls have been echoed by the World Bank and the IMF, with these two institutions also arguing that an increasing number of countries have improved their absorptive capacity to use such resources effectively. The Bank's own estimate indicates that for the 30 or so African countries in need of additional external assistance, and judged to be in a position to use aid effectively, the requisite increase in assistance is in the order of US$ 20-25 billion per annum.

Figure 4: ODA Flow to Africa



Source: OECD/DAC statistics (2006), Draft Annex to chapter III of the ECA/OECD/DAC "Mutual Review of Development Effectiveness in Africa in the context of NEPAD", Paris.

After declining for much of the 1990s, aid to Africa has risen substantially over the last three years, although much of the increase is accounted by debt relief. This positive trend will need to be maintained, with the goal of doubling of ODA current levels in the next five years. Towards this end, more attention should be given to recent proposals to find innovative ways of scaling up and front-loading ODA. Two important proposals have been tabled in this regard: the first is the proposal of the French Government to consider various forms of global taxation; the second is the International Finance Facility (IFF) proposed by the United Kingdom and supported by France.
More efforts should also be made to improve the efficiency and effectiveness of ODA. At the March 2005 Paris High Level Forum on Aid Effectiveness, a number of proposals were adopted to strengthen country ownership and to harmonize donor policies and align them with systems in place in developing countries. The donor community – in close cooperation with developing countries – would need to take urgent action to implement these proposals.

As well as increase ODA and enhance its effectiveness, there is also a need to reduce further Africa's external debt burden. Much progress has been made in recent years in part due to the HIPC initiative. Of the 32 African countries that were expected to qualify for HIPC debt relief, 25 have so far become eligible. It is also noteworthy that six countries -- Ethiopia, Ghana, Madagascar, Niger, Senegal, and Zambia -- reached their completion point in the last two years bringing the total to 13. As most of the remaining seven countries are either in conflict or emerging out of conflict, the international community should assist them re-establish peaceful conditions, as well as help them clear their arrears and commence their reconstruction efforts.

With regards to further debt relief measures, the initiative taken by the United Kingdom to provide additional debt relief on the debts owed by post-completion HIPC countries to the international financial institutions was encouraging. It is urgent that other countries support this initiative, as it would release considerable resources for investments aimed at reducing poverty in the low-income countries. In addition, the decision of the donor community to base future ODA financing terms on an in-depth analysis of debt sustainability to reduce the risk of debt distress in the future is welcome. This is expected to result in a considerable increase in the level of grant financing by the international financial institutions. Country must also seriously

address the expanded fiscal space that debt relief provides to stimulate growth and development.

Another important source of financing could come from expanded external trade. However, African counties continue to face major impediments in the form of heavy domestic support and export subsidies for agricultural products provided by the industrial countries to their farmers. These have the effect of reducing considerably the export earnings of African countries. In addition, non-tariff barriers are often imposed and African countries face tariff escalation on the exports of processed and manufactured exports, although the AGOA initiative of the United States and the *Everything but Arms* (EBA) initiative of the European Union have eased some of these obstacles. Important progress has been made in the WTO July 2004 Framework, which sets out modalities for the elimination of protectionist measures. In this regard, it is urgent that the industrial countries throw their weight behind the 'July Framework' to expedite the speedy fulfilment of the Doha Development Agenda.

2.3. Need to Develop Innovative Financing Mechanisms

In light of the large requirement for resources to fill the infrastructure gap, participants encouraged the ADB to work together with other organisations and explore innovative financing mechanisms suitable to the continent. Among the possible examples that were proposed included the possibility of mobilizing funds from Oil Exporting countries of Africa to create a special fund for infrastructure. These countries should be persuaded to put at least 5% of excess revenues arising from 'Oil Price' windfall to support regional infrastructure, while the ADB could set aside a percentage of its net income annually to support regional infrastructure development.

At the same time, development partners, particularly multilateral financial institutions were encouraged to develop mechanisms to lend directly to RECs for regional infrastructure development. In addition, local financing in form of local bonds –in domestic currency -, use of pension funds, etc. should be developed to augment additional funds mobilized from traditional sources. The ADB should champion this in collaboration with other key institutions.

3. Getting the Policy Framework Right

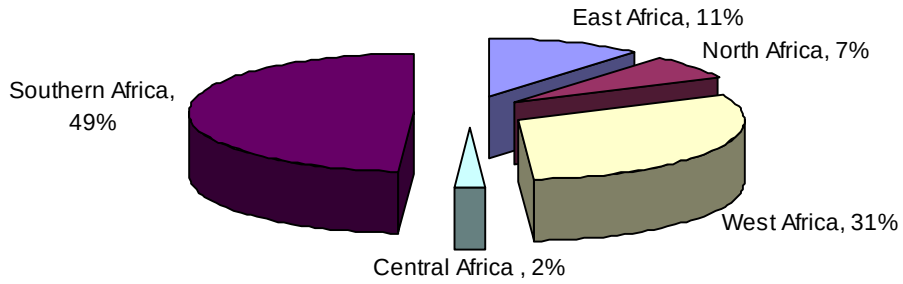
3.1. Policy Reforms at Country Level

In many countries, infrastructure policies and sector regulatory and governance systems are inadequate to facilitate rapid development of infrastructure. Thus, the infrastructure gap in Africa is as much a policy, organizational and capacity gap as it is an investment gap. The issue has been one of efficiency of the State bureaucracies in the decision-making process, which is both a capacity and organizational issue. While the situation of infrastructure services is typically one of low coverage, poor maintenance and quality, and weak finance, some countries have been able to upgrade and expand their infrastructure assets and improve services through a combination of policy changes, institutional reforms and investments.

Over the last decade, at the national level, the movement of reform in Africa to decentralize and to move away from the public sector monopoly model has gained momentum in all infrastructure sectors. In 2000, more than US $ 7.95 billion was raised in the continent in terms of the number of newly enterprises privatized (source: Economic Perspectives for Africa, 2003). In southern Africa alone, the privatization transaction represented about 50% of the total gained (Figure 3). The privatisation movement has resulted in a significant decrease in public

sector enterprises. For example, the number of state owned enterprises decreased from 6069 to 4058 from 1990 to 1995 according to estimate by the World Bank. Only eight, (Botswana, Liberia, Namibia, Seychelles, Somalia, Swaziland, Algeria and Libya) out of the 53 African countries have not yet engaged in privatisation. Nevertheless, the private sector remains a small participant in infrastructure development in Africa, with the public sector still providing the bulk of financing needed. Hence the role of the public sector in infrastructure investment therefore remains important.

Figure 5: Percentage of enterprises privatized in Africa by 2000



More recently, the thrust of reform towards deregulation and pro-competition strategies has gained momentum in most infrastructure sectors. Useful lessons can be learned from these reforms, which need to be deepened, especially in the following key areas:

- *Maintaining a prudent macroeconomic policy stance*, and adopting a positive incentive framework and good governance to foster macroeconomic stability, and hence reduce uncertainties and risks to private sector investment. African countries also have to avoid policy reversals in order to preserve the stability and predictability of the investment climate, and to build investor confidence.

- Development of physical infrastructure and trade/business facilitating infrastructure are equally as crucial as the quality of *public-private consultative mechanisms* aimed at forging effective partnerships for leveraging the strength of each party and generating lower cost provision of economic infrastructure.

3.2. Policy Reforms at Regional Level

Domestic efforts to improve the regulatory and legal framework have to be complemented at the regional level, since in most sub-region's policies and regulatory systems, where they exist, are not adequately harmonised. There is therefore a need to institute necessary measures for countries and regions to develop a harmonised policy framework necessary for cross-border infrastructure investment.

Getting the policy framework right is also critical for regional infrastructure development, particularly for guiding long-term investments decisions and because of the large number of governments and other stakeholders involved, with varying degrees of commitment to regional integration. The framework should address macroeconomic convergence issues, legal and regulatory frameworks, harmonization of tax laws, efficient trans-border customs and port

management systems, good corporate governance, efficient and reliable payment systems, and well developed financial and capital markets.

Infrastructure development is included in the treaties of all the RECs, which provide the framework for aligning sector policies, designing regional master plans, harmonizing regulatory regimes and investment codes, and mobilizing investment resources. Yet gaps still exist in most of those areas – raising the cost of doing business and impeding factor mobility, investment, and competition. Moreover, in the areas of international trade, financial integration and technology, much of Africa is lagging behind compared to the global trends, which has contributed to sub-Saharan Africa's effective marginalization in the global economy.

Various Governments and infrastructure initiatives have established policy frameworks that attempt to address these essential elements and create an enabling environment for infrastructure development and regional integration. The most important has been the effort led by regional initiatives including the New Partnership for Africa's Development (NEPAD) to adopt regional solutions to infrastructure development.

Others include the following: (i) establishment of regulatory bodies in the various infrastructure sector, ii) creation of Power Pools in most sub-regions (West African Power Pool, Southern Africa Power Pool, Central Africa Power Pool, Eastern Africa Power Pool) following ratification of related protocols by the concerned member countries; iii) formation of WESTCOR to facilitation of sub-regional power network interconnectivity; iv) regional adoption of harmonisation model enabling liberalisation and establishment of e-Africa Commission in the Information and Communication Technology (ICT) sector; v) addressing the serious threat for Africa of climate change through the need for investment in clean energy in the wake of the G8 summit in Gleneagles in 2005; and vi) cooperation in the management of shared resources e.g. the Nile Basin Initiative.

Notwithstanding these achievements, in most countries of Africa, infrastructure regulatory and governance systems are still inadequate in many areas to facilitate rapid development of the sector. There is the need for further consultation, collaboration, analysis, synthesis, coordination and harmonization of these different initiatives to ensure effective implementation. Policies and regulatory systems where they exist need further harmonisation at the regional level. It is therefore essential to institute measures for countries and regions to develop a harmonised policy framework for infrastructure development.

4. Challenges to Policy and Regulation Reforms for Infrastructure Development

The need to scale up investments and accelerate growth poses a number of challenges for RMCs, both individually and collectively, as well as for Development Partners, including the Bank Group. Participants debated about the many synergies between the challenges affecting both, RMCs and Development partners. For instance, the anticipated scaling up of international assistance would become unlikely without further progress in improving governance at the country level and development Programming and implementation capacity in RMCs. Some of the critical challenges that were highlighted were the following:

(i) Improving the Enabling Policy Environment:

The slow private sector response experienced so far towards the NEPAD Infrastructure Short Term Action Plan indicates that improving the enabling policy environment rather than investment incentives targeted to sectors, is the critical pre-requisite for effective

private sector participation in infrastructure. Specifically, in the infrastructure sector, as we saw above it is clear that the gap is as much a policy and capacity issue as it is of investment. While the situation of infrastructure services is typically one of lagging coverage, poor maintenance and weak finance, some countries have been able to upgrade and expand their infrastructure base and improve services through a combination of policy changes, institutional reforms and investments.

Countries and regions should also set rules for mobilization of funds from Micro-Finance Institutions (MFIs) as opposed to interpreting myriad of rules of MFI's for financing of key projects and programmes.

(ii) Enhancing Countries Institutional Capacity:

The prospects for increased resource flows to Africa raises implementation and absorption capacity issues related to the planning, Programming and coordination at the country levels. It is often a misconception that the key problem facing the continent in its development efforts is the non-availability of financial resources. Recently, it has become more apparent that the ability of RMCs to absorb the additional resources perhaps poses a bigger threat to scaling up infrastructure development. The need to enhance human capacity requirements (technical, financial, management), and not only financial ones, in order to ensure proper management of infrastructure in Africa was underlined during the discussions. Considering the differences in the administrative experiences and capacities in the various countries' civil services, there can be no standard prescription for government management of infrastructure issues. Although having a *single ministry* of infrastructures is gaining popularity, as against having various infrastructure matters handled in various sector ministries, any country contemplating adapting that model has to weigh the merits and demerits. In light of these, participants raised a number of pertinent questions, related to the absorptive capacity of African countries individually and collectively; and to the potential effect of a rapid scaling up in infrastructure on macro-economic stability and sector governance within the countries. In this context, consensus emerged of the need for deep and critical analysis on these issues to ensure that additional resources will contribute to real and sustained improvements.

Furthermore, considering the long term infrastructural priorities in Africa, strong policy frameworks are required to align African universities' research and curriculum activities with domestic technology requirements for infrastructure projects. Policy incentives and directions are needed to stimulate the technical academic institutions towards responding to the infrastructural needs of their communities. Building Regional Centres of Excellence across the continent could help scale up the competitive position of Africa.

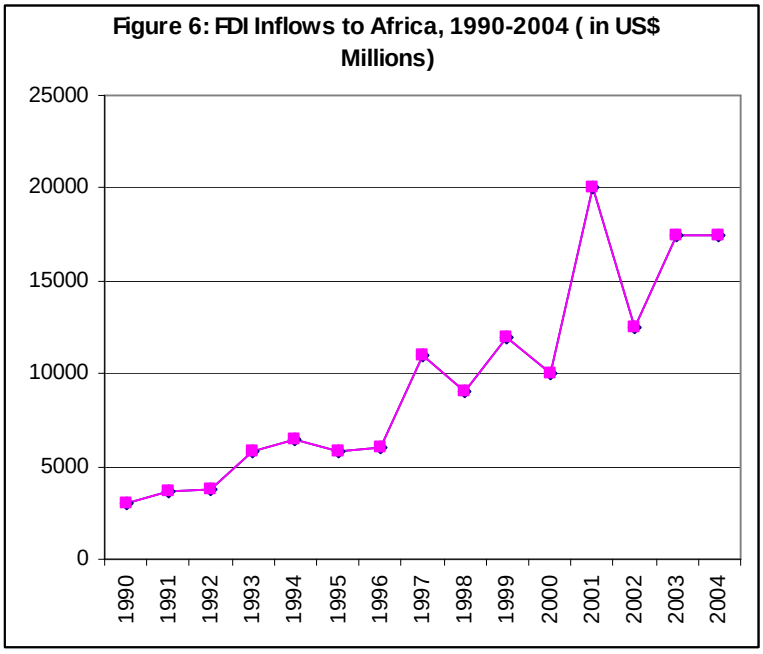
(iii) Aligning Donor Practices:

Generally, the systems and practices of development partners are not fully aligned with NEPAD priorities, and are insufficiently adapted to support the efficient and effective implementation of NEPAD infrastructure programmes and projects. This is evidenced by fragmented funding approaches that require dealing with a multiplicity of donors, thus exposing projects to high transaction costs due to a multiplicity of procedures and associated conditionality. The latter impacts negatively on project development and implementation, thus eroding their development results. Participants, called upon countries and regions to set rules for mobilization of funds from MFI's, as opposed to interpreting myriad of rules of MFI's for financing of key projects and programmes.

(iv) Enhancing Domestic Resource Mobilization:

Promoting private sector participation also raises the need to develop appropriate financial instruments, using the domestic and regional capital markets, which could foster rapid growth of the indigenous private sector. In particular, the lack of adequate financing instruments in local currency could translate into high exchange risks for all investors, while continued restrictions on the capital account increases convertibility risks faced by foreign investors. On the supply side, the limited market size of individual countries, combined with uncertain growth prospects at the country or regional level due to armed conflicts, tend to limit the scope for attracting private investment. Furthermore, financing most infrastructure projects in foreign currency while underlying revenues are in local currency creates a mismatch that, if not adequately mitigated, could wipe out the returns to investment in regional infrastructure projects. To reduce dependence on development partners for funding infrastructural projects, new sources of finance should be explored, including Pension Funds, which in a number of African countries, have proven to be viable. In the same vein, the proposed African Investment Bank is a welcome initiative. Also African countries should develop policy packages to stimulate an expanded and sustained private investors' participation in infrastructure ventures.

Such measures will need to be complemented by efforts to attract larger volumes of foreign private capital inflows. For instance, the flow of FDI to Africa appears to have stagnated since 2000 (see Figure 6), hence the need for more actions to encourage higher inflows. This requires addressing the high cost of doing business in Africa, which, according to some estimates is 20-40 percent above that for other developing regions.



(v) Improving Governance and Institutions:

Many Governments now recognize that sound governance and institutional capacity are critical for sustainable growth and are giving practical responses to this challenge through the NEPAD process. Africa needs to continue to give high priority to improving governance systems and public institutions to enable them become effective partners to the private sector. Particular concerns in this regard include the need to take concrete steps to reduce corruption, improve the legal and regulatory environment. There is also

need for high quality public institutions, sufficiently insulated from political interference to enable them independently formulate and implement policies.

(vi) Accelerating Regional Integration:

The prospects for Africa's sustained economic growth and increased role in the global economy would be considerably enhanced if current regional integration and cooperation arrangements were to be strengthened. The importance of economic integration derives from the opportunities it provides to expand trade, pool resources for investment, enlarge local markets, and to foster a more efficient industrialization by taking advantage of the economies of scale that large markets could provide. Discussants called for the immediate removal of all barriers to regional integration and intra-African trade. However, the main challenge is to promote a framework of open regionalism that puts in place the necessary protocols and arrangements to encourage the joint production of goods and infrastructural services within a larger economic space. To this end, there is a need to develop realistic action plans for moving from the current loose Free Trade Areas (FTA) to Customs Unions with common external tariffs (CET). This would provide a framework for deepening regional integration as well as a strong platform for negotiating trading and investment arrangements with external trading partners. But African countries should go further in their integration efforts and move towards allowing free movement of Africans within the continent. In this vein the AU was called upon to act expeditiously towards the take off of the seemingly elusive African Union passport. The organization should aim at reporting positively on the matter at the next ADB/ ECA Ministerial Round Table.

There is a further need to rationalize existing regional economic communities (RECs) by eliminating overlapping memberships, and build their institutional capacities to enable them become effective agents of development and implementers of programmes under the NEPAD initiative in their respective sub-regions. Additionally, there is a need to harmonize sectoral policies, especially in infrastructure, as a way of accelerating development of regional competitive markets, and attracting foreign direct investment.

Long standing efforts to develop regional norms and harmonize national legal and regulation systems have produced a large body of recommendations and decisions which have been always implemented. In many instances, regional decisions meant to replace distinct national ones have in fact become additional parallel requirements. To facilitate infrastructure development, countries and regions should set unified standards for infrastructure in each sub-sector otherwise delivery of infrastructure may be sub-standard.

A number of barriers and bottlenecks to the implementation of agreed regional and continental conventions, protocols and treaties (for example: Yamoussoukro Decision and the Road Transport and Transit Facilitation Programme and establishment of the African Energy Commission [AFREC]) have been identified. These barriers include the following:

The poor track record in translating political will into concrete actions can be attributed to some or all of the following underlying causes: (i) Strong vested interests within countries that block reforms; (ii) implementation processes, along with bureaucratic resistance, that do not lend themselves to change; (iii) non-binding nature of the majority of agreed regional decisions; (iv) countries often fail to put into place regulations, structures and mechanisms to implement the relevant laws in practice; and (v) lack of technical, financial and human capacity at both national and regional levels to implement the national reforms necessary to operationalize the regional decisions. Other underlying

causes include lack of effective institutional structures with clear responsibility to champion and drive required reforms within countries; lack of effective institutional relationships and coordination mechanisms to guide cooperation between the various stakeholders in the management and implementation of the infrastructure projects and Programmes and the related reforms, and lack of an effective communications strategy designed to educate, appraise and seek support from various representative bodies and overcome the entrenched cultural propensity of certain interest groups to protect the status quo.

(vii) Strengthening RECs capacities

The current multiplicity of RECs and their overlapping functions have been a critical obstacle to progress towards integration. The present engagements of AU and ECA to rationalise the RECs are welcome and should be pursued with greater vigour to an early conclusion.

The limited institutional and financial capacity of the RECs to assist member countries harmonizes their policies and regulatory frameworks, and effectively monitors sectoral investment Programmes also poses a significant challenge to scaling up investment. This is compounded by their capacity to develop bankable cross-border infrastructure projects. It is further observed that most RECs continue to be saddled with large unfunded mandates. Countries should be encouraged to provide the Secretariat of their respective RECs with sufficient regular funding to reflect the RECs expanded roles and commitments under NEPAD, and enable them to provide technical assistance to countries in their efforts to comply with sectoral harmonization programmes, policy reforms and to monitor compliance therewith.

Moreover, RECs should review and overhauls their current lengthy and complex decision-making processes, which are generally not well suited to their new roles as implementing organs of NEPAD. This is compounded by the failure of Governments to translate political will into action by ensuring compliance with regionally agreed protocols, conventions and harmonised sectoral policies and legal frameworks. In this regard RECs should put in place effective instruments to monitor countries' compliances with agreed regional protocols.

In summary, the lack of effective coordination between various stakeholders at the regional and national levels as regards management and implementation of the NEPAD infrastructure projects and Programmes is also reflected in a lack of demonstrated ownership of projects.

5. Current Regional Initiatives for Infrastructure Development

NEPAD Infrastructure Development Programme: Infrastructure development is at the heart of the NEPAD strategies for poverty reduction through growth and Africa's full participation in the global economy. Because most economies typically lack the economies of scale that can be found in larger markets, infrastructure development constitutes a driver for regional integration and trade competitiveness. Regional cooperation is therefore a necessary basis for development of infrastructure in order to allow for economies of scale through pooling of resources and joint facilities, as well as to overcome the limitation of small and fragmented markets.

NEPAD pays particular attention to projects that are critically dependant on regional cooperation and joint actions between countries, including: actions affecting several countries, but which are the responsibility of a specific country (for instance regional power lines, protecting trans-boundary rivers from pollution, etc); actions that require coordinated interventions by a group of countries; and actions that are the responsibility of regional entities (e.g. regional control Centres for power pools). In respect of largely country-based activities, NEPAD's role is to promote knowledge-sharing, development of requisite capacities, improvement of sector governance, and dissemination of best practices.

The NEPAD strategy for infrastructure development is two pronged: **a Short-Term Action Plan (STAP)** to kick start infrastructure development for the period 2002-2007, which is complemented by a Medium to Long-Term Strategic Framework (MLTSF). The STAP, developed in consultation with the Regional Economic Communities (RECs), Regional Member Countries (RMCs) of the Bank, specialized infrastructure development organizations, and development partners, is made up of 120 priority studies, capacity building and facilitation programmes, and key infrastructure projects estimated at a total cost of US$ 8.125 billion and covering all the regions. Over 50% of the investment projects are envisaged for financing by the private sector.

The STAP places emphasis on projects/Programmes with a strong facilitation element in order to create an enabling environment for accelerated and sustainable development of the infrastructure in the continent. NEPAD's role in the STAP is to mobilize resources and political will and actions necessary for implementation of policies and institutional reforms, harmonization of legal and regulatory systems, and ratification of agreements. In order to support implementation of STAP, the Bank has set up the NEPAD Infrastructure Project Preparation Facility (NEPAD-IPPF), to support countries prepare bankable infrastructure projects – see details in next section.

The **Medium to Long-Term Strategic Framework (MLTSF)** commissioned by the Bank will develop a coherent and strategic framework for defining, implementing and monitoring infrastructure development in Africa. The Study will be carried out in a participatory manner, with close involvement of the African Union, the RECs, individual countries, specialized infrastructure agencies, NEPAD Secretariat, and development partners. National stakeholders will also play a central role in the implementation of the Study, which is scheduled for completion 18 months from inception in June 2006.

To date, important progress has been made in infrastructure development under the NEPAD. Firstly, a number of regional infrastructure projects have been financed while another set of projects are at an advanced stage of preparation for subsequent financing. Between 2002 and 2005, the ADB Group alone has financed 25 regional projects/programmes for a total commitment value of US$ 628 million, and mobilized US$ 1.6 billion in co-financing for the STAP projects. An additional 13 interventions for an estimated amount of US$ 472 million are being processed for Bank Group financing in 2006. Secondly, the STAP and related NEPAD activities formed the basis for various positive responses by the G8 and Commission for Africa on Africa's infrastructure development agenda. Thirdly, and perhaps a more significant, there has been a reversal in the notion that infrastructure development in Africa should only be carried out by the private sector with a limited role for the public sector. Largely through the impetus deriving from NEPAD, it is now widely accepted that the public sector has a significant role to play, particularly in promoting public private partnerships, and that development partners also need to translate their commitments into coherent actions to support the acceleration and scaling up of infrastructure development.

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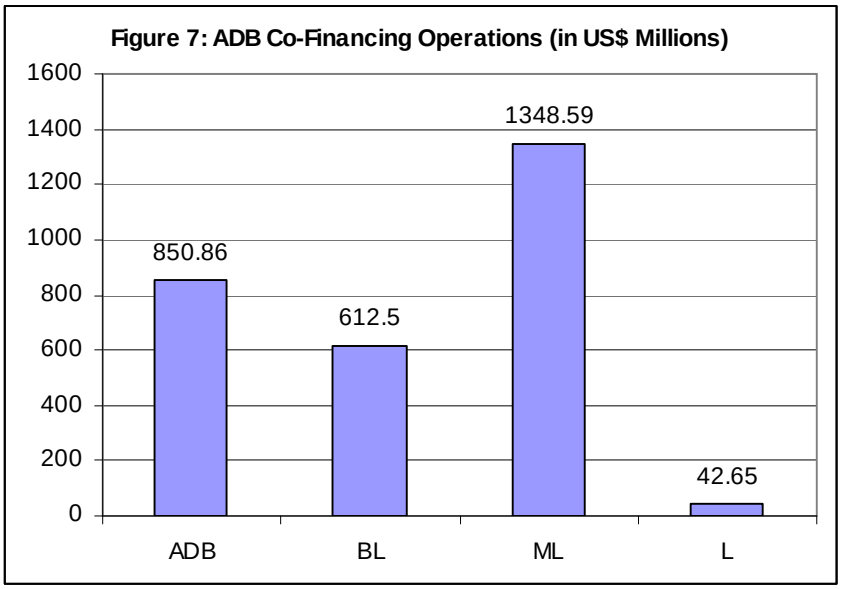
6. The African Development Bank Group and Africa's Financing Needs

Since its establishment over forty years back, the African Development Bank's principal mission has been to mobilize resources to support the development efforts of its regional member countries. And given the varied stage of development across the region and countries, the Bank has adapted its Strategic Vision and lending instruments to the development challenges facing the different groups of countries.

Lending, Grant and Debt Relief Operations: Since its establishment, the Bank Group has approved a large number of loans, grants, and debt relief operations to its regional member countries. This has been made possible by resources mobilized from the capital markets through its ADB window and from donors through the ADF and NTF windows. In addition, the Bank Group has established a number of special-purpose facilities. Over the last decade alone, the Bank Group has mobilized a total of $25 billion to support the development efforts of its regional member countries.

As of the end of 2004, the Bank Group has approved loans, grants, and debt relief of close to $52 billion to its regional member countries, of which $30 billion was from the ADB window, $21 billion from the ADF, and over $400 million from the NTF. The approvals include debt relief amounting to $4 billion in nominal terms.



Source: ADB Annual Report 2004- Source of Co-financing (UA millions) ADB; Bilateral (BL); Multilateral (ML); Local (L).

Resource Mobilization for Debt Relief: In response to the debt crises of most low-income African countries, the Bank Group has been active in the HIPC initiative from the very start. To date the Bank Group has approved $4 billion of debt relief to the 23 African countries that have qualified. Over 80 percent of the resources required to finance the Bank Group's involvement in HIPC has been financed by ADF donors. Beneficiary countries have used the resources freed by debt relief to finance important poverty-reduction interventions, particularly in infrastructure development in the health and education sectors.

Resource Mobilization for the African Development Fund: The year 2004 was particularly important for the Bank Group in terms of mobilizing new concessional resources through its

ADF window. State Participants in the ADF agreed on an ADF-X (2005-2007) replenishment level of approximately $5.4 billion. This represents an increase of 43 percent over the actual resources mobilized under ADF-IX and represents the highest replenishment in the history of the Fund.

The Post-Conflict Countries Facility (PCCF): In addition to its regular lending and grant operations, the Bank Group has established a Post-Conflict Countries Facility (PCCF) to help such countries clear their arrears with the Bank Group and help them re-engage with the international community. The Facility has been established with an allocation of approximately $150 million over three years from the net income of the Bank, and an additional $150 million from the African Development Fund. Efforts will be made to mobilize more funds from bilateral and multilateral sources. The resources of the facility will be used on a case-by-case basis to assist post-conflict countries that meet specific criteria. Two countries – Burundi and Congo – have already benefited from the facility and the Bank Group has started its regular operations in these countries.

The Rural Water Supply and Sanitation Initiative: Another major initiative that the Bank has launched is its Rural Water Supply and Sanitation Initiative (RWSSI). The immediate goal of the Initiative is to accelerate access to sustainable safe water supply and basic sanitation in rural Africa, with a target to reach coverage for 80 percent by 2015 – in line with MDG goal for this sector. Its fundamental conception is, first, to mobilize the international community around a common framework, with African governments assuming leadership and, second to help raise the required financial resources to achieve the MDG for water supply and sanitation. Preliminary estimates of the total investment requirements indicate that it would be in the order of $14.2 billion. The resources requirement for attaining the intermediate targets set for 2007 is $4.6 billion -- or about $1.5 billion per year for the years 2005-2007. The Bank Group has committed to provide up to 30 percent of the total financing requirements from both its concessional and non-concessional windows – the ADF and ADB. The balance of the resource needs therefore stands at about $460 million per year up to the end of 2007.

The NEPAD Infrastructure Projects Preparation Facility (IPPF): within the NEPAD, the Heads of State and Government Implementation Committee (HSGIC) of NEPAD in November 2001 mandated the Bank Group to be the lead agency for scaling up infrastructure, the development of banking and financial standards, and cooperate with ECA on economic and corporate governance. The Bank was also designated as a strategic partner to the African Peer Review Mechanism (APRM). To implement its NEPAD mandate, the Bank has put in place the necessary institutional arrangements, which included principally, the establishment, in January 2004 of the NEPAD Support Unit within the Bank's organizational structure.

In infrastructure, the Bank has drawn up the NEPAD Infrastructure Short Term Action Plan (STAP), described above. The estimated total investment cost of the projects included in the short-term action plan is approximately $8 billion, of which half is envisaged to be financed by the private sector. The Bank has over the period 2002-2005, financed twelve physical projects, including one private sector sponsored project and twelve studies for a total commitment value of US$ 627.9 million and mobilized about US$1.6 billion in co-financing for some of these projects. In addition to the multi-national projects under NEPAD, the Bank continues to finance infrastructure projects in regional member countries. A key issue identified by the Bank in its support to the development of NEPAD infrastructure is the level and quality of preparation of key infrastructure projects across the continent. Recognising the need to assist countries and regional institutions in project preparation, the NEPAD Infrastructure Project Preparation Facility -IPPF was established in 2003 as a multi-donor supported facility to assist regional economic communities and countries in the preparation of bankable infrastructure

projects. The Fund was seeded with a grant of C$10 million from the Canadian government and subsequently the Government of Denmark made a contribution of US$ 500,000. To date, it has already approved funding of US$ 3 million for preparation of six physical projects.

7. Conclusion

This paper has brought together discussions related to the infrastructure development needs and challenges facing Africa to ensure development effectiveness as international aid is scaled up. While Africa's recent economic performance has improved, it is clear that growth rates are not sufficient to reach the MDGs. Underlying the need for accelerated growth is the need for infrastructure development and regional integration.

In order to be able to scale up infrastructure development in an effective way, the following critical policy challenges need to be addressed: Improving the Enabling Policy Environment; Enhancing Countries Institutional Capacity; Aligning Donor Practices; Enhancing Domestic Resource Mobilization; Improving Governance and Institutions; Accelerating Regional Integration and Strengthening REC's capacity.

Discussions during the Round Table and High Level Seminars pointed out at the huge investment needs required to bridge the infrastructure gap and suggested ways and means to achieve it. Increased ODA and further debt relief are essential to raise the needed resources. However, countries need to look for *innovative financing mechanisms* to raise the needed resources. Some suggestions pointed out at enhancing domestic resources, through the issue of local bonds, pension funds, etc.

In the policy realm, countries must improve the domestic environment to significantly accelerate growth and reduce poverty. At the broad macroeconomic level, African countries need to deepen the reform efforts of the recent past and avoid policy reversals so as to ensure that the goal of creating stable macroeconomic conditions is achieved. Structural reforms also need to be pursued, particularly in the area of accelerating the privatization process and enhancing private-public partnerships in order to encourage greater participation by the private sector. Other strong conclusions were the need to invest in human capital development to maintain infrastructure; to institute adequate policies for private sector participation in infrastructure; and to develop domestic financial markets to sustain infrastructure development.

At the Regional Level, the scaling up of infrastructure financing and development would require deepening the degree of harmonization of cross-border infrastructure development policies across countries, promoting regional approaches to resource mobilisation and development of legal and regulatory frameworks, and building the human and financial capacity of RECs to implement regional initiatives and formulate regional policies. Furthermore, new initiatives spearhead by NEPAD, ECA, ADB and others are contributing to the efforts to scale up infrastructure development. However, Development Partners should continue working closely with the RECs and RMCs to harmonise and coordinate infrastructure sector policies and programmes.

At the African Development Bank level, the implications for scaling up infrastructure financing and development would require that the Bank becomes more proactive in the mobilization of resources for the continent, develop and deploy appropriate institutional structure and flexible lending instruments to match the needs of countries, and emerge as Centre of knowledge to better serve the continent. Furthermore, this would call for the Bank to

strengthen its support for the NEPAD, in project preparation through the IPPF, as well as in the provision of effective support to countries for the implementation of requisite sector, economic and corporate governance reforms necessary to promote and sustain infrastructure development.

ANNEX 1: List of participants

Mr. Abdoulie Janneh, United Nations Under Secretary General and Executive Secretary of ECA, and Mr. Donald Kaberuka, President of ADB co-chaired the ***Ministerial Round Table*** discussions and H.E. Paramanga Ernest Yonli - Prime Minister of Burkina Faso, opened the session.

H. E. Charles Konan Banny, Prime Minister and Minister of Economy and Planning of Cote d'Ivoire chaired the ***High Level Seminar on Infrastructure Development and Regional Integration: Meeting the Investment Need*s** and the speakers included Mrs. Karin Kortmann, Parliamentary State Secretary of Germany's Federal Ministry for Economic Cooperation and Development, Mr. Hakim Ben Hammouda, Director of the Trade and Regional Integration Division (TRID) of ECA, Mr. Louis Kasekende, ADB's Chief Economist, and Mr. Patrick Achi, Minister of Economic Infrastructure of Cote d'Ivoire.

The ***High Level Seminar on Infrastructure Development and Regional Integration: Getting the Policy Framework Right*** was chaired by Hon. Ngozi Okonjo-Iweala, Nigeria's Federal Minister of Finance. Speakers at the seminar included Hon. Abdoul Aziz Sow, Senegal's Minister responsible for regional integration, Hon. Baah Wiredu, Ghanian Minister of Finance, Dr. Maxwell Mkwezalamba, Commissioner for Economic Affairs of the African Union Commission, and Ambassador S. O Willoughby of the NEPAD Secretariat.

ANNEX 2: Background Paper 1

Infrastructure Development and Regional Integration: Issues, Opportunities and Challenges

1. Introduction

The development of social and economic infrastructure is critical for poverty reduction and achieving the Millennium Development Goals (MDGs) in Africa. Increased market size through regional integration and lower prices through the exploits of economies of scale, are examples of the impact of infrastructure development and regional integration in enhancing economic growth, improving living standards and reducing poverty.

Despite the aforementioned benefits, infrastructure and regional integration have played a very limited role in Africa's social and economic development. Overcoming these problems would, in the first instance, require a critical analysis of the issues and constraints, and development of an appropriate Policy Framework for Infrastructure Development and Regional Integration. Infrastructure development requires substantial capital expenditures, which have historically been financed through the public sector. Given the increasing demands on public funds, there is a need to address the issue of mobilizing additional resources, particularly from the private sector, to meet the Investment Needs for Infrastructure Development and Economic Integration.

The objective of this Seminar is to highlight key issues affecting infrastructure development and regional integration, and to discuss issues related to getting the policy framework right for infrastructure development and ways of meeting the infrastructure investment needs of the continent, highlighting the role of Governments, Regional Economic Communities (RECs), financial institutions, donor community, public private partnerships and infrastructure funds.

The purpose of the paper is therefore to assist African policy makers to address critical issues affecting infrastructure development and regional integration in the continent, and to explore the opportunities and challenges faced by African Governments in this task. Pertinent issues on meeting the investment needs for infrastructure development are discussed in S**ection II** of this report. **Section III** discusses the issue of developing the right policy framework to create an enabling environment for infrastructure development and regional integration. **Section IV** highlights the current initiatives for infrastructure development, and **Section V** reviews the challenges and issues for scaling up infrastructure development and the way forward.

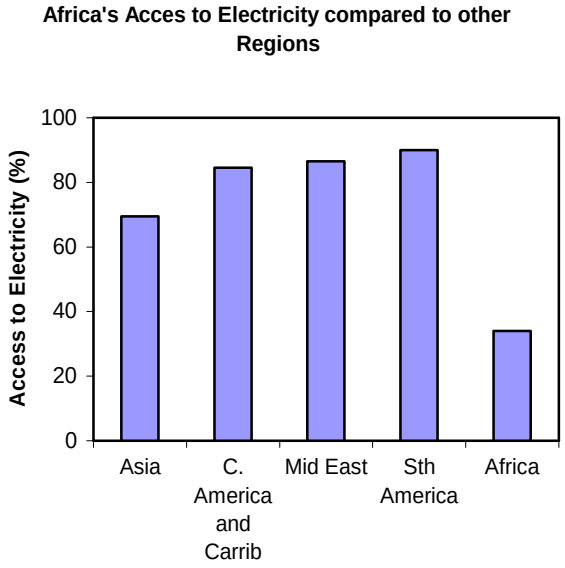
2. Investment Needs and Resource Requirements

The importance of regional infrastructure development cannot be overemphasized. Transport infrastructure is at the heart of regional integration as it supports the movement of people and goods across borders. Africa's internal and external trade flows through its roads, railways, inland waterways, ports and airports. Therefore, an efficient and integrated transport system will facilitate national and international trade and factor mobility. An integrated communications system in the continent will spur growth of trade and finance and reduce production and service costs by enhancing the accessibility and affordability of information, and linking Africa regionally and with the rest of the world

Africa's needs are many and varied. Deriving from the NEPAD programmes, the Commission of Africa Report provides a summary of these needs and the resource requirements to meet them. Underpinning the various needs is the development of infrastructure, which appears imperative. The Commission for Africa Report estimates the financial requirements for infrastructure in Africa at US$ 20 billion, which represents about 30 percent of the total resource requirements for growth.

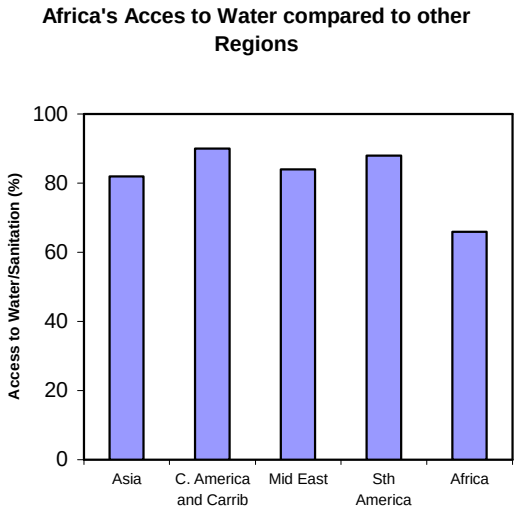
There is general acceptance that economic infrastructure is critical for economic growth and poverty alleviation, given its pivotal role in improving competitiveness, facilitating both domestic and international trade, and integration of the continent to the global economy. However, there is a large infrastructure deficit, both in terms of access and quality, to be filled in all the sectors (transport, energy, ICT and water) as indicated in charts 1, 2, and 3 below.

Chart 1



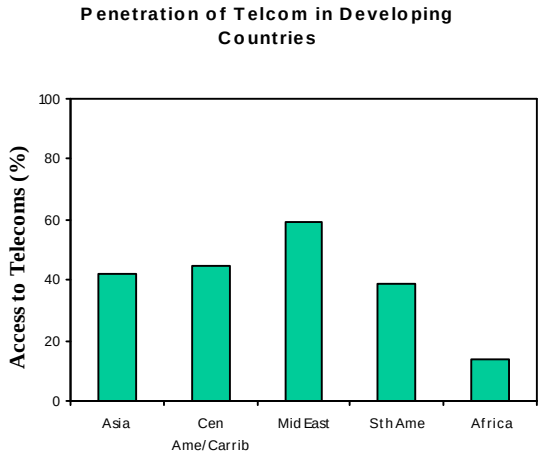
For instance, the level of access to electricity in Africa is only 30 percent, compared to over 75 percent for other Less Developed countries (LDCs). Access to water and sanitation is about 65 percent compared to 80 percent for other LDCs; access to roads is 34 percent compared to 50 percent for other LDCs, while the penetration rate for telecommunication is less than 13 percent compared to 40 percent in other LDCs. This situation has resulted among others in Africa's low rates of economic growth, reduced share of world trade and lack of international competitiveness. The high transaction costs arising from poor infrastructure adversely affects development of the African economies, hinders private sector development, and the flow of Foreign Direct Investment (FDI), and seriously affects the social services coverage, particularly for the rural population.

Chart 2



In the decade immediately following independence, the public sector in made some important contributions to promote infrastructure development. Newly independent countries inherited, in most cases, inadequate and outward-oriented infrastructures designed largely to serve the metropolis. Most African States maintained the status quo but also sought to leverage the existing structures to foster infrastructure development. However, like in other developing regions of the world, the majority of Africa's basic infrastructure utilities were characterized by weak management and poor development strategies, systematic under-investment and gross inefficiencies, which led to the accumulation of huge deficits. As a result, public utilities were increasingly unable to satisfy the growing customer demand and became a drain on the public fescues.

Chart 3



By the mid-1980s, the situation had become unsustainable, and led to the widespread adoption of structural adjustment programmes, with reform and restructuring of infrastructure parastatals being central to these reforms. While sector reforms also focused on policy and regulatory frameworks intended to increase domestic and foreign private sector participation in infrastructure, private capital flows were mainly attracted to the ICT and energy sectors, leaving the other areas of infrastructure under-funded. Moreover, private capital went to a few countries where commercial viability was assured. Nonetheless, Africa's infrastructure has continued to trail the world both in terms of quantity and quality. Because of the magnitude of

the Africa's infrastructure deficit, the financing challenge requires concerted efforts from all funding agencies in order to achieve the desired development impact and the MDGs.

In the last few years, there has been a growing realization (e.g., Monterrey Consensus, NEPAD Initiative, Commission for Africa and Gleneagles G8 Summit) of the need to scale up investments to bridge the infrastructure gap in Africa and achieve a minimum of 7% annual growth rate required to halve poverty rates by 2015.

3. Getting the Policy Framework Right

Globalization and regional integration require effective regional infrastructure to widen and integrate markets, achieve economies of scale, encourage participation of the private sector, and attract foreign direct investment and technology. Infrastructure development is included in the treaties of all the RECs, which provide the framework for aligning sector policies, designing regional master plans, harmonizing regulatory regimes and investment codes, and mobilizing investment resources. Yet gaps still exist in infrastructure and services – raising the cost of doing business and impeding factor mobility, investment, and competition. Moreover, in the areas of international trade, financial integration and technology, much of Africa is lagging behind compared to the global trends, which has contributed to sub-Saharan Africa's effective marginalization in the global economy.

Various Governments and infrastructure initiatives have established policy frameworks that attempt to address these essential elements and create an enabling environment for infrastructure development and regional integration. However, there is the need for further consultation, collaboration, analysis, synthesis, coordination and harmonization of these different initiatives to ensure effective implementation,

Getting the policy framework right is also critical for regional infrastructure development, particularly for guiding long-term investments decisions and because of the large number of governments and other stakeholders involved, with varying degrees of commitment to regional integration. The framework should address macroeconomic convergence issues, legal and regulatory frameworks, harmonization of tax laws, efficient trans-border customs and port management systems, good corporate governance, efficient and reliable payment systems, and well developed financial and capital markets.

Over the last decade, the thrust of reform towards deregulation and pro-competition strategies has gained momentum in most infrastructure sectors. Can we learn useful lessons from these reforms? In this regard, deepening policy reforms would provide useful entry points in the following key areas:

- Maintaining a prudent macroeconomic policy stance, and adopting a positive incentive framework and good governance to foster macroeconomic stability, and hence reduce uncertainties and risks to private sector investment. African countries also have to avoid policy reversals in order to preserve the stability and predictability of the investment climate, and to build investor confidence.

- Development of physical infrastructure and trade/business facilitating infrastructure are equally as crucial as the quality of public-private consultative mechanisms aimed at forging effective partnerships for leveraging the strength of each party and generating lower cost provision of economic infrastructure.

In many countries, infrastructure policies and sector regulatory and governance systems are

inadequate to facilitate rapid development of infrastructure. Furthermore, within a given sub-region, policies and regulatory systems, where they exist, are not adequately harmonised. There is therefore a need to institute necessary measures for countries and regions to develop a harmonised policy framework necessary for cross-border infrastructure investment.

4. Current Initiatives for Infrastructure Development

NEPAD Infrastructure Development Programme: Infrastructure development is at the heart of the NEPAD strategies for poverty reduction through growth and Africa's full participation in the global economy. Because most economies typically lack the economies of scale that can be found in larger markets, infrastructure development constitutes a driver for regional integration and trade competitiveness. Regional cooperation is therefore a necessary basis for development of infrastructure in order to allow for economies of scale through pooling of resources and joint facilities, as well as to overcome the limitation of small and fragmented markets.

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The NEPAD-IPPF has been particularly appreciated by the RECs and countries who have responded with the submission of requests for funding of preparatory activities for their priority projects and Programmes. To date, the Bank has approved funding of US $ 3 million for preparation of six physical projects.

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5. Challenges and Issues for Scaling Up Infrastructure Development

The need to scale up investments and accelerate growth poses a number of challenges for RMCs, both individually and collectively, as well as for Development Partners, including the Bank Group. For the former, the key challenges relate to improving the enabling policy environment; strengthening RECs and RMC institutional capacity for planning, Programming, coordination and implementation of projects/programmes at the regional and national levels; enhancing domestic resource mobilization, improving governance; and strengthening regional integration and cooperation arrangements. For the development partners, the challenge lies mainly in aligning assistance strategies and practices to the NEPAD priorities in order to reduce transaction costs and enhance the predictability of resource flows. There are many synergies between these challenges. For instance, the anticipated scaling up of international assistance would become unlikely without further progress in improving governance at the country level and development Programming and implementation capacity in RMCs.

Improving the Enabling Policy Environment: The slow private sector response experienced so far towards the STAP indicates that the enabling policy environment, not sectorally targeted investment incentives, is a pre-requisite for effective private sector participation in infrastructure. Specifically in the infrastructure sector, it is clear that the gap is as much a policy and capacity issue as it is of investment. While the situation of infrastructure services is typically one of lagging coverage, poor maintenance and weak finance, some countries have been able to upgrade and expand their infrastructure base and improve services through a combination of policy changes, institutional reforms and investments.

RMC and RECs Institutional Capacity: The prospects for increased resource flows to Africa raises implementation and absorption capacity issues related to the planning, Programming and coordination at the country levels. It is often a misconception that the key problem facing the

continent in its development efforts is the non-availability of financial resources. Recently, it has become more apparent that the ability of RMCs to absorb the additional resources perhaps poses a bigger threat to scaling up infrastructure development. This therefore raises a number of pertinent questions, namely, what is the absorptive capacity of African countries individually and collectively? What will be the effect of a rapid scaling up in infrastructure on macro-economic stability and sector governance within the countries? In this context, there is a need for deep and critical analysis on these issues to ensure that additional resources will contribute to real and sustained improvements.

The limited institutional and financial capacity of the RECs to assist member countries harmonizes their policies and regulatory frameworks, and effectively monitors sectoral investment Programmes also poses a significant challenge to scaling up investment. It is further observed that most RECs continue to be saddled with large unfunded mandates as the funding streams from Member/Partner States do not reflect the RECs expanded roles and commitments under NEPAD.

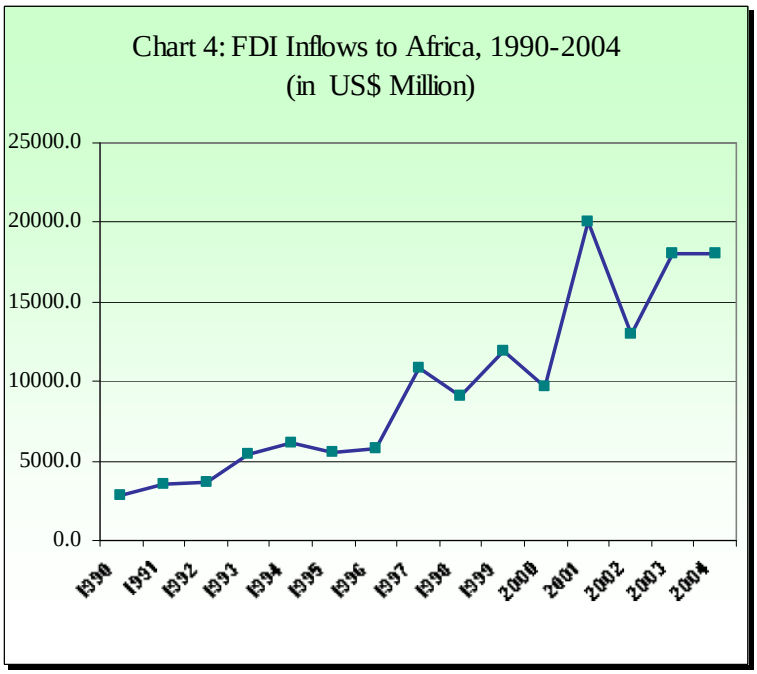
Lengthy and complex decision-making processes of RECs are generally not well suited to their new roles as implementing organs of NEPAD, which is compounded by the failure of Governments to translate political will into action by ensuring compliance with regionally agreed protocols, conventions and harmonised sectoral policies and legal frameworks. The lack of effective coordination between various stakeholders at the regional and national levels as regards management and implementation of the NEPAD infrastructure projects and Programmes is also reflected in a lack of demonstrated ownership of projects;

Aligning Donor Practices: Generally, the systems and practices of development partners are not fully aligned with NEPAD priorities, and are insufficiently adapted to support the efficient and effective implementation of NEPAD infrastructure Programmes and projects. This is evidenced by fragmented funding approaches that require dealing with a multiplicity of donors, thus exposing projects to high transaction costs due to a multiplicity of procedures and associated conditionality. This impacts negatively on project development and implementation, which in turn erodes their development impact.

Enhancing Domestic Resource Mobilization: Promoting private sector participation also raises the need to develop appropriate financial instruments, using the domestic and regional capital markets, which could foster rapid growth of the indigenous private sector. In particular, the lack of adequate financing instruments in local currency could translate into high exchange risks for all investors, while continued restrictions on the capital account increases convertibility risks faced by foreign investors. On the supply side, the limited market size of individual countries, combined with uncertain growth prospects at the country or regional level due to armed conflicts, tend to limit the scope for attracting private investment. Furthermore, financing most infrastructure projects in foreign currency while underlying revenues are in local currency creates a mismatch that, if not adequately mitigated, could wipe out the returns to investment in regional infrastructure projects.

Such measures will need to be complemented by efforts to attract larger volumes of foreign private capital inflows. For instance, the flow of FDI to Africa appears to have stagnated since 2000, hence the need for more actions to encourage higher inflows. This requires addressing the high cost of doing business in Africa, which, according to some estimates is 20-40 percent above that for other developing regions.

Improving Governance and Institutions: Many Governments now recognize that sound governance and institutional capacity are critical for sustainable growth and are giving practical responses to this challenge through the NEPAD process. Africa needs to continue to give high priority to improving governance systems and public institutions to enable them become effective partners to the private sector. Particular concerns in this regard include the need to take concrete steps to reduce corruption, improve the legal and regulatory environment. There is also need for high quality public institutions, sufficiently insulated from political interference to enable them independently formulate and implement policies.



Accelerating Regional Integration: The prospects for Africa's sustained economic growth and increased role in the global economy would be considerably enhanced if current regional integration and cooperation arrangements were to be strengthened. The importance of economic integration derives from the opportunities it provides to expand trade, pool resources for investment, enlarge local markets, and to foster a more efficient industrialization by taking advantage of the economies of scale that large markets could provide. However, the main challenge is to promote a framework of open regionalism that puts in place the necessary protocols and arrangements to encourage the joint production of goods and infrastructural services within a larger economic space. To this end, there is a need to develop a realistic action plan for moving from the current loose Free Trade Areas (FTA) to Customs Unions with common external tariffs (CET). This would provide a framework for deepening regional integration as well as a strong platform for negotiating trading and investment arrangements with external trading partners.

There is a further need to rationalize existing regional economic communities (RECs) by eliminating overlapping memberships, and build their institutional capacities to enable them become effective agents of development and implementers of programmes under the NEPAD initiative in their respective sub-regions. Additionally, there is a need to harmonize sectoral policies, especially in infrastructure, as a way of accelerating development of regional competitive markets, and attracting foreign direct investment.

Role of the African Development Bank: The Bank Group's mission of poverty reduction and sustainable growth in Africa puts the continent's development challenges at the heart of its operations. The Bank Group is scaling up its financial contributions to RMCs following the significant increase in the replenishment of the ADF resources. Since 1998, the Bank's operations have been on an upward trend, with approvals increasing from US$ 1.7 billion to reach over US$ 3.0 billion in 2005, of which 42 percent was allocated to the infrastructure sector. The Bank also approved nearly US$ 5.0 billion of debt relief to the 24 countries that have qualified under the HIPC initiative since 1998, and more recently, an additional US$ 8.5 billion of debts owed by 33 countries under the Multilateral Debt Relief Initiative (MDRI). Disbursements to on-going projects have also continued to expand. In 2005, disbursements

reached US$2.0 billion, up from US$ 900 million in 2000.

The Bank Group continues to place a high premium on inducing private sector growth in its regional member countries. Recognizing the usefulness of public-private partnerships (PPP) for infrastructure development and for catalyzing foreign direct investment, the Bank is re-positioning its structure to play a more active role in promoting PPPs in the region.

To maximize its development impact, the Bank is striving to ensure that its financial and staff resources are selectively targeted on projects, programmes and advisory activities that represent priorities for RMCs; foster poverty reduction and reflect the Bank's comparative advantages, division of responsibilities and partnership arrangements with other development partners. In order to increase its contributions to the socio-economic development of its RMCs, the Bank would lead in providing knowledge and information on the investment opportunities in Africa and also galvanize international support through increased advocacy. Also, due to the ongoing decentralization of the Bank Group, the Bank will strive to better realign its development assistance with individual country priorities.

Within the NEPAD, the Heads of State and Government Implementation Committee (HSGIC) of NEPAD in November 2001 mandated the Bank Group to be the lead agency for infrastructure development. The Bank is further mandated to lead the development of banking and financial standards, and cooperate with ECA on economic and corporate governance. The Bank was also designated as a strategic partner to the African Peer Review Mechanism (APRM). To implement its NEPAD mandate, the Bank has put in place the necessary institutional arrangements, which included principally, the establishment, in January 2004 of the NEPAD Support Unit within the Bank's organizational structure.

As regards the NEPAD infrastructure development Programme, the Bank has over the period 2002-2005, financed twelve physical projects, including one private sector sponsored project, and twelve studies for a total commitment value of US$ 627.9 million and mobilized about US$1.6 billion in co-financing for some of these projects. In addition to the multi-national projects under NEPAD, the Bank continues to finance infrastructure projects in regional member countries. Currently, the total portfolio of infrastructure projects under implementation by the Bank stands at US$ 3.83 billion. A key issue identified by the Bank in its support to the development of NEPAD infrastructure is the level and quality of preparation of key infrastructure projects across the continent. Recognising the need to assist countries and regional institutions in project preparation, the NEPAD-IPPF was established as a multi-donor supported facility. To date, the Bank has supported the preparation of six physical projects.

In addition to the Bank's role in regional infrastructure development within NEPAD, it has launched two key initiatives in water, the Rural Water Supply and Sanitation Initiative (RWSSI), and the African Water Facility (AWF) to support in a more coherent manner the development and utilization of water resources in the continent as well as facilitate attainment of the MDGs. Currently, the Bank is rolling out the Rural Water Supply and Sanitation Initiative (RWSSI). To date, projects have been approved for 8 countries with a total commitment value of US$ 304.24 million. The key challenge is to fast track implementation of RWSSI to assist RMCs attain the water related MDG access targets. The African Water Facility (AWF), hosted by the Bank under the auspices of AMCOW, is at the implementation phase and one operation has been approved. The main challenge for the Facility is to mobilize resources to complement ongoing efforts to assist countries, local communities and NGOs improve access to water supply and sanitation.

Notwithstanding the advances made by the Bank in support of infrastructure development, it is limited by its internal capacity to broaden its scope as well as capacity to provide policy advice and knowledge to its regional member countries. The Bank is currently implementing a new organizational structure to be able to enhance its organization and resource capability to be in a better position to play a more pronounced and proactive role in the development of the continent.

6. Conclusion

This paper has brought together the infrastructure development needs and challenges facing Africa to ensure development effectiveness as international aid is scaled up. While Africa's recent economic performance has improved, it is clear that growth rates are not sufficient to reach the MDGs. Underlying the need for accelerated growth is the need for infrastructure development and regional integration. Also, countries must improve the domestic environment to significantly accelerate growth and reduce poverty by improving the enabling environment: maintaining macroeconomic stability, improving governance and institutions, enhancing domestic resource mobilization, and by advancing with regional integration efforts.

In view of its importance for the development of the continent, Governors are invited to share their experience to date and propose ways and means of accelerating the on-going initiatives for infrastructure development. **At the Country Level,** the implications of the potential for scaling up infrastructure development include prioritizing infrastructure in PRSPs and annual budgets; ensuring effective sector, economic and corporate governance structures exist; maintaining a stable macro-economic environment, investing in human capital development to maintain infrastructure; instituting adequate policies for private sector participation in infrastructure; and developing domestic financial markets to sustain infrastructure development.

At the Regional Level, the scaling up of infrastructure financing and development would have implications on the degree of harmonization of cross-border infrastructure development policies across countries, and promoting regional approaches to resource mobilisation and development of legal and regulatory frameworks. Furthermore, NEPAD, ECA and ADB should continue working closely with the RECs and RMCs to harmonise and coordinate infrastructure sector policies and programmes.

At the African Development Bank level, the implications for scaling up infrastructure financing and development would require that the Bank becomes more proactive in the mobilization of resources for the continent, develop and deploy appropriate institutional structure and flexible lending instruments to match the needs of countries, and emerge as Centre of knowledge to better serve the continent. Furthermore, this would call for the Bank to strengthen its support for the NEPAD in project preparation as well as in the provision of effective support to countries for the implementation of requisite sector, economic and corporate governance reforms necessary to promote and sustain infrastructure development.

Governors are invited to consider the following issues in relation to accelerating infrastructure development.

(i) **Policy actions**: What new measures can be pursued to enhance domestic and regional resource mobilization? What are the available domestic and regional financing mechanisms that could be employed for human capital development – should total cost recovery be pursued in poor African economies? How do we streamline the RECs and align their activities with the NEPAD priorities?

(ii) **Role of public sector in financing infrastructure development**: what actions should be taken to forge Public-Private Partnerships (PPP) in mobilizing resources, developing and managing infrastructure development? What appropriate regulatory and policy frameworks would prevent the emergence of private monopolies and also facilitate the development of infrastructure projects that are socially desirable but not deemed bankable? How do we incorporate the impact of climate change in infrastructure development without hindering private sector participation? How do improve effectiveness in the co-ordination and harmonisation of the activities of various government and infrastructure initiatives?

(iii) **Role of International financial institutions**: What should be the role international financial institutions in supporting accelerated infrastructure development? How can the international donor community harmonise their procedures in financing infrastructure development to reduce transaction costs and align activities to the NEPAD priorities? Should a specific proportion of Official Development Assistance (ODA) be targeted for infrastructure Development?

ANNEX 3: Background Paper 2:

Infrastructure Development and Regional Integration: Getting the Policy Framework Right

1. Introduction

Poverty is a daunting reality in Africa, and its eradication is the continent's largest and most urgent challenge. Africa needs to place poverty reduction at the Centre of all its development efforts by enabling a sustained and broad based economic growth which would translate into substantial improvement in the income of the poor and in the living standards of the majority of the African population.

Lack of adequate social and economic infrastructure is a key constraint to economic growth and poverty reduction in Africa. Africa presents major infrastructural deficiencies and sub-Saharan Africa in particular is lagging behind other regions in terms of infrastructure quality and delivery of infrastructure services. Only 30% of the African population have access to electricity, compared to 75% for other Less Developed Countries (LDCs); access to water and sanitation is about 65% compared to 80.0% for other LDCs; access to roads is 34% compared to 50% for other LDCs, while the penetration rate for telecommunication is less than 13% compared to world average of 40%. Deficient infrastructures and inefficient delivery of services – power and energy, shipping and transport, information and communications, water and sanitation – translate into crippling transaction costs that inhibit trade and investment and reduce the competitiveness of African products on the world market. As clearly mentioned in the Bank's 2003-2007 Strategic Plan, greater regional cooperation in infrastructure will reduce costs, facilitate market integration and help promote investment.

Since the African Development Bank Group commenced lending, grant and debt relief operations in 1967, its Boards of Directors have approved cumulatively close to $52 billion to its clients member countries. Infrastructure, comprising the 4 sectors of transportation, communications, water supply and sanitation, and energy and power supply, accounts for roughly 35 percent of the African Development Bank's cumulative approvals since 1967. If Bank commitments in support of social and agricultural infrastructure – school buildings, hospitals and clinics, as well as irrigation and rural infrastructure – are also taken into account, the share of the Bank's resources invested in infrastructure raises to roughly 40 percent. The breakdown in terms of the sub-sectors of infrastructure projects financed by the Bank from 1967 to 2004 is shown in Figure 1 and Table 1. Yet infrastructure deficiency is still prevalent in most SSA Countries. The combined impact of the negative trends has been to retard and in many instances, reverse the economic and social gains that African countries had begun to make.

Figure 1: ***Cumulative Bank Group Loan and Grant Approvals by Sector, 1967-2004 (percentages)***

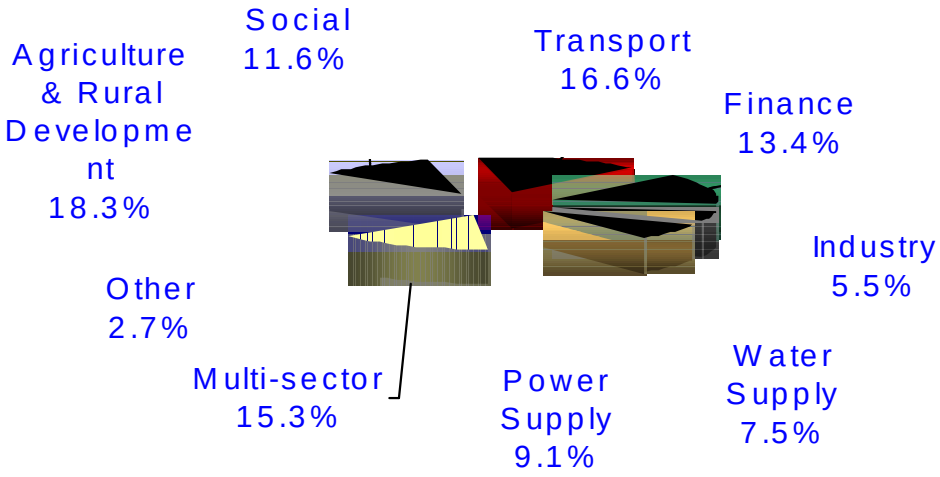
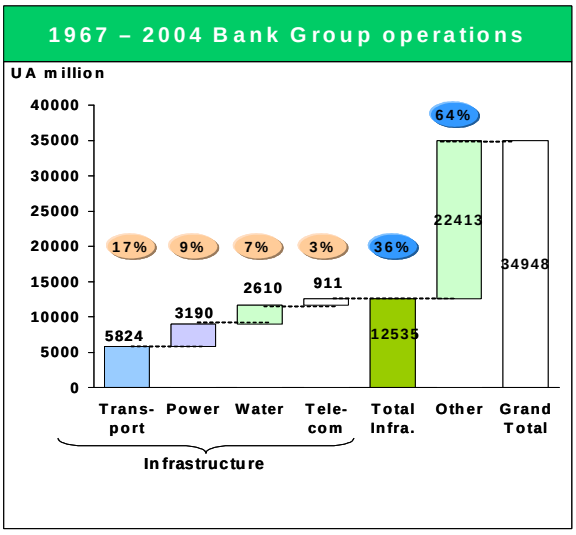


Table 1. Bank Group Operation by Sector from 1967 - 2004



While the development of the continent's infrastructure must take place simultaneously at the national level, it is becoming increasingly recognised that without the complementary development of regional infrastructure, the full potential of trade and economic growth would not be realised. Indeed African economies are typically too small to generate the economies of scale required to significantly foster trade and contribute towards poverty reduction. Hence, the development of regional infrastructure is essential to promote trade and economic growth. To be effective in this endeavour, reforms for harmonisation of policies and legal and regulatory frameworks becomes an important priority for the continent.

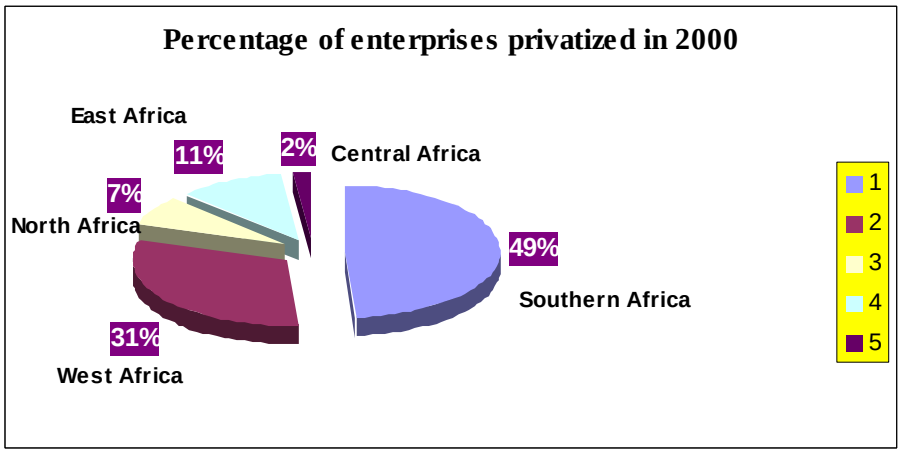
2. Policy Framework in Bridging the Infrastructure Gap

The infrastructure gap in Africa is as much a policy, organizational and capacity gap as it is an investment gap. The issue has been one of efficiency of the State bureaucracies in the decision-making process, which is both a capacity and organizational issue. While the situation of infrastructure services is typically one of low coverage, poor maintenance and quality, and weak finance, some countries have been able to upgrade and expand their infrastructure assets

and improve services through a combination of policy changes, institutional reforms and investments.

At the national level, over the last decade, the movement of reform in Africa to decentralize and to move away from the public sector monopoly model has gained momentum in all infrastructure sectors. In 2000, more than US $ 7.95 billion was gained in the continent in terms of the number of newly enterprises privatized (source: Economic Perspectives for Africa, 2003). In southern Africa alone, the privatization transaction represented about 50% of the total gained (Figure 3). The privatisation movement has resulted in a significant decrease in public sector enterprises. For example, the number of state owned enterprises decreased from 6069 to 4058 from 1990 to 1995 according to estimate by the World Bank. Out of the 53 African countries, eight (Botswana, Liberia, Namibia, Seychelles, Somalia, Swaziland, Algeria and Libya) have not yet engaged in privatisation. Nevertheless, the private sector remains a small participant in infrastructure development in Africa, with the public sector still providing the bulk of financing needed. Hence the role of the public sector in infrastructure investment therefore remains important.

Figure 2: Movement of reform to decentralisation across Africa in 2000



In parallel with the purely national reform efforts, there has been a growing effort led by regional initiatives including the New Partnership for Africa's Development (NEPAD) to adopt regional solutions to infrastructure development. Of key importance to this approach are coherent and harmonized policies, legal and regulatory frameworks that facilitate rapid development of regional infrastructure.

Since the new wave of renewed regional initiatives started in the late 1990 and early 2000s, some achievements have been realised in creating the appropriate policy, legal, and regulatory framework for infrastructure development. These include the following: (i) establishment of regulatory bodies in the various infrastructure sector, ii) creation of Power Pools in most sub-regions (West African Power Pool, Southern Africa Power Pool, Central Africa Power Pool, Eastern Africa Power Pool) following ratification of related protocols by the concerned member countries; iii) formation of WESTCOR to facilitation of sub-regional power network interconnectivity; iv) regional adoption of harmonisation model enabling liberalisation and establishment of e-Africa Commission in the Information and Communication Technology (ICT) sector; v) addressing the serious threat for Africa of climate change through the need for investment in clean energy in the wake of the G8 summit in Gleneagles in 2005; and v) cooperation in the management of shared resources e.g. the Nile Basin Initiative.

Notwithstanding these achievements, in most countries of Africa, infrastructure regulatory and governance systems are inadequate to facilitate rapid development of the sector. Further, policies and regulatory systems where they exist are not harmonised at the regional level. There is therefore a need to institute necessary measures for countries and regions to develop a harmonised policy framework necessary for infrastructure development.

3. Challenges to Policy and Regulation Reforms for Infrastructure Development

Long standing efforts to develop regional norms and harmonize national legal and regulation systems have produced a large body of recommendations and decisions which have been always implemented. In many instances, regional decisions meant to replace distinct national ones have in fact become additional parallel requirements. A number of barriers and bottlenecks to the implementation of agreed regional and continental conventions, protocols and treaties (for example: Yamoussoukro Decision and the Road Transport and Transit Facilitation Programme and establishment of the African Energy Commission [AFREC]) have been identified. These barriers include the following:

i) Lengthy and complex decision-making processes of regional economic communities (RECs), which may have been appropriate for their traditional activities but which are not well suited to their current role as the main engine on implementation of infrastructure initiatives;

ii) Failure by countries to translate genuine political will into concrete actions to ensure compliance with regionally agreed protocols, conventions and sectoral policies. This by itself constitutes a big obstacle to the speedy implementation of key infrastructure projects and Programmes;

iii) Limited technical and financial capacity within RECs to provide technical assistance to countries to implement policy, legal and regulation reforms, adequately monitor sectoral harmonization Programmes;

iv) Limited institutional and financial capacity within RECs to develop bankable cross-border infrastructure projects. This is mainly a result of the manner in which most RECs are funded as well as insufficient levels of such financing. In many RECs their regular funding streams from their Member/Partner States were established some time ago in line with their original constitutional mandates to handle areas of policy, legal and regulatory reform and harmonization, establishment of an enabling environment for major regional projects for the furtherance of sub-regional integration, and do not reflect the “new reality” of their significantly increased commitments associated with their new NEPAD role;

v) Lack of harmonized policy framework to increase disaster preparedness at community, country and regional level that should be coupled to the development of associated infrastructure. This is due to the limited effort to promote existing cost-effective technologies and infrastructure through financing technologies and infrastructure that are climate resilient e.g. agriculture, water storage infrastructure; and

vi) Lack of a coherent package of policies to support and encourage private sector investment in the infrastructure short-term action plan (STAP) at both country and regional levels.

The poor track record in translating political will into concrete actions can be attributed to some or all of the following underlying causes: (i) Strong vested interests within countries that block reforms; (ii) implementation processes, along with bureaucratic resistance, that do not lend themselves to change; (iii) non-binding nature of the majority of agreed regional decisions; (iv) countries often fail to put into place regulations, structures and mechanisms to implement the relevant laws in practice; and (v) lack of technical, financial and human capacity at both national and regional levels to implement the national reforms necessary to operationalize the regional decisions . Other underlying causes include lack of effective institutional structures with clear responsibility to champion and drive required reforms within countries; lack of effective institutional relationships and coordination mechanisms to guide cooperation between the various stakeholders in the management and implementation of the infrastructure projects and programmes and the related reforms, and lack of an effective communications strategy designed to educate, appraise and seek support from various representative bodies and overcome the entrenched cultural propensity of certain interest groups to protect the status quo.

4. Conclusion and Selected Policy Actions

At the broad macroeconomic level, African countries need to deepen the reform efforts of the recent past. The need to follow prudent fiscal, monetary, and exchange-rate policies while avoiding policy reversals so as to ensure that the goal of creating stable macroeconomic conditions is achieved. Structural reforms also need to be pursued, particularly in the area of accelerating the privatization process in order to encourage greater participation by the private sector. In addition, such policy measures need to be complemented by specific sector policies. Below is a set of key policy actions for the promotion of sustainable regional infrastructure development in Africa.

i) REC decision-making processes should be made more efficient and effective by undertaking an examination of their current processes and mechanisms and streamlining them to meet the requirements for rapid policy, legal and regulation reforms;

ii) The translation of political will into concrete actions in countries should be facilitated by making regional decisions binding on member countries and by improving the technical and financial capacity of countries to undertake the necessary actions to ensure compliance with agreed regional decisions and protocols;

iii) There should be an augmentation of the capacity and resources of RECs to enable them to provide technical assistance to countries in their efforts to comply with sectoral harmonization Programmes, policy reforms and to monitor compliance therewith;

iv) Countries should be encouraged to provide the Secretariat of their respective RECs with sufficient regular funding to support at the minimum each REC’s basic functions/activities and in order to advance the regional infrastructure programme, make meaningful contribution towards the funding required for improvements in capacity;

v) There is need to develop and institutionalize a coherent package of policies to support and encourage private sector investment in the promotion of regional infrastructure and regional integration;

vi) Institutional relationships between the key stakeholders and the various initiatives aimed at improving infrastructure development in Africa should be strengthened through the creation of a coordination framework.

5. Implication for the African Development Bank

The existence of an adequate infrastructure is the sine qua non of successful rural transformation and agriculture development. Such an infrastructure should include feeder roads, access to safe drinking water and sanitation, electrification, and irrigation. Rural feeder roads constitute perhaps the most important element towards the physical transformation of rural Africa. Yet much of the African hinterland is hardly accessible, and of the rural roads that do exist, less than 10 per cent are all-season. This has therefore serious implications for marketing agricultural products, post-Harvest losses, and inter-seasonal variations in farm producer prices and therefore, for farm incomes. Absence of communications results in segmented rural markets and poor information flow, which adversely affect the performance of rural markets. There is a need to develop local capacities, including where feasible, devolution of fiscal responsibilities for the design, construction, and maintenance of all-season rural feeder roads linked to national grids.

Assure the role of rural transformation*:* In 2000, the Bank Group adopted a policy on Agriculture and Rural Development, which seeks to promote technological, institutional, and policy changes to improve the productivity and incomes of small-scale farmers and the rural poor in Africa. The policy emphasizes the roles of the private sector, agro-industry, and agro-business development; regional co-operation and integration; technology generation and adoption; rural infrastructure and energy development; and rural financial intermediation in promoting economic growth. The policy guides future resources allocations for Bank Group operations to provide basic rural infrastructure such as roads, bridges, irrigation and water supply structures, energy systems, telecommunications, and market structures and facilities. In line with this policy orientation, the Bank Group assistance strategy has begun policy changes that would trigger a lasting transformation of the rural economies of regional member countries by empowering their rural populations to improve their productivity and real incomes in an equitable and environmentally sustainable manner.

Expanding the role of the private sector**:** The current consensus in development thinking is that the state should supplement, rather than supplant, the market in resource mobilization, allocation, and use. Where markets work efficiently, there should be a limited role for government: for instance in providing an appropriate regulatory framework. The strong growth of the newly industrialized countries (NICs) and the active roles their government played in accelerating it would suggest the importance of forging an effective partnership between the government and the private sector. Reforming countries have, over a number of years, pursued stabilization policies and structural reforms leading to positive results. In these countries, the private sector is increasingly becoming the main engine of growth, working through the agriculture sector as well as small enterprises.

In its effort to improve the business climate, the Bank Group supports wide-ranging economic reform programmes. These have included financial support and technical assistance to policy reform programmes aimed at improving the overall management of the economy helping countries reform their legal and regulatory frameworks so as to create a transparent and level playing field for all investors. Further, an important area for Bank Group engagement is support to the privatization programmes and the rationalization of state-owned enterprises. This has been done through a variety of technical assistance projects, to create the required institutional capacity to undertake privatization programmes.

Promoting good governance: It is now recognize that poor governance has been one of the major stumbling blocks to economic development in Africa. African countries should now pay adequate attention to the proper management of public resources and the importance of having

established regulatory frameworks, as a means of enhancing investor confidence, and a functional independent judiciary and an effective and transparent public administration. There is a strong need to involve civil society, especially grassroots organizations by giving them a choice in decision-making and the means to participate effectively in the development effort. The ingredients that are essential insights for long-term sustainable growth include establishing systems for good governance, namely greater accountability, transparency, and greater participation in government and corporate affairs, promoting legal and judiciary reforms, and combating corruption. It also include civil service reforms, reduction in unproductive government spending such as excessive military expenditure and redirecting government investment towards primary health and education, as these form the bedrock for growth. In addition, the existence of an efficient and independent judiciary ensures compliance by instituting conditions for impartial and expeditious arbitration and settlement of disputes.

The new approach for regional integration and co-operation in Africa should directly target overall growth by focusing on the joint investment and exploitation of natural resources, regional policy harmonization, and developing an integrated regional infrastructure and financial markets. These should also include harmonization of macroeconomic policies, including a concerted movement towards the convergence of fiscal, monetary and exchange-rate policies, an acute need for greater co-ordination in key sector policies, particularly in industry and agriculture. In this regard, an important step has been taken by establishing the Organization for Harmonization of Business Law in Africa (AHODA). Efforts would also be boosted by a concerted endeavor to realize the full implementation of international trade and investment agreements such as the Cotonou Agreement between the European Union and African, Caribbean, Pacific (ACP) countries, the association agreements between the European Union and individual African countries, and the US Africa Growth and Opportunity Act (AGOA).

Environmental sustainability*:* Meeting the challenge of sustainable economic growth also requires safeguarding the region's natural resource base. Africa is today faces with serious environmental problems manifested in land degradation, destruction of tropical forests (estimated to have reached 4 million hectares annually), loss of cropland, degradation of coastal areas, and desertification. The loss of soil fertility due to over cultivation and the loss of biological diversity have combined to aggravate the situation. And in urban areas, congestion, industrial pollution, and inadequate water and sewerage facilities have created unsanitary conditions and environmental hazards. These problems need to be tackled to ensure that growing environmental problems do not undermine the very basis for continued growth and development.

ANNEX 4: Background Paper 3:

Infrastructure Development and Regional Integration: Meeting the Investment Needs

1. Introduction

It is now established that the first key factor that contributed to the rapid economic transformation of emerging economies is infrastructure development. These countries invested heavily in basic infrastructure, including roads, schools, water, sanitation, irrigation, clinics, telecommunications and energy.[3]

Infrastructure is broadly defined as the facilities, structures and associated equipment and services that facilitate the flows of goods and services between individuals, firms and governments. Conventional infrastructure includes: public utilities, such as power, telecommunications, water supply, sanitation and sewerage, and waste disposal; public works, such as irrigation systems, schools, housing and hospitals; transport sectors, such as roads, railways, ports, waterways and airports; and research facilities such as laboratories and related equipment.

Infrastructure services include the provision, operation, and maintenance of the physical facilities of the infrastructure. Poor infrastructure is a critical barrier to accelerating growth and welfare improvement in Africa.[4] In Uganda, for example, transport costs add the equivalent of an 80% tax on clothing exports. Infrastructure is also a key component of the investment climate, reducing the costs of doing business and enabling people's access to markets. (Juma, 2005)[5]

Infrastructure is therefore regarded as a key lever for development. It cuts across all sectors of activity and contributes to improve public welfare through services provision to the population and therefore it largely contributes to the achievement of millennium goals, especially concerning water supply, but also in the domains of education and health. This contribution to welfare has also an indirect impact: it gives credibility to the institutions in place and therefore reinforces political stability.

Beyond contributing to the public welfare, an appropriate level of infrastructure also attracts private investment in the other areas of the economy and thereby further supports the development of the country. The World Bank World Report on the Investment Climate identifies infrastructure lack as one of the main disincentives to investment. According to Easterly and Serven (2003), differences in infrastructure would account for up to one third of the difference in output per worker in Asia; a similar story would hold true for Africa.

Today the strive to meet Africa's Infrastructure Investment needs is a daunting challenge. Yet, Infrastructure investments represent an enormous untapped potential for the creation of productive employment in Africa. Many reasons point at both endogenous and exogenous factors.

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[3]. Ridley and Lee, 2005; Rouach and Saperstein, 2004.

[4]. Studies have shown that "apart from traditional variables (income, assets, education, and direct health interventions), better access to basic infrastructure services has an important role to play in improving child-health outcomes," Fay, Leipziger, Wodon and Yepes, 2005, p. 1267. See, for example, Holloway, Nicholson, Delgado, Staal and Ehui, 2000.

[5] Juma, C., 2005: Reinventing Growth- Technological Innovation and Economic Renewal in Africa. ADB Eminent Speaker Series No. 2, 18p.

2. Africa's financing requirements for investment

As is well known, a major constraint facing most African countries in seeking to achieve the Millennium Development Goals (MDGs) is inadequate level of resources to finance the required investment in key sectors, such as agriculture, education, health, and particularly infrastructure in those vital areas. In most African countries the levels of incomes and savings are extremely low, limiting the possibilities for increased domestic resource mobilization.

Oshikoya and Hussain[6] rightly indicated that assessing infrastructure needs that cut across all development sectors and different technologies is a great challenge; and setting priority for meeting investment needs should be tied to the socio-economic development objectives. Various authoritative estimates require an annual investment of USD 20-25 billion for the next ten years if African Infrastructure needs are to be met.

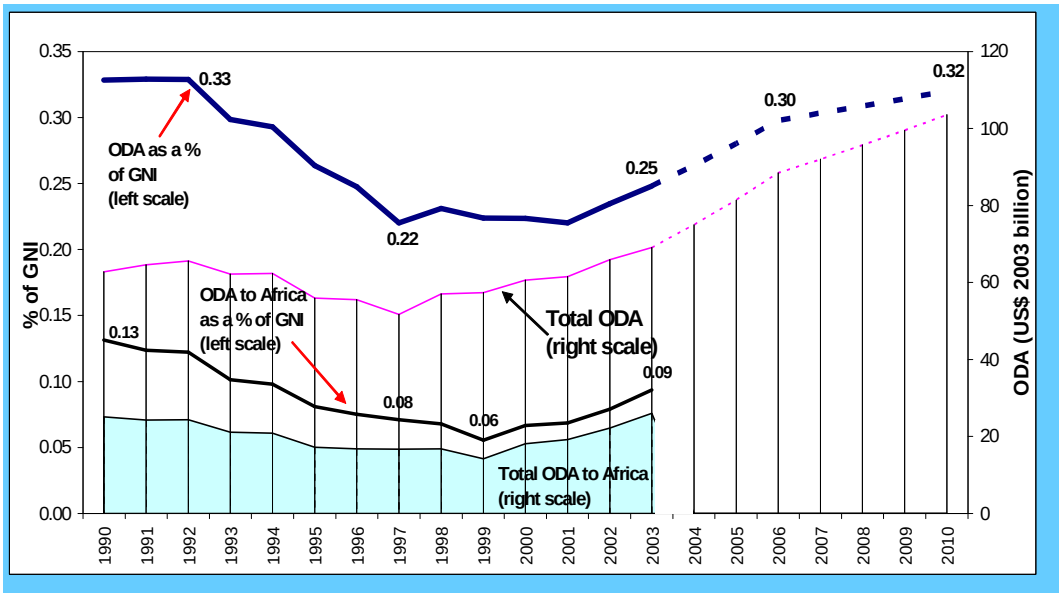
Mobilizing the resources needed for attaining the MDGs would require a number of complementary actions. Domestically, there is a need to deepen financial and banking sector reforms to enhance domestic resource mobilization. In addition, more attractive conditions for the private sector would need to be put in place to encourage greater private investment from both domestic and external investors. In particular, as Africa's share of global foreign direct investment (FDI) remains very low, much would obviously be gained by pursuing appropriate policies and creating the domestic environment to attract larger volumes of FDI to augment domestic savings and investment.

Such efforts will require the support of the international community, if African countries are to make progress towards the MDGs. Support is critical in three areas: increased Official Development Assistance (ODA) flows to Africa; further debt reduction; and improved access for Africa's exports.

With respect to ODA, the Commission for Africa has called for an immediate doubling of ODA to Africa to $50 billion a year. In addition, it has called for 100 percent debt cancellation and urges rich nations to drop trade barriers and remove agricultural subsidies that hurt poor countries. These have been echoed by the World Bank and the IMF, with these two institutions also arguing that an increasing number of countries have improved their absorptive capacity to use such resources effectively. The Bank's own estimate indicates that for the 30 or so African countries in need of additional external assistance, and judged to be in a position to use aid effectively, the requisite increase in assistance is in the order of US$ 20-25 billion per annum.

[6] Oshikaya W.T. and M. N. Hussain in Regional Integration in Africa: A Proceeding of a Seminar OECD/ADB, 2002, 85-125pp.

Graph 1. ODA Flow to Africa



Source: OECD/DAC statistics (2006), Draft Annex to chapter III of the ECA/OECD/DAC "Mutual Review of Development Effectiveness in Africa in the context of NEPAD", Paris **.**

After declining for much of the 1990s, ODA to Africa has risen substantially over the last three years, although much of the increase is accounted by debt relief. This positive trend will need to be maintained, with the goal of doubling of ODA current levels in the next five years. Towards this end, more attention should be given to recent proposals to find innovative ways of scaling up and front-loading ODA. Two important proposals have been tabled in this regard: the first is the proposal of the French Government to consider various forms of global taxation; the second is the International Finance Facility (IFF) proposed by the United Kingdom and supported by France.

More efforts should also be made to improve the efficiency and effectiveness of ODA. At the March 2005 Paris High Level Forum on Aid Effectiveness a number of proposals were adopted to strengthen country ownership and to harmonize donor policies and align them with systems in place in developing countries. The donor community – in close cooperation with developing countries – would need to take urgent action to implement these proposals.

As well as increase ODA and enhance its effectiveness, there is also a need to reduce further Africa's external debt burden. Much progress has been made in recent years in part due to the HIPC initiative. Of the 32 African countries that were expected to qualify for HIPC debt relief, 25 have so far become eligible. It is also noteworthy that six countries -- Ethiopia, Ghana, Madagascar, Niger, Senegal, and Zambia -- reached their completion point in the last two years bringing the total to 13. As most of the remaining seven countries are either in conflict or emerging out of conflict, the international community should assist them re-establish peaceful conditions, as well as help them clear their arrears and commence their reconstruction efforts.

With regards to further debt relief measures, the initiative taken by the United Kingdom to provide additional debt relief on the debts owed by post-completion HIPC countries to the international financial institutions was encouraging. It is urgent that other countries support this initiative, as it would release considerable resources for investments aimed at reducing poverty in the low-income countries. In addition, the decision of the donor community to base future ODA financing terms on an in-depth analysis of debt sustainability to reduce the risk of debt distress in the future is welcome. This is expected to result in a considerable increase in the

level of grant financing by the international financial institutions.

With respect to external trade, African counties continue to face major impediments in the form of heavy domestic support and export subsidies for agricultural products provided by the industrial countries to their farmers. These have the effect of reducing considerably the export earnings of African countries. In addition, non-tariff barriers are often imposed and African countries face tariff escalation on the exports of processed and manufactured exports, although the AGOA initiative of the United States and the *Everything but Arms* (EBA) initiative of the European Union have eased some of these obstacles. We are also gratified by the progress made in the WTO July 2004 Framework, which sets out modalities for the elimination of protectionist measures. In this regard, we urge the industrial countries to throw their weight behind the 'July Framework' to expedite the speedy fulfilment of the Doha Development Agenda.

3. The African Development Bank Group and Africa's Financing Needs

Since its establishment over forty years back, the African Development Bank's principal mission has been to mobilize resources to support the development efforts of its regional member countries. And given the varied stage of development across the region and countries, the Bank has adapted its Strategic Vision to the development challenges facing the different groups of countries.

Lending, Grant and Debt Relief Operations: Since its establishment, the Bank Group has approved a large number of loans, grants, and debt relief operations to its regional member countries. This has been made possible by resources mobilized from the capital markets through its ADB window and from donors through the ADF and NTF windows. In addition, the Bank Group has established a number of special-purpose facilities. Over the last decade alone, the Bank Group has mobilized a total of $25 billion to support the development efforts of its regional member countries.

As of the end of 2004, the Bank Group has approved loans, grants, and debt relief of close to $52 billion to its regional member countries, of which $30 billion was from the ADB window, $21 billion from the ADF, and over $400 million from the NTF. The approvals include debt relief amounting to $4 billion in nominal terms.

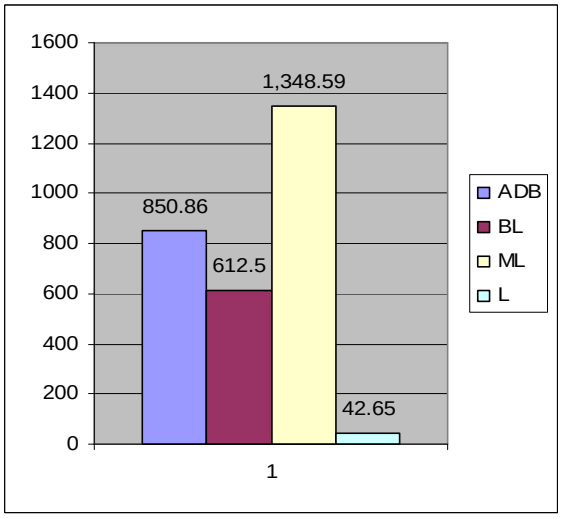
Box 1: Bank Group Operation Windows

For middle-income countries that have access to its 'hard' ADB window, ADB vision is to assist these countries improve the competitiveness of their economies by helping them implement key reform programmes, upgrade their infrastructure, and strengthen their private sectors.

For the low-income countries that have access to only the concessional resources of the African Development Fund (ADF) and the Nigeria Trust Fund (NTF), the focus remains on poverty reduction and promoting sustainable economic growth. The priority areas of intervention have been agriculture, education, health, governance reforms, private sector development, sustainable management of natural resources, and gender equality.

In post-conflict countries, the Bank places high priority on arrears clearance, capacity building, and the rehabilitation of basic social and physical infrastructure. And in all countries, the Bank Group gives high priority to its support for regional cooperation and integration efforts.

Graph 2. ADB Co financing Operations



Source: ADB Annual Report 2004- Source of Co financing (UA millions) ADB; Bilateral (BL); Multilateral (ML); Local (L).

Resource Mobilization for Debt Relief*:* In response to the debt crises of most low-income African countries, the Bank Group has been active in the HIPC initiative from the very start. To date the Bank Group has approved $4 billion of debt relief to the 23 African countries that have qualified. Over 80 percent of the resources required to finance the Bank Group's involvement in HIPC has been financed by ADF donors. Beneficiary countries have used the resources freed by debt relief to finance important poverty-reduction interventions, particularly in infrastructure development in the health and education sectors.

Table 1. Resources Mobilized for Bank Group HIPC Participation (*US$ millions*) as of December 2004

Source of Funds	Grant already Funded	Resources Available	Total Contribution
I. ADB Internal Resources	**211.65**	**28.97**	**240.62**
II. Other Donor Resources	**1,382.85**	**451.03**	**1,833.88**
European Union	569.13	217.76	786.89
United States	215.68	177.30	392.98
United Kingdom	236.10	0.13	236.23
Italy	31.43	5.10	36.53
Germany	24.63	1.71	26.34
Canada	38.02	2.13	40.15
Belgium	10.69	0.70	11.39
Denmark	16.78	-	16.78
Japan	73.23	43.27	116.51
Netherlands	83.75	1.34	85.08
Switzerland	32.91	-	32.91
Norway	8.37	-	8.37
Sweden	12.63	-	12.63
Portugal	15.68	-	15.68
Ireland	5.07	-	5.07
Finland	2.31	1.59	3.90
Luxembourg	0.24	-	0.24
Investment Income	6.21	-	6.21
TOTAL	**1,594.50**	**479.99**	**2,074.50**

Source: ADB Annual Report 2004.

Resource Mobilization for the African Development Fund: The year 2004 was particularly important for the Bank Group in terms of mobilizing new concessional resources through its ADF window. State Participants in the ADF agreed on an ADF-X (2005-2007) replenishment level of approximately $5.4 billion. This represents an increase of 43 percent over the actual resources mobilized under ADF-IX and represents the highest replenishment in the history of the Fund.

The Post-Conflict Countries Facility (PCCF): In addition to its regular lending and grant operations, the Bank Group has established a Post-Conflict Countries Facility (PCCF) to help such countries clear their arrears with the Bank Group and help them re-engage with the international community. The Facility has been established with an allocation of approximately $150 million over three years from the net income of the Bank, and an additional $150 million from the African Development Fund. Efforts will be made to mobilize more funds from bilateral and multilateral sources. The resources of the facility will be used on a case-by-case basis to assist post-conflict countries that meet specific criteria. Two countries – Burundi and Congo – have already benefited from the facility and the Bank Group has started its regular operations in these countries.

The Rural Water Supply and Sanitation Initiative: Another major initiative that the Bank has launched is its ***Rural Water Supply and Sanitation Initiative (RWSSI)***. The immediate goal of the Initiative is *to accelerate* access to sustainable safe water supply and basic sanitation in

rural Africa, with the objective of reaching a coverage of 80 percent by 2015 – in line with MDG goal for this sector. Its fundamental conception is, *first,* to mobilize the international community round a common framework, with African governments assuming leadership and, *second* to help raise the required financial resources to achieve the MDG for water supply and sanitation.

Preliminary estimates of the total investment requirements indicate that it would be in the order of $14.2 billion. The resources requirement for attaining the intermediate targets set for 2007 is $4.6 billion -- or about $1.5 billion per year for the years 2005-2007. The Bank Group has committed to provide up to 30 percent of the total financing requirements from both its concessional and non-concessional windows – the ADF and ADB. The balance of the resource needs therefore stands at about $460 million per year up to the end of 2007.

The Initiative was discussed at the International Conference on Rural Water Supply and Sanitation in Africa on 1 April in Paris, organized by the Bank and co-hosted by the French Government. African governments strongly supported the Initiative and the donor community also indicated its intention to provide additional financing, with some countries making actual pledges.

The NEPAD Infrastructure Projects Preparation Facility*:* In infrastructure, the Bank has drawn up a NEPAD Infrastructure Short Term Action Plan (STAP), which outlines priority investment projects and programmes for the period 2002-2007 in the energy, transport, water and sanitation and Information and Communications Technology (ICT) sectors. The estimated total investment cost of the projects included in the short-term action plan is approximately $8 billion, of which half is envisaged to be financed by the private sector. The Bank has already approved $520 million to finance projects identified in the plan, and has mobilized a further $1.6 billion from other sources to co-finance these projects. A special NEPAD multi-donor infrastructure facility to assist regional economic communities and countries in the preparation of bankable infrastructure projects has been established. The fund was seeded with a grant of C$10 million from the Canadian government.

Box 2. Regional Integration

The Bank Group gives high priority to promoting regional cooperation and integration to enable the many small countries of Africa to gain from economies of scale and the benefits of larger markets. Its efforts have been boosted in recent years by the leadership role that it has assumed for regional infrastructure and banking and financial standards at the request of the NEPAD Heads of State Implementation Committee. The Bank has developed a framework for such standards and this has been incorporated into the African Peer Review Mechanism.

4. Conclusion

Many of the weaknesses and impediments in meeting Africa's Infrastructure Development Financing Needs have been outlined by key stakeholders in various fora as exemplified in the NEPAD Synthesis Report 2004[7]. Some of these weaknesses and impediments are stressed below and there is urgent need to address them.

[7] NEPAD STAP Review 2004- Continental Synthesis Report, 130 p.

Internally: There is a need for a coherent package of measures to be executed on the continental, regional and country level. Such measures to include inter alia:

- The need for greater sensitization of African governments on the cost of political risks.

- Acceleration of policy initiatives, reform and actions to improve the investment climate within African countries.

- Implementation of innovative approaches in the financial and legal structuring of projects.

- Formulate policy initiatives and implement measures to enhance the capacity of African private sector organizations and to promote the participation of African entrepreneurs in the implementation of the NEPAD Infrastructure agenda.

Externally: Whilst it is acknowledged that donor support and funding has a crucial part to play in the development of infrastructure across the continent, it should be recognized that this "traditional" funding model does not always lend itself to the efficient preparation and implementation of regional infrastructure programmes and projects. In this respect, this review identified a number of constraints, some of them associated with donor funding such as:

- Perceived complexity of donor funding: conditionalities can often be placed upon the recipient country/countries to execute social reforms or other sectoral policies that have little relevance to the overall objectives of the specific project(s) being funded. Also, there may be one country involved in a regional project that is not eligible to receive support at a given time, thus delaying full project implementation.

- Fractured funding approach: Dealing with a multiplicity of donors during the development of any particular project typically exposes the project to the donor's varying internal systems and procedures. This can negatively impact on the critical path of projects and thereby delay their implementation, because time lags in one area of donor funding may cause key milestones to be missed and thus seriously hold up other, dependent, parts of the programme. The sound implementation of the Paris's Declaration is critical in addressing the issue of coordination and harmonization

- Lack of focused programmes and project definition: Donor institutions have their own focus, priorities, programmes and culture, which do not always fit in with the priorities of the region, or indeed focus on the reality of the specific business or socio-economic case or needs of a particular project or programme. To qualify for funding, project or programme objectives may have to be realigned with donor priorities and objectives with at best, sub-optimal results, and at worst, a failure to achieve any of the original project goals.

Long-term perspective: As epitomized by Professor Calestous Juma in a recent seminar at the African Development Bank in Tunis, "the task ahead is not simply one of raising more funds. It will require deliberate efforts by governments, academia, business and civil society to reinvent higher education and put it to the service of the African people", and to sustainably develop, implement and maintain infrastructure required. Countries such as Malaysia have established a long tradition of linking road construction to the creation of civil engineering capacities at local universities.

The good news is that Africa has a large number of important innovations in higher education to learn from, many of which are from the continent itself, such as, in South Africa, Stellenbosch University was the first teaching institution in the world to design and launch a satellite. The University of Zambia was the midwife of Zamnet, the country's largest Internet provider

The challenge facing Africa is to move away from relying on luck and tenacity, and to create an environment that helps to realize the developmental role of the universities that will produce the adequate skilled human resources across the continent, capable of designing responsive infrastructure programmes and sourcing funds for their implementation and maintenance.

5. Key issues for discussion

1. Considering the broad range of stakeholders in infrastructures development financing in Africa, what could be the best mechanism in coordinating current and future efforts?

2. Are the lending instruments from various donors responsive and accessible to African countries? What can be done to improve responsiveness, timeliness and accessibility?

3. The private enterprises' participation in the implementation of infrastructures projects are still weak in the RMCs compare to that of private enterprises in non regional member countries. How best can infrastructure projects attract African Private Sector?

4. Infrastructure investment needs for Africa is estimated at about USD 20 billion annually and for the next ten years. This would require a coalition including the international financing community. What strategy to set up for the short, medium and long term?

5. Maintaining infrastructures is another issue that should be born in mind at all levels. What lessons could be drawn from others developing regions of the world?

6. With the globalization, many small economies in the world are becoming less and less viable. What would be the priorities in meeting infrastructure investment to ensure regional integration in Africa? What could be the relevant criteria?

7. In the event of successful resource mobilization campaign resulting in the pooling of USD 20 billions per annum during the next 10 years, do African countries have the adequate capacity required to absorb such an amount of funds?