The Challenge of Regional Integration and Regional Infrastructure Projects in Africa
The Role of the African Development Bank

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I. The Changing Environment for Africa & Relevance to Regional Integration

The structure of the world economy is changing before our very eyes in a manner unimaginable even as recent as 15 years ago. Africa too is changing.

For the fifth year running, the economies of Africa have been, on average, growing at 5.5%. We expect in 2006 a dozen or so economies to grow at 7% and above. That is 4% ahead of population increase.

We are aware of course that the pattern across Africa is uneven, that the growth rate is far below what is required unless sustained, and even that in some cases the growth is double faced, meaning that it is not creating commensurate employment or decline in headline poverty count.

What have been the growth drivers? Certainly the buoyant international economic conditions, and most definitely cumulative years of reforms.

But a phenomenon which has received little attention is the fact that a significant part of this growth has been generated by expanded regional integration and trade in the context of:

- Stable macroeconomic environment;
- Increased liberalization and the gradual reduction of barriers to trade among our countries;
- stead improvement in the physical, legal and regulatory environment thereby enhancing competition and the investment climate.

This level of progress, even if somewhat limited, underlines the importance for us to consolidate opportunities for African economies to create large and integrated markets and enhanced opportunity for all.

And it is not simply about larger market, it is also about creating a platform for Africa to benefit from the liberalization of the world trade regime.

As we meet today trade negotiators are in all probabilities trying to find a compromise in the WTO Doha Round. I would like us posit our discussion today in that context. Here I would like to make the following point. We must marshal all the efforts to ensure a successful Doha Round that adequately frontloads interests of developing countries. But we must not forget at the same time that removing barriers amongst ourselves is as important as bringing down International barriers.
Equally critical is the need to build our trading capabilities and remove supply bottlenecks that would otherwise diminish the gains from an open international regime.

The discussion at the Summit on the reform and strengthened existing sub-regional economic integration organisations is timely. The RECs could become effective conduits for accelerating the building blocks towards the formation of a Single Market for Africa, today hampered somewhat by the multiplicity and overlapping of the RECs, trade protocols. We must of course go beyond simple rationalization to look closely at the physical investment required, the enhancement of the policy framework and the whole issue of regional public goods.

II. Role of the African Development Bank in Financing Regional Integration

The AfDB applauds this attempt at rationalising our RECs. We see role in the Bank being to contribute to gradually close, with others the infrastructure gap i.e. physical barriers hampering expansion of trade, supporting creation of regional poles of growth, contributing to the provision of the Regional public goods and building up the institutional capacity of the RECs. We aim to commit up to 40% of our resources including from our concessional window to support investments in water, infrastructure, and regional integration programs. The Bank has identified and is financing a number of regional infrastructure projects under the NEPAD Short-Term Action Plan (STAP). A total of 25 projects composed of 13 physical investments, 11 visibility studies, one capacity building program have been, or underway in sectors ranging from roads, power, telecommunications to the tune of 2.2 billion dollars:

- In the Maghreb sub-region (Algeria, Morocco, Spain): Electric Power Grid Interconnection (for 18.6 million dollars out of a total project cost of 52 million dollars);

- In the West African sub-region (Senegal, Mali): Southern Corridor Road Development/Transport Facilitation Program (for 94 million dollars out of a total of 293 million dollars);

- In the East Africa sub-region (Kenya, Ethiopia): Mombasa-Nairobi-Addis Ababa Road (for 53 million dollars out of a total of 59 million dollars);

- In the Central Africa sub-region: Study on the Central Africa Electrical Networks Interconnection (for 3.7 million dollars out of a total of 4 million dollars) ;
- Central and West Africa region: COSCAP Program (for 6.6 million dollars);
- In the Southern Africa sub-region (Mozambique, South Africa): SASOL Natural Gas Pipeline Project (for 80 million dollars out of 800 million dollars).

We will shortly begin civil works on road works in East Africa including the East African transport facilitation program, a major highway between Nigeria and Cameroon, between Malawi and Mozambique, and power interconnection between Ghana, Togo, Benin and Nigeria.

Going forward, the Bank is preparing with RECs additional regional projects for financing in 2006 with the AfDB contributing about 324 million dollars and raising co-finance with other institution.

The Summit will be glad to hear that the long-term strategic framework studying for cross regional project will begin later this month. This study is critical, very coherent strategic framework for continental infrastructures.

**III. Enhancing the ADB Response to Regional Integration in Africa**

Our vision is also to frontload the efforts of our RECs in other non-infrastructure programs such as the forthcoming higher education regional project in UEMOA.

In our attempt to support regional integration in the coming years, I see several critical issues.

First, we must build capacity of RECs to plan, to design bankable programs which are coherent with individual national ones. We are extending, and we will continue to extend our support to RECs in this area as we are currently doing in CEEAC/ECCAS, COMESA and SADC.

Second, Increased coordination among countries constituting each REC in external borrowing.

Third, continuous search for innovative long-term finance, this has become particularly important given the imaging concerns that in their search for adequate infrastructure, financing countries might be forced to contract new long-term and sustainable debt.

To this extend the initiatives such as the Pan-African infrastructure fund spear headed by South Africa and Nigeria from pension funds is much welcome. Both countries are contributing half a billion dollars, the aim of the fund is to eventually attain one billion dollars and capable of expanding to a three billion dollar fund at
maturity. We believe this fund has enormous potential, and we should work together to leverage it in other markets.

Fourth, there will be increased need for public private sector partnerships especially in the area of information technology.

For the Bank to be effective in supporting NEPAD and regional integration it has to position to respond with greater flexibility and speed. In this regard, we are working to enhance the Bank’s capacity to plan, mobilize and deploy resources for regional integration programs.

A new Vice Presidency for Infrastructure and Regional Integration has been created. A dedicated Department for NEPAD, Regional Integration and Trade, has been established. It will be the focal point for accelerating the implementation of agreed regional infrastructure and similar priorities. It will provide technical support to our countries on reforms to achieve deeper integration, policy convergence, financial integration, and building trading capacity.

There is now a consensus among African partners on the need to gradually close Africa’s infrastructure gap, there is a business case for it and definitely an MDG case. But these are projects requiring careful planning, from feasibility to technical design to financing which ensures affordability, accessibility, sustainability and avoiding some of the mistakes of the past.

To this effect, we have agreed, with partners to establish The Infrastructure Consortium for Africa (ICA), recommended by the Commission for Africa and the G8 Gleneagles Summit. The Bank is hosting the consortium and provides the Secretariat supported by our own staff and those seconded from partner institutions.

The ICA will fast track progress via better coordination of interventions sharing of best practices in infrastructure development, supporting targeted capacity development at regional and continent levels and caring out studies required. We are at this point in the context of this consortium sharing responsibilities of diagnostic studies with the World Bank. I am convinced that if all major actors in the field of infrastructure actively participate in the consortium progress could be accelerated.

IV. Other Financing Options:

In the past, the provision of infrastructure in Africa was largely the preserve of government and public finances. In the 1980s and 90s, there was a shift, with the
belief that the private sector could on its own provide the required capital for the infrastructure sector. I welcome the rethink of infrastructure financing, which sees the need to combine both public and private financing, to encourage better risk sharing, efficiency in project implementation and sound management of the facilities. The returns to investment infrastructure are realized over the longer time hence the need for careful planning.

V. Conclusion

Permit me to conclude my remarks by re-emphasizing two points. In the process of integration we are all in the long-term winners but in the short-term, there will be losers and winners. It is critical to provide for a mechanism which equitably responds to this challenge. Nonetheless we should steer clear of the temptation of what has sometimes been labeled “beggar thy neighbour policy”.

Regional Integration is not simply a matter of larger market sizes. It is also about reducing risks and cost of doing business. It is also about opportunities for diversity. Greater economic spaces are obviously more diverse that is one of the strength of Brazilian agriculture or India with its highly skilled and diversified technological talents. On this continent of 700 million people, the second largest in the world, which in the not too distant future will attain one billion people, it is clear the more we succeed to bring down man-made and physical barriers the more that diversity can be built upon to provide larger opportunities for all.

I would like to assure the Summit that the AfDB will support this process in accordance with its charter.

Thank you.