Political Economy of Regional Integration in Southern Africa (PERISA)

Paper for **Session 3**

The Complexities of Regional Infrastructure Planning

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1. Introduction of theme

Integrating infrastructure is a giant leap on the continuum towards deeper regional integration, allowing for better economies of scale and development of cross-border public goods. Transport corridors (road and rail) along with airports and seaports link countries physically, politically and economically and furthermore provide global market access. Transport infrastructure is often linked to other regional infrastructure projects in energy, communications and water and sanitation.

The PERISA Project undertakes research into these sub-sectors from a political economy perspective; looking at how the various players influence the national and regional decision-making context, and what impact their actions (or lack of action) have on the integration agenda. The infrastructure sector is certainly a catalyst to promoting long-term sustainable development of the region. The success of this relies on willing and competent institutions, political support at the highest level, a community of citizens who understand the rationale for integration and the need for infrastructure investment and private sector partners who come to the table with greater ambitions than simply the 'large profit' motive.

In 2003 at the SADC Heads of State Annual Summit, the Regional Indicative Strategic Development Plan (RISDP) – a ten-year programme designed to 'connect the region' – was adopted. The RISDP proposed complete connectivity of all member states to the regional power grid by 2012; liberalised regional transport markets by 2008; and harmonised water-sector policies and legislation by 2006. In analysing the reasons for the delays in achievement of the RISDP targets, many experts have pointed out that these would have been more aptly described as guidelines or "guesstimates".

The SADC Regional Infrastructure Development Master Plan (RIDMP) that was adopted by SADC Heads of State and Government at the 32nd Ordinary Summit (August 2012); and is envisioned to be implemented in three five-year intervals – 2012-2017, representing the short term; 2017-2022 representing the medium term; and 2022-2027 representing the long term. A conference was held in Maputo at the end of June 2013 to promote the priority regional projects to qualified investors.

2. General Findings

Coordinating the priority-setting of regional projects has been especially difficult, given the significant differences across countries and sectors in governance and regulatory environments, the varying levels of private sector involvement, the intensity of economic activity, the conditions of peace and stability, and also demand for, and acceptance of, these projects. Furthermore, especially over the past two decades, there have been a large number of institutions engaging with various regional economic communities (RECs) establishing the priority lists of projects.

Multilateral, regional and bilateral development finance institutions (DFIs) and donors have been involved in infrastructure development in the region over the last few decades. Over the past decade, there has been more coordination in approaches to infrastructure development, as well as a complementarity of products offered – ranging from loans, to technical assistance, to guarantees. The Infrastructure Consortium for Africa (ICA) initiative was formed at the G8 Gleneagles Summit in 2005. The ICA group is made up of G8 members, World Bank, African Development Bank, European Commission, European Investment Bank and the Development Bank of Southern Africa. Members work collaboratively towards the objective which is to increase finance for sustainable infrastructure development in Africa from public, private and multilateral sources.

Progress has been made on the establishment of project preparation facilities (PPFs) which are aimed at increasing the number of bankable projects and assisting with the creation of an enabling environment to ensure their uptake. The ICA has recently undertaken an assessment of the 12 operational PPFs (excluding national public-private partnership units) and recommendations include better information flows, better coordination, and structural changes including merging of some, closure of other and initiating new PPFs.

The progress on the RIDMP shows that regional coordination of project development has improved. This has happened, in large part, as a result of national authorities assigning priority to these regional projects. In regional projects, there are invariably trade-offs or compromises for one or more of the member states involved. The important intent should be to try to ensure that the overall project objectives serve all the parties, leaving them better off than before the project. From the research undertaken, it is clear that feasibility studies need to be thorough and various scenarios have to be taken into account.

However, there are often unintended consequences which affect actors negatively. Relocations are inevitable with large infrastructure projects and when not thoughtfully planned and carefully implemented, large scale disruptions can adversely affect entire communities and have disastrous impacts on their environments

Despite the number of players on the SADC infrastructure terrain, there remains a funding gap that will require a concerted approach from national and regional public agencies, the DFIs as well as the measured involvement of the private sector – on fair, equitable and satisfactory terms for all. There are outcries from international civil society which have led many to approach public-private partnerships with apprehension. There are numerous examples in all of the infrastructure sub-sectors which should act as cautionary tales –toll road projects in South Africa being a case in point.

There are also (elements of) specific PPPs which are held up as good practice examples – where collaboration between government agencies and the private operator has been supported by expertise from the international development community, as well as real consultation with communities. Successful PPPs in a public goods context rest on the premise that the poorer population will continually rely, to an extent, on government subsidy or support. This partnership involves the combination of partners in those areas and activities where they have distinctive comparative advantage. The regional and multilateral agencies have a role beyond funding or technical assistance support, but on the ability to leverage influence and expertise in structuring, guaranteeing or underwriting transactions that are more pro-poor oriented; for instance agreeing on lower interest rates, or lower returns on investment possibly over a longer concession term. Greater transparency and flexibility is called for, understanding that the private sector motivations for any project will remain “to make a profit”. The magnitude of the profit needs to be negotiable.

3. Some of the Players

The SADC Development Finance Resource Centre Public Private Partnership Network was established in 2011 with the assistance of partner organisations like the SADC Secretariat, SADC-Development Finance Resource Centre World Bank Institute, Africa Capacity Building Foundation, DBSA, SA National Treasury and GIZ. The SADC PPP Network has recognised that recent policy initiatives acknowledge the important role that PPPs can play in regional integration as well as the opportunities presented for PPPs by such programmes. Carefully implemented PPPs are thought to be an integral part of the solution to Africa’s infrastructure investment needs.

The Development Bank of Southern Africa (DBSA) is self-funding with a mandate to finance infrastructure development in South Africa and the rest of the Southern African Development Community (SADC) region. DBSA represents an important resource in identifying potential ‘bankable’ projects as well as initiating partnerships among public and private-sector entities based in South Africa and SADC.

The United Kingdom (UK) remains a key donor for African infrastructure and its Department for International Development (DFID) has provided funding to its programme TradeMark Southern Africa (TMSA) to help, amongst other things, with the implementation of the Tripartite Free Trade Area (TFTA). This 26-member country free trade area combines the RECs –brings together COMESA, EAC and SADC – and TMSA has introduced varying programmes to facilitate this integration.

Japanese aid to Africa has been in a combination of financing, soft loans and technical assistance (TA) support. The Japanese International Cooperation Agency (JICA) has managed much of the bilateral activities in African infrastructure using the OECD policy framework for investment. TA has centred on capacity building for PPPs, feasibility study support and project planning assistance.

4. Abstracts

Assigning priority to infrastructure projects

There are many actors involved in the development of the SADC Regional Master Plan for Infrastructure Development as well as in its implementation but the main drivers of the process have been the SADC Heads of State, signalling a growing political drive behind the initiative. It is hoped that this will be transformed into real commitment with seeing through important regional projects to completion. These projects have been earmarked over decades – with a view to However, we find that the key to implementation is the nationalisation of regional plans and the master plan needs to be incorporated into the national development plans of the SADC member states. The emphasis of the Master Plan has been on projects that create regional linkages. The prioritisation process of infrastructure projects has largely been decided by the SADC member states through the consultation process used in drawing up the Master Plan, providing a sense of ownership.

In the analysis, we find that while institutionalisation and ownership of the regional Master Plan is an important foundation, there are various challenges, some of them integral to the integration process that have to be addressed for the implementation of this plan to be a success. Key to addressing those challenges is the financing of the infrastructure projects as well as engagement with emerging economies and a wide range of partners. This is because the SADC public sector cannot go it alone – the region is critically dependent on external financing to implement infrastructure projects, with governments not being able to carry the entire cost of needed infrastructure development.

Financing of Infrastructure

Prior to the global financial crisis of 2008/2009, spending on infrastructure was the highest it had ever been as a percentage of global GDP. When the crisis deepened and began to affect emerging and developing economies, it seemed likely that the infrastructure boom would end. Banks and investment funds radically cut back on their lending. However, the crisis led governments worldwide to focus their fiscal stimulus packages on the infrastructure sectors. In addition, a number of new funds, innovative programmes and interesting financial structures, make the scope for the application of private sector involvement in infrastructure far-ranging. Private capital is no outright solution for the problems which hound major infrastructure project, but here the risk is carried to a large degree by private investors, bringing in their own advisors to do independent forecasts, due diligence, and risk assessments.

In Southern Africa, infrastructure bonds can be raised from the domestic currency markets or international capital markets, provided sufficient credit enhancements and the structuring of the project allow an investment-grade rating. Project preparation facilities are being used, especially for projects at feasibility stage and for increasing the flow of funds available at the critical early stages of project development. Equity stimulates debt finance, which covers about 70% of the cost of constructing an infrastructure asset. Guarantee products (or insurance) help leverage funding resources to mobilise private-sector financing and investments to projects in low-income countries, or countries with high political risk. Other new innovative products allow leverage to the extent possible so as to maximize concessional finance and these are considered in this case study.

Donors versus investors

The donor community has focused efforts on supporting an enabling environment for infrastructure investment, emphasising the need for sustainable projects. These include efforts to underline moves towards, for instance, long-term green economy initiatives and sustainable decent employment. On the other hand, private sector businesses, especially transnationals who are relocating physically across borders need the security of knowledge that some return on investment will flow. In infrastructure the period over which that return may be realised is typically much longer than in other business enterprises.

In May 2012 at the World Economic Forum Africa in Addis Ababa, an international Business Working Group was established made up of 35 companies, Multilateral Development Banks, NGOs and regional experts with a view to adding a private sector dimension to the AU/NEPAD Priority Action Plan programmes and accelerating its implementation.

Donors encourage regional and cross-border infrastructure because it increases trade, improves security, saves money and strengthens natural resource management – building on national and regional comparative advantages. Official development finance to Southern Africa is still typically under 50 percent of the required spend to fill the infrastructure gap (of about US$93 billion a year for capex and maintenance). OECD governments have continued to encourage their firms to invest in Africa and have created various support facilities for them.

Less than four percent of worldwide private investment in infrastructure went to Sub-Saharan Africa between 1990 and 2003; however after this period private investment, in ICT in particular, increased from USD 3 billion in 1997 to USD 12 billion in 2009. This sector growth is possibly explained by the fact that in ICT and telecommunications, price setting is typically accepted – whilst not so in roads, water and sanitation, or rural electrification.

Among the priorities rated by investors for setting up a new business in a developing country, the legal framework clearly defining the rights and obligations of private investors was considered critical as well as stability and enforcement of consumer and project counterparty, including government controlled counter-party, payments; the availability of credit enhancement or guarantees from government and/or multilateral agencies; and independence of regulatory institutions and processes from arbitrary government interference. In addition, the private sector demands profitability and the reliability of project revenue streams, based on adequate and realistic tariff setting and projections.

Project from Feasibility to Implementation – Beyond Finance for the Lesotho Highlands Water Project

The Lesotho Highlands Water Project is technically an excellent feat of engineering, carefully reviewed through various studies over numerous years. However, unforeseen environmental changes and inadequate human planning for affected communities have led to several unanswered questions about the project.

The project was first contemplated over 60 years ago and the treaty negotiations and project consultations date back over 20 years. At the time the World Bank put its support behind the project, there was an abundant supply of water in Lesotho. The recent droughts and water shortages (associated with climate change) were not foreseen. The water shortage and drastically reduced river flows have taken their toll on communities formerly reliant on the river for their livelihood – a situation that was anticipated and raised in a World Bank technical report prior to the signing of the Treaty. The hydro-electricity produced at the Muela Power Station has proven too expensive for the average Lesotho citizen. The majority of the country still remains reliant on candles, paraffin and the traditional firewood, which only adds to the stripping of the environment. No further exploration into alternative forms of renewable energy was conducted for Lesotho.

Despite many reports about the progressive compensation measurement processes, many downstream communities are yet to receive compensation for their forced relocation or the loss of their land and associated assets. Still, the World Bank and Development Bank of Southern African went on to finance the second phase of the project. The World Bank Independent Evaluation Group (IEG) has subsequently declared the compensation, resettlement, environmental and social action plans less than adequate. So it seems, the project has not – as is required by World Bank standards – left communities in at least the same condition they were in before the project.

There have also been widely publicized instances of corruption resulting in the removal of the first Lesotho Highlands Development Authority Chief Executive, and the investigation and banning of several multinational corporations from World Bank-funded projects. Lahmeyer International GmbH (Germany) and Acres International (Canada) were two of the companies sanctioned by the World Bank for fraud and corrupt activities. At the inception of the project, there were few questions about the environmental and social impact of this project. In both countries, the political setting was repressive and the terms negotiated were ‘handed down’ to the affected people.

The World Bank was party to a process which set up a trust in the UK to counter ‘sanctions-busting’ against the then apartheid government of South Africa. With independence in both countries, communities and national and international NGOs began to question the impact of the project. The technical aspects of engineering were exceptional; however, impact assessments were not comprehensively concluded with full knowledge of the droughts, which impacted on the availability of the water sourced from Lesotho. In addition, the resettlement of communities displaced by the project was not carefully and fully considered and compensation policies were not carefully planned or implemented.

5. Dialogue Questions

Some of the questions to prompt the discussion include:

Assigning priority to infrastructure projects: This section is process by which priority is assigned to these projects, including who sets the agenda for infrastructure development. Who determines whether identified priorities are the felt or perceived needs of the target beneficiaries? With respect to donors, who determines/ approves the beneficiary/recipient countries; and How?

Donors versus investors: Considering the various approaches of donors (who favour the softer approach to infrastructure through policy, training and management assistance) versus investors (who have different motivations and different infrastructure models). Is there any likelihood of coordination between the approaches and what is the impact on the countries/ communities wherein which the infrastructure is rolled out?

Financing: What is the role of traditional and new financing sources and financing instruments that are being leveraged to support ODA and to encourage private participation in infrastructure (PPI)? Are these efforts sufficient in leveraging PPI; or what else should be done to deepen private sector involvement?

Successful project cycle: Provide an outline of a successful infrastructure project that has gone the route from identification through preparation to bankability stages. Which are the stakeholders, and what are the criteria that have contributed to this success? How can this success be replicated, under what conditions, to ensure greater success in projects?