August 2013

Political Economy of Regional Integration in Southern Africa Series

The Complexities of Regional Infrastructure Planning

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INTRODUCTION OF THEME

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

The political-economy perspective considers how 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 for 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 Southern African Development

Community (SADC) Heads of State Annual Summit, the Regional Indicative Strategic Development Plan (RISDP) – a 10-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) was adopted by the SADC heads of state and government at the 32nd Ordinary Summit (August 2012), aiming at the creation of an efficient, seamless and cost-effective transboundary infrastructure network in the energy, transport, tourism, information and communication technologies, meteorology and water sectors. The RIDMP is envisioned to be implemented in three five-year intervals: 2012–17, representing the short term; 2017–22, representing the medium term; and 2022–27, 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.

GENERAL FINDINGS

Infrastructure investments require long-term policy planning, with long-term strategic policy frameworks that exceed political cycles, have broad political consensus and are able to endure beyond the next election. Co-ordinating 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, as well as the 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) in 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, especially in response to the Paris Declaration on Aid Effectiveness, there has been more co-ordination in approaches to infrastructure development, as well as a complementarity of products offered – ranging from loans, to technical assistance, to guarantees. The establishment of the Infrastructure Consortium for Africa (ICA) in 2005 was formed at the Group of Eight (G-8) Gleneagles Summit in 2005. The ICA group is made up of G-8 members, the World Bank, African Development Bank, European Commission, European Investment Bank and the Development Bank of Southern Africa. Members work collaboratively towards the objective of increasing finance for sustainable infrastructure development in Africa from public, private and multilateral sources. In 2011 membership was enlarged to include all member countries of the Group of Twenty.

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 or PPP units) and recommendations include better information flows, better co-ordination, and structural changes that include the merging of some, closure of other, and initiation of new PPFs.

The progress on the RIDMP shows that regional co-ordination 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 that 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 viewing PPPs as a new form of privatisation, bringing associated job losses that have led many to approach PPPs with apprehension. There are numerous examples of non-performing or failed PPPs in all of the infrastructure subsectors that should act as cautionary tales – toll road projects in South Africa being a case in point.

There are also (elements of) PPPs that 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 in which they have distinctive comparative advantage. The regional and multilateral agencies have a role beyond funding or technical assistance support; 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 are called for, understanding that the private-sector motivations for any project will remain 'making a profit'. The key is to keep profit down to what is reasonable.

ABSTRACTS OF CASE STUDIES

CASE STUDY 1

DONORS VERSUS INVESTORS IN SOUTHERN AFRICAN INFRASTRUCTURE DEVELOPMENT

There is an urgent need for Africa to take advantage of the increased economic attention it has been receiving as a result of its sustained growth levels, even in the face of global economic turbulence. To maximise the potential of a regional market for trade, SADC has recognised the imperative for deepened regional integration through regional infrastructure development. The SADC RIDMP Vision 2027 has identified six priority sectors for development. This plan was influenced by various sectoral plans as well as continental development strategies. SADC's infrastructure plan therefore resonates with continental plans and with those of other African RECs. Trade facilitation is also being addressed in parallel to infrastructure development. Using the RIDMP as a basis, this case study seeks to understand the process through which various infrastructure development projects are selected and prioritised in the region, and to identify and analyse the challenges involved in this process and how these link with the broader goal of regional integration.

CASE STUDY 2

FINANCING OF INFRASTRUCTURE

The global financial crisis of 2008–09 resulted in banks radically cutting back on lending, including for long-term leveraging. However, the crisis led governments to focus their fiscal stimulus packages on the infrastructure sectors and actively encourage private participation in infrastructure; effectively 'crowding in' the private sector.

Private capital is no outright solution for the problems that beleaguer major infrastructure projects. Analysts point to repeated instances of ineffective investment, inefficient service provision and weak governance structures in big-ticket infrastructure assets. Nonetheless, through private-sector involvement, much of the upfront financial risk is substantially shifted away from the public sector, since private players typically bring in their own advisors for independent forecasts, due diligence, and risk assessments.

In Africa, though, between 1990 and 2011 only 10% of global private investment flowed to infrastructure on the continent, against 40% to Latin America. Experts point to the shallowness of national utility markets in Southern Africa – highlighting the strategic importance of marketing higher-value regional infrastructure projects to the private sector. This will require continued co-ordination and harmonisation of regulatory and institutional reforms aimed at enhancing cross-border infrastructure investment.

CASE STUDY 3

ANALYSING THE DEVELOPMENT PROCESS FOR INFRASTRUCTURE PROJECTS IN SADC

This case study looks at the various approaches of the different stakeholders in financing infrastructure development in the SADC region in order to understand how they can be engaged optimally and in a co-ordinated manner to facilitate the full implementation of regional infrastructure projects, which are currently hampered by financing challenges.

The case study finds that there are five primary stakeholders involved in this, namely the recipient governments; continental and regional DFIs; donors; development partners and multilateral institutions; and investors from the private sector. Each stakeholder has its own specific role and approach to infrastructure financing, but the question is whether there are any significant linkages that can be exploited. National governments are not able to meet the financing gap through their fiscus but they have created investment promotion agencies to help achieve this objective by attracting foreign investment. Donors, in addition to the aid that they provide, are also actively involved in building recipient countries' capacity to create enabling environments for investment. This is especially in view of the fact that a significant funding gap still exists within SADC. The biggest challenge to the SADC RIDMP will be the financing of the infrastructure projects. In particular, this study looks at the potential and limitations of private-sector financing and at the opportunities for collaboration between the private sector and donors.

CASE STUDY 4

LESOTHO HIGHLANDS: WATER WOES OR WIN–WINS?

Transboundary infrastructure projects are often viewed as pathways to peace, regional co-operation and stable growth. However, there is a presumed national self-interest in any regional negotiation and the agreement forged between contracting parties – be these member states of a REC and their agencies, and/or project sponsors. With negotiation comes compromise; ground and indeed principles are often conceded and, invariably, trade-offs can be significant. The Lesotho Highlands Water Project (LHWP) is one of the largest water transfer schemes in the world. The trade-off in diverting its water to South Africa – through a gravity drop – is that Lesotho can power an underground hydroelectric station at Muela, reducing Lesotho's dependence on South Africa for its energy needs. The project costs related to the hydroelectric component are estimated at about 5%.

The LHWP has been recognised as a feat of engineering excellence; the real achievement being to use gravity in combination with the river flow to supply water to South Africa and hydroelectricity to Lesotho. This bi-national project between Lesotho and South Africa was contracted in 1986, before South Africa's transition to democracy. With this potentially ominous beginning to the LHWP, it has not been without incident. However, in May 2013 Phase II of the project was signed by the two governments. Negotiations on energy supply to Lesotho, as well as the governance and configuration of the project, seem to have been concluded successfully, despite earlier controversies between the two countries.

The project has resulted in the development of important additional infrastructure for Lesotho, including hundreds of kilometres of paved roads and communications infrastructure between villages. Lesotho reportedly receives ZAR 35–45 million each year from the South African government. Yet there have been controversies around the actual amount of royalties received, linked to allegations of embezzlement by key government officials.

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