Floor Discussion of the Robinson Paper

Elty Links, the Director of International Development Finance at the South African Ministry of Finance, began the discussion with some comments about the concept of integration. "When we speak of integration in the government circles, we'd like to think more incrementally of the concepts that Peter Robinson uses in his first paragraph of coordination, collaboration, compatibility, harmonisation and such. What makes this paper specifically important in my mind is that it is a good starting point for those concepts to be instituted when we discuss infrastructural arrangements with regard to telecommunications, electricity and similar sectors.

What is South Africa's experience in this regard? The best way to examine this is to use the concept of a hub mentioned earlier by Colin McCarthy. All of these models make little sense without a hub. South Africa is loathe to take that responsibility even though it is seen by many in the SADC region as being such a hub. The reason a hub is so important in infrastructure is that there must be a centre around which financing can be coordinated and launched. Without such a hub, I think donor support would dry up as well. In the case of SADC, there is absolutely no doubt in my mind that much of the support that donors would be bringing into infrastructural projects across borders would be built around such a hub as South Africa. Our own experience in the Department of Finance has shown this to be the case. Still, our preference would be the establishment of a body within SADC to perform that type of function

On this issue of donor support, our experience is that the donors are ready to support such projects. Instead of focusing on sovereign nations, the multilaterals are rethinking their position on funding of programmes for across-border projects. It is important that we initiate and steer this new approach to multilateral financing. We have had past examples of multilateral financing across borders, such as the Lesotho Highlands Water Scheme, that cannot be easily repeated. Still I think there is a scope for multilateral organisations to provide this type of financing. Some of the bilateral donors are also convinced that there is a role for them to play. While the mechanism has not been worked out entirely, this is something that we anticipate in the future. In collaboration with other co-financiers, I think that the donor community is beginning to view across-border infrastructural projects as important. Bongi Kunene is heading up a unit in the Department of Finance to coordinate the function of cross-border financing, so I will turn to her now."

Bongi Kunene had some more specific comments on financing. "Peter

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Robinson's paper was quite good on identifying areas for investment possibilities on a regional basis in the future, and it seems to me that we ought to be thinking about different modes of development finance for such projects. We have already identified the projects that need to be undertaken, but how do we assess the risk applied to each project. Another question is whether we have the capacity at the regional level to develop different strategies for financing. Should the financing be applied individually, nationally or on a shared basis and what is the role of the multilateral institutions in such financing?"

Percy Mistry added that the regional financing is not unknown to the multilateral development banks. "In fact, the World Bank was a major financier of East African projects and projects in South Asia and Asia, so the technology is there. It hasn't been done for a while and there was a searing experience of unwinding some of these regional arrangements and redistributing assets and liabilities which I am sure the World Bank is much more cautious about now."

Gene Tidrick noted that the World Bank, the IMF, the European Union and the African Development Bank all support the Cross-Border Initiative and commented on the basis of that support. "I think that one of the essential premises of our support and the way in which the initiative is designed is that variable geometry is a promising way to proceed. We want to support whatever specific regional cooperation or integration efforts that are underway by whatever fast movers there are. We usually support these efforts through the topping-up of structural adjustment loans to individual countries, in particular those countries who are involved in the COMESA agreement, to form a free trade area under COMESA.

Another premise of our approach is the same which underlies the African Development Bank report on regional integration in Southern Africa. It is an excellent report, and we have discussed it with the AfDB and tried to insure that it is taken on board. This premise is that cooperation, coordination and harmonisation are probably more important in the short term than trade integration. Even simple cooperation in activities such as facilitating entry, literally, at the border to promote tourism can be more beneficial in the short term than trade integration where trade links are very small. We do believe that trade integration is important, as long as it is not inward-looking. Trade integration within the region should go hand in hand with a programme which anticipates external trade liberalisation and integration into the world economy.

Percy mentioned earlier that the Bank supports multinational projects. In the mid-1970s, the Bank was lending to the East African community for a number of projects, but it was very difficult to unwind from that experience. We spent a great deal of time trying to save the East African com-

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munity and some of the institutions, and then trying to mediate the dissolution. At the Bank, we continued pushing that particular regional integration even after the individual countries had already given up. Nevertheless, it is difficult for the Bank to deal with regional organisations, or more than one government, since we are set up to deal with national governments. By and large, I think that we would accept some of the criticisms that the Bank has not always effectively supported regional integration. Of course, it is true that we do not always agree on the type of regional integration which is proposed. But within the parameters I have outlined, we do support an essentially outward-looking regional integration.

With regard to the composition of regional integration, I think it is best to look at integration between South Africa and the rest of SADC as essentially a North/South type of integration because the levels of development and industrialisation are quite different. Such a union can provide the basis for very productive and dynamic trade creation as has occurred in Malawi where South African firms have set up textile and garment operations for exporting back to South Africa. This does not mean that everyone within the countries would benefit, and it may be opposed by organised labour in South Africa, but these are things that need to be considered and discussed."

Mohsin Khan followed with some comments regarding the time dimension of regional integration which he believed was lacking in Robinson's paper. "Personally, I am very suspicious about win-win situations. With regard to regional integration, it may be a win-win situation in the medium to long run, but there are undoubtedly costs in the short term."

He then discussed the potential role of the Fund in regional integration. "There is a legal question of whether we can deal with regional organisations. This issue came to a head recently in the case of the CFA zone. It was made clear, at least by the lawyers, that the Fund could not deal with regional organisations in formal sense. In an informal sense, we can, but we have run into a number of hurdles. Let me give you three examples. The first two examples concern monetary unions, and the third individual countries.

The European Union is the first hurdle. We have tried at various points to talk to the European Union in Brussels about issues such as regional or Union monetary policy or fiscal policies. But the countries themselves have opposed this and claimed that monetary policy should be discussed in the nations' capitals. In the CFA zone, we had a similar problem. With the exception of one country, the devaluation was identical. We decided to deal with the devaluation on a regional basis to have a consistency of programmes. We wanted to organise a group of individuals to oversee the design of the programmes for all of the countries which were loosely

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harmonised. But the countries themselves objected. They wanted to be dealt with separately. The third example was when India and Pakistan came to the Fund for Extended Fund Facilities. Given their similarities, we thought it would be wise to deal with them jointly to ensure consistency of advice. The moment the two countries found out that the two teams were sharing information, they made a formal objection to the IMF and stated that treating them jointly was patently unfair.

The bottom line is that formally, we cannot deal with regional institutions and informally, we have encountered several obstacles from the countries themselves. I basically feel that the Fund would be supportive of regional trading arrangements provided there is some kind of movement toward multilateral liberalisation."

Patrick Ncube, from Donsi Consultants in Cape Town, wondered what consideration had been given to the environmental consequences of the electricity potential that Peter Robinson pointed out in his paper. Robinson responded that the Batoka project was "incredible environmentally benign, only a few white water rafters will get displaced." With regard to the Inga, Robinson said that very little needs to be done by way of civil works to access the 40,000 mega-watts. "You don't have to build big dams, you just rechannel the water. There's a sort of natural power house which makes it a very remarkable place." Robinson was certain to stress that down sides exist as well, but that the main reason South Africa has shown interest in the hydro resources of the North was to avoid building smaller power stations which are causing such pollution problems in the Rand or moving on to the nuclear power route.

Phakamani Hadebe, a Deputy Director from the South African Department of Finance, suggested that while Robinson had outlined the inefficiency and unproductiveness of the government, he seemed to dwell on the government, and not the private sector, as the solution for promoting and supporting regional integration schemes. He also brought up the issue of national sovereignty. Robinson answered that the issue of sovereignty involved "getting the countries to think more constructively about where their national interests really lie. In Sindiso's comment, he noted that national solutions are often preferred since they offer greater opportunities for rent seeking. We have to recognise these rather grim realities about sovereignty versus cooperation. The role of the private sector offers some attractive possibilities vis-à-vis the government, and I referred to this in my paper. If we could get the private sector involved, a lot of finance could be unleashed which would be very important."

Sam Tulya-Muhika, Chairman of the East African Cooperation Forum, turned the conversation to the specific issue of the role of politicians and whether regional cooperation or integration is more likely. "Peter's paper

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gave the distinct impression that possibilities exist and that natural resources are abundant. There are certainly some sectors in Africa where cooperation is possible. From historical experience, I think cooperation has been less problematic than integration. But my enthusiasm was quickly dampened by the discussants because the good of the programme and the attitude and management of the political economy by our politicians surfaced as the major problem, and I have to agree with that appraisal. We have this potential in Africa. Do we want to live with the prospect of an energy deficit in the next century when we have the potential to have a surplus? If the politicians cannot see this, what can we do? I am appealing to the redirection of our energy, to focus on the people and organise the private sector to make these electoral issues.

I would also like some clarification on the pricing issue in power supply. Ugandans pay 10c per unit, and we are rather bitter about it because we have the cheapest power supply. But the cost was a conditionality set by the World Bank to subsidise Kenya's consumption. Our arrangement with Tanzania is more recent and as a result, it is a better arrangement. Why does the World Bank get involved in the pricing mechanisms in the member countries? Is this their business? They encourage private enterprise and then fix the prices."

Peter Robinson responded to this last issue with an example of electricity pricing in Zimbabwe. "I was involved recently with the team from the Ministry of Energy which was asked to work with our utility company Zesa on the long-run marginal cost of electricity. This was vital because there was a cross-cutting agreement into the main structural adjustment loan which required Zesa to go onto LRMC tariffing by a specific date or disbursements would be terminated. We thought that if we applied the methodology supplied by the World Bank and suggested a price, everything would be fine. We did this in a very conscientious manner and came up with 3.5 US cents. The official from the World Bank arrived and said, '3.5 cents? Far too low. In Africa, it's at least 7 cents. No question, you must have it wrong.' We showed him the methodology, the spreadsheets and each step that we followed. The problem was that it was a 1973 document and 'we don't hold with that anymore', he said. He produced some other methodology which came up with a figure more to his liking. Fortunately, he didn't go so far as to actually insist upon the implementation of this excessive tariff.

I think there has to be a bit more give and take. It's unfortunate that we are so dependent upon the Bank in the electricity sector to the extent that a number of projects have been stopped by Bank processes and Bank requirements. It is interesting to compare Zesa with Eskom which has more financial clout and can more easily raise finance. It can get ahead and make decisions.

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On Sam Tulya-Muhika's question about making the politicians realise what is at stake, the approach we are taking in Zimbabwe is to try to make government more accountable. We have had a lot of success in the energy sector. In liquid fuels, the government formed a task force which became an open forum with discussions held between the different parties. This had never occurred before. In the electricity sector, I think there will be open discussions and debates next year when the tariffs are announced.

As for getting to the grassroots, there are some obstacles that need to be overcome. The first is that these organisations aren't accustomed to expressing their opinion since their opinion hasn't been asked before. A second related problem is that many of these organisations don't have the technical competence to grasp the issues and really deal with them in a satisfactory way. This holds true for the broader cross-section of society in general."

Daniel Ndela from Zimconsult asked Robinson for some clarification on the linkage between the stages of regional cooperation and integration. "My view is that we shouldn't be thinking of stages," Robinson replied, "I think that cooperation and integration can proceed at the same time. The whole idea of variable geometry and multi-speed is that one has to exploit whatever opportunities exist; there's no point in waiting for cooperation and integration. If one is moving ahead as quickly as possible in all directions, the complementarities will emerge and this will help to keep the process going. If we confine ourselves to specific, prescribed actions at particular stages, opportunities for unleashing a dynamic process will be lost."

Edward Tiagha, the Regional Advisor in Industry Technology Development for the UN Economic Commission for Africa, suggested three other areas where African countries could benefit from regional cooperation in infrastructure. "Why do most African countries hop to Europe to have their planes repaired when we all know that Ethiopian Airlines has fantastic facilities for repairing aircraft? This could form a basis for regional cooperation or integration. The same thing goes for a dry dock. A huge multi-billion dollar project was set up by the World Bank to build a dry-dock in Duwala, but ships are still being repaired elsewhere. The third area is the industrial component of the aircraft and shipping industry. If we were to utilise the facilities for aircraft repair in Ethiopia and ship repair in Cameroon, we would have the potential to develop the manufacture of spare parts for both of these industries."

Alieu Jeng, Principal Economist at the African Development Bank, returned the discussion to the issue of political accountability and the failure of integration schemes in Africa. "There is a good governance dimension to this issue. African governments have not been accountable to their people. Regional integration agreements that have been agreed upon have not been respected; why is this the case? It seems to me that it is

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probably because politicians can renege on agreements that they have entered into, and they can do so with impunity. It is easy for integration agreements to be violated because there is no constituency back home to whom the politician is accountable. He is not required to answer to his people and explain why he has opted out of an integration. To hold the politician accountable, the integration arrangement and the issues related to it have to be extensively discussed and the people have to be informed. To do this, we have to reach the grassroots level and clarify the costs and benefits. If this were to occur, it would be much more difficult for the politicians to opt out of agreements."

Michael Matsebula, from the Department of Economics at the University of Swaziland, agreed wholeheartedly with Jeng and added an example as illustration. "The DBSA was mounting a research project to find out what individuals in selected countries in Southern Africa thought about SADC. It was interesting to discover that some of the executives working for big companies involved in international trade didn't even know what SADC was about. They believed it was something that belonged to the government and was not a topic of discussion for them. This is just an indication of the limited circulation of information about regional issues. If company executives are uninformed, how about the ordinary person? How can we sensitise the business community, non-government organisations and individuals about regional issues?"

The discussion on democracy, sovereignty and regional integration continued with a comment from Sam Asante, Senior Advisor on Regional Cooperation for the UN Economic Commission for Africa. "We have been saying that if we want to strengthen the African economic community, we need to strengthen the various regional groupings; ECOWAS, COMESA, SADC and so on. But we tend to forget that the building blocks for the regional organisations are found at the national level, and this is the major problem. We see governments enter into agreements, and then they don't observe what they have signed. This is because we have been unable to involve the man-in-the-street in this whole question of integration."

Asante went on to suggest how awareness could be increased at the national level. "I think that each country should attempt to establish a ministry of economic cooperation – and if not a full ministry then at least let them have a strong focal point so that when a regional issue comes up in the Ministry of Agriculture or the Ministry of the Environment, there is a central institution to which they can turn. This ministry must be vested with legitimacy and respect because in many countries, we have seen such focal point organisations become a repository for the deadwood in the other ministries."

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Mohsin Khan added some skepticism to the idea of reaching out to the grassroots level. "Let me put it in perspective. In December a CNN-ABC poll done in the United States found that 40% of the people did not know what NAFTA was. This idea of getting the man-in-the-street involved in these types of issues is simply not realistic. I just don't think that a national education campaign would be very successful or productive."

Samuel Wangwe, Executive Director of the Economic and Social Research Foundation in Tanzania, agreed with Khan and gave his own example of the difficulty of promoting awareness at the government level. "In following up on the Lagos Plan of Action, we went to the Ministries of Industry and Agriculture to ask how it had been implemented. We were told that if we gave them a copy of the Plan, they would tell us how the implementation was proceeding. So, they don't even have copy of the Plan which they are supposed to implement. The framework was ignored and the documents cannot be found. It is a challenge to our own governments to disseminate this information. I know that the World Bank feels bombarded by documents, and this is one thing that we can learn from the World Bank. Please bombard our governments with these documents."

Peter Robinson thought that setting up ministries of regional cooperation would be a disaster. "That's part of the problem. I think that South Africa has the right approach with establishing a portfolio inside the Ministry of Finance since this is the key institution in government. In these infrastructural areas, the actual sectors can take the initiative. This should be done much more at the level of the individual actor than at the ministerial level."

Reply by Peter Robinson

"I would like to go back to the questions of finance and the points raised by Gene Tidrick and Mohsin Kahn. I think we need to highlight that there is a major difference of opinion and approach between the Washington institutions and the majority of the African parties. This difference is that in Africa, regional integration is viewed as a means to self-reliant economic growth while in Washington, it is viewed as integration into the world economy. The question is, what does one mean by development? I think that Mohsin was quite provocative on this issue when he said that it was not clear whether trade liberalisation actually leads to greater prosperity and welfare. Are we simply taking the East Asian model and applying it to Africa? I don't have the answer to that, but I have been involved in a number of studies with Sam Wangwe on industrialisation in Africa and it is a difficult area. South Africa is in the running and maybe one or two other countries are relatively similar. But if we look at Percy's figures just for

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SADC and SACU in the last few years, value added in manufacturing is actually declining.

Are we talking about a strategy that is going to lead to greater prosperity and welfare, or are we talking about a strategy that is pleasing to the Washington institutions because it fits into their preconceived ideas of what the long-run marginal cost or trade strategy should be? I put this provocatively. I don't have the answer and I'm not necessarily coming out on one side or the other because I think that Africa is a complex continent full of different possibilities and opportunities. But I do think that by pushing this particular line, you are ultimately encouraging countries to pursue different strategies and that is undermining possibilities for regional cooperation.

There is certainly a school of thought which sees the Cross-Border Initiative as a trojan horse, under the guise of the European Union, to sideline COMESA and SADC. These organisations might be a mess, but they do represent a political process that is occurring on the continent. As for the World Bank and the European Union, it is all well and good to suggest strategies which are more coherent from an economic point of view, but if they don't have the support and are not an organic part of the African process, maybe they are doomed to fail anyway.

Having said this, I would like to challenge you to take up some of the points made by Elty Links and Bongi Kunene. What ideas do the Washington institutions have about financing these infrastructure projects? Can we get more of a debate going on this issue, particularly since South Africa is assuming this mantle and looking to provide a solid basis for this sort of financing in the future?"

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