Comment on "Potential Gains from Infrastructural and Natural Resource Investment Coordination," by Peter Robinson

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Peter Robinson's paper presents a comprehensive examination of the potential gains from infrastructural and natural investment coordination from a theoretical and sector-specific viewpoint. On the basis of detailed and well argued analysis, the author draws policy proposals on how future cooperation could be designed and successfully implemented.

The following are the *prima facie* reasons for concluding that cooperation in infrastructural and natural resource investment coordination in Africa is less problematic and contentious than other sectors:

(i) Clear gains for all of development (hence no compensation mechanism is required);
(ii) No surrender of sovereignty;
(iii) Possibilities for private sector participation; and
(iv) Benefits from trade in electricity, water, transport services, etc.

It would be difficult and unreasonable for me to dispute the broad analysis and conclusions of the paper. My contributions are, therefore, aimed at providing a slightly different perspective on why regional cooperation in infrastructural and natural resource investment coordination has not been effective and to propose the way forward.

My comments and observations are based on my experience with regional cooperation in Eastern and Southern Africa. To understand the constraints for effective regional cooperation in the sectors of infrastructure and natural resource development, the following critical institutional and policy issues need re-examination:

- the ownership of infrastructure, management and operations at country level;
- the role of inter-governmental organisation in articulating and coordinating joint efforts in infrastructure and natural resource development; and

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1 The views expressed in this commentary are personal and should not be attributed to COMESA.

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• the role of bilateral and multilateral donors.

Infrastructure Issues

Ownership

Without exception, the ownership of infrastructure and public utilities is vested in governments. This is the case with roads, railways, civil aviation, electricity, ports and harbours, dams, etc. Hence, the issue of national sovereignty cannot be avoided. In order for joint efforts in infrastructural and resource investment coordination to take place, there must be a convergence of interests among the countries involved. Experience has shown, however, that regional cooperation in common projects may be stalled for three reasons: (1) one of the parties does not have the capacity to contract and service a loan; (2) the same party has (at least in the short term) the capacity and ability to supply services to the deficit country; and (3) it is perceived that other cooperating countries would reap more benefits than the supplying country. The region has a few cases for joint development in the area of electricity generation and harnessing of water from river basins for urban use.

It is conceivable that the ongoing economic reform programmes would, in the medium to long term, lead to private sector investment in infrastructure and natural resource development. This would of course depend on the resolution of imponderables such as, political and economic stability and adequate returns for investors who are probably likely to be from outside the region given the huge capital outlays required. It follows, therefore, that governments in the short to medium term would continue to be primary players in regional cooperation in this sector.

Financing

Closely related to the ownership question is the issue of financing. Perhaps this aspect, more than issues of sovereignty (which may be a causal factor), negatively affects regional cooperation efforts. In fact, the inability of cooperating countries to mobilise significant amounts of financing to support and sustain regional projects may be the "Achilles Heel" of regional cooperation. The failures have to be viewed against the background of the institutional and economic structural weaknesses and the crushing of burden of both domestic and external indebtedness. Given this situation, there is a tendency for countries to support regional infrastructural and natural resource programmes only if they are underwritten by bilateral donors and multilateral financing institutions. Paradoxically, however,

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some of the recipient countries have failed to provide the necessary counterpart funding thus delaying coordinated project implementation. It is not uncommon to find a paved road running to a border without a corresponding facility on the other side. This has led analysts to conclude that some countries view regional economic cooperation as a substitute for concerted national efforts to economic development. In fact, the degree of support that countries tend to give a regional organisation is closely related to the amount of money they expect to obtain from donors.

To address the issue of the resource gap, some regional organisations have established development banks which so far have, regrettably, been ineffectual due to weak capitalisation.

There is now consensus that a long-term solution to sustainable infrastructural and natural resource development at both national and regional level requires radical institutional and policy reform. Among others, this entails commercialisation, privatisation (where possible), corporatisation and the application of cost-based tariffs. Efforts to introduce road pricing at the regional level have had limited results, mainly because of the divergent interests of countries. The landlocked countries have generally favoured marginal cost pricing while the coastal countries have preferred and applied direct road user charges on the basis of full-cost pricing. Due to lower road traffic densities on most of the regional links, the application of full-cost pricing (which does not result in optimal resource allocation) has deterred the traffic from using certain transport corridors and ports. In addition to direct road user charges, there is a tendency for some coastal countries to introduce additional road user charges in order to raise government revenues. These practices have led to friction between (and among) countries.

Management/Operation

There is evidence that over the years, infrastructure has experienced inadequate funding and management practices. Due to the availability of subsidies, there have been no pressures on management to improve productivity and performance. The same argument can be extended to the arena of regional cooperation where the lack of imaginative and innovative perspectives has resulted in the replication of identical paradigms of cooperation irrespective of different socio-economic settings.

National solutions appear to be preferred over regional ones, among other things because the former affords opportunities for maximising rent seeking behaviour. Examples of regional cooperation initiatives that have had limited impact due to nationalism, political sovereignty, rent seeking, etc. include:

- The pooling of aircraft maintenance centres on the basis of intercountry

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specialisation and complementarity. The replication of aircraft maintenance facilities for a relatively small regional fleet has resulted in excess capacity and higher unit maintenance costs. The same applies to joint acquisition of aircraft and operations.

- Joint procurement of railway rolling stock, locomotives and spare parts.
- Joint railway operations across national frontiers to haul international traffic. In the early 1990s, the PTA (now COMESA) and Spoornet independently proposed establishing a regional Railway Operating Company whose mission and core business was to market and ship international traffic.
- Acquisition and use of jointly owned equipment for dredging regional ports. This would ensure maximum and cost effective utilisation of equipment.
- Joint planning and tendering of regional telecommunications network (e.g. the Nordic countries have over the years successfully tendered for common projects). This would reduce installation and procurement costs due to economies of scale. For example, the COMESA Telecommunications Network Interconnection project reveals that based on investment costs obtained from various administrations, a 1000 line digital international exchange costs on average $4.2 million, whereas, if the project was carried out jointly using world market prices, a similar digital exchange would cost about $2.2 million.

The Role of Inter-Governmental Organisations

In a nutshell, the mandates and terms of reference of African intergovernmental organisations including the United Nations Economic Commission for Africa (UNECA) are to:

- Identify, in collaboration with the countries, potential areas of infrastructural and natural resource development with a regional dimension.
- Coordinate the mobilisation of funding for feasibility studies and project implementation among the affected countries.

As alluded to earlier, the implementation of regional projects is predated on donor support. Ironically, whereas the rhetoric of regional cooperation is promotion of self-reliant development, there is heavy dependence on donor funding for capital and, in recent years, recurrent expenditure. A common feature of regional organisations is that they have not built institutional structures and capacities to foster cooperation which is regionally driven. I would therefore favour a critical appraisal of the existing paradigms of regional cooperation in order to craft institutional structures and mechanisms that would result in effective regional cooperation and integration.

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The Role of Donors

While little would have been achieved without the donors' generosity, this generosity has carried costs and pitfalls. It has created an unhealthy dependence by recipient countries on external funding and has sustained a lack of fiscal discipline. The situation has actually worsened in that in some countries, donors are providing substantial funding for both capital and recurrent expenditure. This is a situation which donors are increasingly finding unsustainable. Fortunately, there is an emerging consensus on the need for policy reforms that would enable the private sector to invest (where feasible) in infrastructure and natural resource projects. A case in point is the proposed investment by the private sector in building a hydropower generation facility in Zambia.

Concluding Thoughts

The paper by Peter Robinson provides new perspectives on how regional infrastructural investment and natural investment coordination could be successfully realised. There is a need to build further on the analysis contained in the paper by exploring the following areas:

- Potential areas where *private* investment could either substitute or complement *public* investment in infrastructural and natural resource development of common projects. This examination could include an exploration of how funding could be mobilised from domestic and foreign investors.
- Appropriate and robust institutional structures involving all stakeholders that promote and sustain regional cooperation projects.
- Contributions by donors and multilateral financing institutions for developing the capacity and expertise to quantify the costs and benefits of regional cooperation using the broader analytical framework suggested by the author. Donors should also consider the costs and benefits of regional cooperation and financing in project financing.

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