Developing Africa’s Transport

by Peter Watson

The Challenge

Providing effective and efficient infrastructure underpins all attempts to reduce poverty. Trade is the engine of economic growth, and reliable and efficient transport is essential for successful trade. Transport is needed to facilitate production and exchanges, enable farmers to produce and bring their products to markets, and provide the basis for private investment. The poor state of transport infrastructure impedes Africa’s development and obstructs poverty reduction.

The Vision

One of the main reasons for the poor performance in transport has been inadequate institutional incentives for improving infrastructure and infrastructure services. To promote responsive service delivery, incentives need to be changed through commercial management, competition, and user involvement. Establishing a new culture in developing Africa’s transport infrastructure will therefore be critical. This involves a learning process that leads to a paradigm shift in governments’ understanding of their role in transport provision. Global experience has proven that good infrastructure is a prerequisite to the massive private investment that is so badly needed in Africa. Thus, even if the public sector could manage transport infrastructure effectively, the private sector will be increasingly asked to finance it. Changing the culture of transport infrastructure provision will demand an increasing role for the private sector.

Shifting the responsibility for transport infrastructure provision will require a rethinking of the nature of public-private partnerships and of central and local government partnerships. Such partnerships could be built of multilevel ties consisting of entrepreneurs and financial and public institutions, all of which should include local and foreign expertise and participants. Although the most visible partnerships will continue to be central governments and large foreign partners, small and medium-size local entrepreneurs must also be involved in providing transport services.
Excerpt from an Address to the Economic Commission for Africa of the United Nations by Mr. James D. Wolfensohn, President of the World Bank, in Addis Ababa, January 27, 1998

But what do we see when we look at Africa? We see that Africa is missing out. Of $300 billion in total foreign private capital flows, Sub-Saharan Africa received about $12 billion. And of that, only $2.6 billion in direct investments — a trivial number in relation to the size and potential of this continent. But we also have to face facts. It is not just because the private sector is myopic that less than 1 percent of direct investment comes to Africa. Africa needs to set itself up to attract private investment, and that means a clean regulatory environment, it means a judicial system that works, it means property rights, corporate law, predictability in taxes and, in relations to governments, it means capacity-building, health care, and the infrastructure necessary to go along with it. And it means corruption must be stamped out. Without these, private investors simply will not invest.

Rethinking Public and Private Partnerships

As countries around the world attract an ever-increasing amount of foreign private investment in infrastructure, Africa lags behind. Because the region’s infrastructure privatization is in its initial stages, an understanding of the region’s private participation in its provision needs to be enhanced, and demand and potential for successful private-public partnerships must be identified. The importance of this issue is reflected in the Bank’s dialogue with the governments, especially in regard to the fiscal constraints which most are facing. Global experiences show that capital is extremely selective in choosing its markets and requires preliminary conditions which, in most cases, do not yet exist in Africa.

Most African markets are not big enough to attract private investment. The main cause for this lack of interest is attributed to the low per capita income combined with the low growth rates, which will probably not experience a substantial increase of purchasing power in the near future. On top of the small size of its markets, the region’s integration is in its infant stages. Experience, mainly in Asia and Latin America, has proven how important integration is in extending the possibilities of attracting investment. Transport infrastructure could have a substantial impact on regional trade, economic growth, and poverty reduction.

Eliminating the restrictions on private sector participation in transport infrastructure would improve the legal and regulatory frameworks that restrict the liberalization and privatization of Africa’s infrastructure. There is a general awareness of the urgent need to establish supportive public institutions and create a sound regulatory framework to ensure the effective operation of public enterprises. Increasing attention is given to the crucial role these institutions play in a commercial and market-oriented environment and the need to strengthen their regulatory capacity.

In a time of dwindling worldwide resources devoted to foreign aid, the role of co-financing increases. The World Bank’s role of assisting a recipient country in developing a viable financing plan that identifies potential co-financers is growing. The role of project financing in development has been expanding rapidly in some regions, although it has not yet been rooted widely in Africa. In order for governments...
to attract more project finance, they may have to make commitments in the form of concessions, guarantee mechanisms, and a business-oriented environment that ensures the private sector of their commitment to changes. In order to improve its service, the Bank is searching for better ways to learn, provide, and manage non-lending services that help our clients to identify and negotiate co-financing projects with private financial institutions.

Regional Cooperation in the Maputo Corridor

The Maputo Corridor Development is a joint initiative of the governments of South Africa and Mozambique, with the full support of SADC. The initiative focuses on upgrading the transport corridor, providing the basis for developing additional projects within the corridor area, and attracting local and foreign private sector participation and investment. The major elements of this initiative include:

• Construction of a US$320 million private sector-financed toll road from Witbank in South Africa to Ressano Garcia on the Mozambique border and on to Maputo.
• Improvement of management and operations of the Maputo port and of the rail lines to South Africa, Swaziland, and Zimbabwe through private concessioning supported by IDA.
• Construction of a US$1.4 billion aluminum smelter near Maputo port to produce 245,000 tons per year of ingots for exports, with IFC participation.
• Development of the Pande gas field, laying of a gas pipeline to Maputo, and construction of an iron/steel plant with 3.4 million tons per year slab production for exports, at a total cost of US$2.4 billion.
• Building of a US$100 million power connection to the South African grid to supply the aluminum and iron ore/steel plants, and to meet additional demands from increased growth in the area.

• The GEF Transfrontier Conservation Areas Project aims to promote tourism and conservation in Mozambique. A 230,000 ha concession has already been granted for the promotion of ecotourism south of Maputo (which by preliminary estimates could entail up to US$800 million in investment).

Revisiting Decentralization

Evidence shows that government programs work better when they seek the participation of potential users, and when they tap the community’s reservoir of social capital. The benefits show up in smoother implementation, greater sustainability, and better feedback to government agencies.

Decentralization is a multi-dimensional process that proceeds with success and setbacks. Initiatives to decentralize the process of decision-making in Africa have evolved around the three substantial dimensions of political, fiscal, and institutional decentralization. The importance of these components is widely recognized, yet conceived to be...
complex in its structure and internal relationship, and therefore requires a thorough analysis. The decentralized institutions will need to build up municipal and financial competencies — or find ways to contract them out — to cover the costs of providing rural public goods and services. Revenue sources draw upon three main sources: locally generated resources, transfers from high-level institutions, such as intergovernmental fiscal transfers, and external resources (grants and loans). In the highway sector, the Bank estimates the road maintenance requirements and ensures that they are included in national budgets and financed. A similar approach needs to be found to do this for municipal and village transport infrastructure, since local financing sources are unlikely to be adequate to meet the needs.

As local governments are permitted to raise revenues through taxes and borrowing, an appropriate system should be put in place to incorporate efficiency and equity goals. Such a system can operate efficiently by emphasizing crucial points, such as: transparency to make transfers clear and visible, predictability to permit strategic planning, and autonomy to ensure independence and flexibility of subnational governments in setting their priorities and therefore establishing the demand.

Evolving Role of the World Bank Group

At the country level, World Bank assistance to transport mostly takes the form of IDA lending to sustainable development of physical infrastructure — mostly roads, but also railways and ports. This assistance is increasingly formulated in cooperation with other donors under the form of pluri-annual sector investment programs (SIPs). Bank assistance to transport is, nevertheless, framed into comprehensive Country Assistance Strategies (CAS) formulated with stakeholders and emphasizing corporate restructuring, private participation, and regulatory reform. At the regional level, the Sub-Saharan Africa Transport Policy Program (SSATP), an initiative in which the World Bank is a main partner, helps to improve transport sector performance by promoting policy reforms and institutional changes. The program is now widely recognized as a cooperative process to foster policy development and knowledge exchange, as well as a catalyst for capacity-building efforts.

The World Bank Group is evolving with its client countries. Their needs and emphases change, and the Bank strives to provide the tools to meet their demands. The World Bank Group and its constituent agencies — IBRD, IDA, IFC and MIGA — use a variety of instruments to support promising transport projects and programs, including economic and sector work, public expenditure reviews, technical assistance, adjustment operations, guarantees for mitigation of non-commercial risks, equity participation, and promotional activities.

Finally, however, the tools are only the means to one end — significantly improving the well-being of people.

Acronyms

ACP Countries of Africa, Caribbean, and the Pacific as beneficiaries of development assistance from the European Community
CAS Country Assistance Strategy
GEF Global Environment Facility
IBRD International Bank for Reconstruction and Development
IDA International Development Association
IFC International Finance Corporation
MIGA Multilateral Investment Guarantee Agency
SADC Southern Africa Development Council
SIP Sector Investment Program
SSATP Sub-Saharan Africa Transport Policy Program