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Ministerial Roundtable Discussions on Infrastructure Development and Regional Integration: Issues, Opportunities and Challenges

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Mr Trevor A. Manuel
Minister of Finance
Republic of South Africa

Distinguished Prime Minister, President of the ADB Mr Kaberuka, Executive Secretary of the ECA Mr Janneh, Excellencies, Ministers, Governors, Dear Friends

Our deliberations here are about the responsibilities we have as decision makers. This is the most fundamental reason that brings us together. If we look at previous decisions about issues like the MDGs, it is essential that we review what we have done to improve the quality of life of our people and identify the challenges that remain.

Last year's discussion was about Africa's resource needs including what we could do together to write off debts to create fiscal space. Now it is time to get down to the business of addressing how we use the fiscal space in order to stimulate growth and development on our continent. We not only need to make more resources available for social expenditure, but also for economic infrastructure to ensure that we stimulate growth and development in all our countries.

In our endeavours to attain the MDGs, we must ensure that space is created for the productive sector. We need to correct the balance between the social and productive sectors, so that we also build for the future by investing for a higher growth path. Together with our development partners, we have tended to tilt only towards the social side of the responsibility. The result is that our infrastructure investment levels are far too low to support the magnitude and character of growth and development that our continent needs. In correcting these imbalances by scaling up investment in infrastructure, we must take responsibility for driving our own development trajectories and ensuring that our development partners reciprocate by aligning their support to our development imperatives.

We also know, friends, that investment in infrastructure is pro-poor and improves Africa's prospects for long-term growth and development. Infrastructure is an area of regional collective regional interest – indeed, getting to Ouagadougou presented a challenge to those of us who had to travel between two African cities. Many of us had to fly via Europe to get here from our home city. Clearly, if we are to build an economically and socially integrated continent, we need to spend much more on economic infrastructure to link different parts of our continent.

Where do we begin? The first step is to ensure that we effectively use the fiscal space we have created to correct the balance between social and productive expenditure in our budgetary allocations. We also need to monitor the impact of changed expenditure patterns from an ex-ante policy perspective, to ensure that we are making the optimal allocations between social and economic infrastructure. In addition to ensuring the adequacy of budgets, there is also a need to win political consensus for budgets and to be very sure that the money has been spent as we intended and has achieved the outcomes we desired when planning the budget.

We can facilitate such planning and accountability for both our people and donors, by embarking on simple budget reforms like better planning, more transparency, opportunities for greater participation, multi-year budgets, better governance and effective accountability for spending. Part of our pleading is to ask donors to trust the quality of governance to ensure that they support the gap in budgets, rather than a myriad of projects dreamed up by officials in the capitals of the donor countries.

Some of these reforms are relatively easy, and we have succeeded in the past few years through Monterrey, Paris, Gleneagles and a series of G7 meetings, to raise the profile of our continent and achieve the fiscal space required. We have also progressively strengthened support for our economic and social imperatives from our development partners. Now we must grasp the opportunities created by these favourable developments to squarely address the challenges associated with lifting the continent onto a higher growth and development path.

We need to move forward by building on the significantly improved political and economic circumstances we find ourselves in. As the latest statistics illustrate, the higher growth of 5 per cent in 2005 and projections of 5,8 per cent this year, masks the fact that growth in non-oil exporting African countries is significantly lower.

It is essential that we develop clear growth and development strategy country by country on our continent, and focus on the binding constraints that prevent us from growing faster. The dependency of many of our countries on primary commodity exports, frequently marked by single commodity exports in an environment of huge oscillations in commodity prices severely constrains our growth prospects. Measures to drive the diversification of our economies must be the centrepiece of our national growth policies. The two key constraints to diversifying our economies are inadequate economic infrastructure and the slow pace of regional integration.

Infrastructure and Investment

It is common cause that the enormous backlog of investment in infrastructure is a primary constraint to service delivery, to attaining the MDGs, and to increasing investment in Africa.

Almost every Investment Climate Assessment conducted in Africa by the World Bank, by UNCTAD, by the World Economic Forum and other research institutions over the last 5 years identifies poor infrastructure as the primary constraint on expansion and the key variable informing negative investor perceptions. This is the issue that President Kaberuka referred to earlier in relation to the investment climate. This is why colonial trade patterns have persisted in many of our countries for many decades after liberation. They typical investment pattern has been finding a mineral, digging a hole, getting it out of the ground and exporting it to the North. The top item on our list, must therefore be the decolonisation of Africa, the current patterns of trade and investment holds back development.

Africa's share of world FDI inflows is relatively small at 3 per cent, and is restricted to minerals including oil, gold, diamonds, platinum and copper. We should therefore embrace the initiatives of the Investment Climate Facility as a measure to support our domestic endeavours to improve investment flows to our continent. Our agenda for participation in world trade will flounder unless we focus on first things first: increasing trade amongst ourselves is the imperative. Intra-African trade will be boosted by regional integration and the implementation of infrastructure to link our countries.

We all recognise inadequate infrastructure is a core constraint. We have recognised the imperative of increasing investment in infrastructure by placing it right at the centre of our NEPAD strategy. Indeed, we will be reflecting on progress made with implementation of the NEPAD Short Term Action Plan by our own institution, the ADB, in our review of progress later this week.

There is substantial agreement - and distinguished Prime Minister of Burkina Faso raised this again this morning - that regional infrastructure in the form of power pools, road corridors and communications networks are critical to the support of growth and competitiveness, in achieving economies of scale and in reducing costs.

Improved Infrastructure not only improves the living conditions of the poor, but also reduces the costs of business, and further encourages business to invest in productive assets. It enlarges markets. It is not surprising that the poor of Africa perceive the isolation associated with the lack of infrastructure to be the cause of their poverty and marginalisation. Too far from markets, too far from arable land, too far from hospitals and clinics.

The responsibility for ensuring the rapid expansion of infrastructure lies squarely with the state: the government budget will continue to be the main driver of infrastructure development. The domestic public sector remains the dominant source of finance for infrastructure all over the developing world. It accounts for 70 percent of current spending on infrastructure, with the private sector accounting for somewhere between 20 and 25 percent[1], and ODA for 5 to10 percent. But that's a global statistic; in Africa private investment in infrastructure is a fraction of this developing country average.

The critical question that remains is: how much do we need to spend?

The World Bank has estimated infrastructure investment needs in Africa to be approximately 5 percent of GDP per year, plus a further 4 percent for operation and maintenance, totalling 9 percent. Today total expenditure on new investment in infrastructure is about 2 to 2.5 percent with private investment only 0.3 percent. That's a huge gap and that gap is widening as technology moves ahead across the world in leaps and bounds.

This afternoon we are going to tackle these issues in detail assessing how to **get the policy framework right**, and **meeting the investment needs**.

Investment in Infrastructure poses particular challenges. Projects tend to be large and expensive. They also require maintenance to ensure continued effectiveness.

[1] The private sector is a much smaller contributor for Africa

Given the small size of our domestic markets, our development prospects are greatly enhanced if we facilitate trade across national boundaries, create integrated energy markets, support regional water resources management and develop the private sector so that they can also then invest in regional infrastructure.

But lest we forget, it is the nurturing of human capability that we must focus on: teams of engineers, project managers, technicians and artisans, together with effective governments are the real drivers of infrastructure development.

Regional Integration

The poor and often non-existent linkages between African countries poses a constraint to growth. Apart from the difficulty of travelling between African countries, why is it that we find it easier to trade with Europe, Asia or America rather than to trade with our own brothers and sisters on the continent? While we can point to reasons like poor regional infrastructure, or slow progress on the DOHA round, we need to also look at the self-imposed barriers that prevent trade and other economic linkages. Many of these barriers are regulatory constraints that we have the power to remove.

The key constraints that require urgent redress are some of those mentioned by President Kaberuka earlier and include: restrictions on travel, including visa requirements; bureaucratic controls that inhibit participation by non-citizens; and the lack of harmonisation in frameworks for investment, taxation and tariff regimes, particularly as they affect foreign investors.

The key point is that we can and must seek agreement on these issues, and develop and implement policies that will integrate our economies in a way that enhances our growth and development prospects. In other words we have to look at issues of governance and not just concrete, we have to look at intra-African trade and not only the construction of rail and roads

Conclusion

In conclusion, we need to commit ourselves to budget more resources for economic infrastructure. We need to do this through a more transparent and accountable budgeting framework, where we make the tough choices for a more optimal balance between social and economic expenditure. The battle is to persuade our development partners that investment in infrastructure is investment in change and in the human condition.

We also need to make more progress in developing regional policies that promote trade and co-operation, starting with lower tariffs and removing constraints to inter-regional investment.

More importantly, we have to develop plans to implement these policies. It is easy to devote resources to infrastructure, but much more difficult to plan and spend such funds effectively so that we achieve the desired outcomes.

More particularly, we have to address the following issues if we are to effectively deal with the challenges of infrastructure and regional integration:

- Firstly, how do we mobilise Development Finance Institutions like ADB and WB to address the capacity constraints associated with the implementation of infrastructure projects in order to eliminate the lag between approvals and disbursements?
- Secondly, how can we assist our development partners to improve coordination and reduce the administrative burden associated with project implementation? In this regard we look forward to hearing more about how the Africa Infrastructure Consortium at the ADB will improve donor harmonization and co-financing for infrastructure programs.
- Thirdly, how do we enable investors and financiers to have more confidence in our ability to provide a stable long term investment environment?

And then you might ask what the limits to change might be? I saw a recent television programme on Dubai, which showed how this city in desert has highest water usage in world. The government has built capacity for the desalination of water and has built infrastructure that will be sustained long after the country's oil resources are depleted. They have shifted the limits. What are the limits to change for our continent?

If we as policy makers are serious about uplifting the poor and sustaining our ability to do so, there is no time to waste in identifying what we must do to **get the policy framework right** and **ensure effective implementation.** There are no limits.

THANK YOU