

# The Contribution of the Private Sector to the Implementation of the New Partnership for Africa's Development (NEPAD)



Published by the Office of the Special Adviser on Africa

**The Contribution of the Private Sector  
to the Implementation of the  
New Partnership for Africa's Development  
(NEPAD)**



United Nations, New York  
2006

### **ACKNOWLEDGMENTS**

The regional case studies in this report were undertaken with the assistance of Daniel Omoweh (West Africa), John Maré (South Africa), and Felix Mosha (East Africa), respectively. The report was put together by Seok-Ran Kim, Katrin Toomel and Mehdi Hamam under the overall supervision of Ejeviome Eloho Otobo.

*Contents* *Page*

<i>Chapter I</i>	<b>Overview and Summary of Findings</b> .....	1
<i>Chapter II</i>	<b>West Africa</b> .....	8
<i>Chapter III</i>	<b>Southern Africa</b> .....	26
<i>Chapter IV</i>	<b>East Africa</b> .....	39

Tables

<b>1. Short-term action plan on infrastructure in the ECOWAS</b> .....	11
<b>2. Sample of a PPP in NEPAD projects in West Africa</b> .....	19
<b>3. NEPAD-STAP for regional projects in East Africa</b> .....	42
<b>4. Regional projects at some level of implementation or under consideration for funding by the World Bank, DBSA or the AfDB in East Africa</b> .....	44
<b>5. Public-private partnerships: project preparatory phase Kenya-Uganda pipeline project</b> .....	48
<b>6. Details of the public-private partnerships on the East African Submarine Cable System project</b> .....	49

## ABBREVIATIONS AND ACRONYMS

<b>AAP</b>	Africa Action Plan
<b>ABR</b>	African Business Roundtable
<b>ACP</b>	African, Caribbean and Pacific
<b>AfDB</b>	African Development Bank
<b>AFD (f)</b>	Agence Française de Développement
<b>APF</b>	Africa NEPAD Forum
<b>APRM</b>	African Peer Review Mechanism
<b>AU</b>	African Union
<b>BABA</b>	British African Business Association
<b>BOO</b>	build-own-and-operate
<b>BOT</b>	build-operate-and-transfer
<b>BWA</b>	Bundesverband fuer Wirtschaftsforschung and Aussenwirtschaft
<b>CAADP</b>	Comprehensive Africa Agriculture Development Programme
<b>CBC</b>	Commonwealth Business Council
<b>CCA</b>	Corporate Council on Africa
<b>CCIA</b>	COMESA Common Investment Area
<b>CDE</b>	Centre for the Development of Enterprise
<b>CEO</b>	Chief Executive Officer
<b>CEPGL</b>	Economic Community of the Great Lakes Countries
<b>CFAF</b>	CFA Francs
<b>CFM (p)</b>	Mozambique Ports and Railway Company

<b>CIAN (f)</b>	Conseil Français des Investisseurs en Afrique
<b>CIDA</b>	Canadian International Development Agency
<b>COMESA</b>	Common Market for Eastern and Southern Africa
<b>DANIDA</b>	Danish International Development Agency
<b>DBSA</b>	Development Bank of Southern Africa
<b>EABC</b>	East African Business Council
<b>EAC</b>	East African Community
<b>EADB</b>	East African Development Bank
<b>EAIDG</b>	East Africa Infrastructure Development Group
<b>EASSy</b>	East Africa Submarine Cable System
<b>EBID</b>	ECOWAS Bank for Investment and Development
<b>EC</b>	European Commission
<b>ECA</b>	Economic Commission for Africa
<b>ECOWAS</b>	Economic Community of West African States
<b>EDF</b>	European Development Fund
<b>EU</b>	European Union
<b>FAO</b>	Food and Agriculture Organization
<b>FDI</b>	foreign direct investment
<b>FID</b>	financial investment decision
<b>FTA</b>	free trade agreement
<b>GDP</b>	gross domestic product
<b>HIPC</b>	heavily indebted poor countries
<b>HSGIC</b>	Heads of State and Government Implementation Committee

<b>ICF</b>	Investment Climate Facility
<b>ICT</b>	information and communication technologies
<b>IDA</b>	International Development Association
<b>IGAD</b>	Intergovernmental Authority on Development
<b>IMF</b>	International Monetary Fund
<b>IPPF</b>	Infrastructure Project Preparation Facility
<b>ISPAD</b>	Information Society Partnership for Africa's Development
<b>IT</b>	information technology
<b>JICC</b>	Joint Implementation Coordinating Committee
<b>MCLI</b>	Maputo Corridor Logistics Initiative
<b>MIGA</b>	Multilateral Investment Guarantee Agency
<b>MOU</b>	memorandum of understanding
<b>MPDC</b>	Maputo Port Development Company
<b>NBF</b>	NEPAD Business Foundation
<b>NBG</b>	NEPAD Business Group
<b>NEMA</b>	National Environmental Management Authority (Kenya and Uganda)
<b>NEPA</b>	National Electricity Power Authority
<b>NEPAD</b>	New Partnership for Africa's Development
<b>NEPAD-ASET</b>	NEPAD-Africa Social Equity Trust
<b>NNPC</b>	Nigerian National Petroleum Corporation
<b>NORAD (n)</b>	Norwegian Agency for Development Cooperation
<b>ODA</b>	official development assistance

<b>OECD</b>	Organization for Economic Cooperation and Development
<b>PDIU</b>	project development and implementation unit
<b>PPPs</b>	public-private partnerships
<b>R &amp; D</b>	research and development
<b>RECs</b>	regional economic communities
<b>RISDP</b>	SADC Regional Indicative Strategic Development Plan
<b>RRB</b>	regional regulatory body
<b>SACU</b>	Southern African Customs Union
<b>SADC</b>	Southern African Development Community
<b>SAPP</b>	Southern African Power Pool
<b>SATA</b>	Southern Africa Telecommunications Association
<b>SDIs</b>	SADC spatial development initiatives
<b>SEP</b>	strategic equity partner
<b>SIDA</b>	Swedish International Development Agency
<b>SMEs</b>	small and medium-sized enterprises
<b>SOBEGAZ (f)</b>	Société Beninoise de Gaz
<b>SOTOGAZ (f)</b>	Société Togolaise de Gaz
<b>SRII</b>	SADC Regional Information Infrastructure Project
<b>STAP</b>	Short-term Action Plan
<b>TK</b>	Telecom Kenya
<b>UNDP</b>	United Nations Development Programme
<b>UNICEF</b>	United Nations Children Fund

<b>UNIDO</b>	United Nations Industrial Development Organization
<b>USAID</b>	United States Agency for International Development
<b>UT</b>	Uganda Telecom
<b>VRA</b>	Volta River Authority
<b>WADB</b>	West African Development Bank
<b>WAEMU</b>	West African Economic and Monetary Union
<b>WAGP</b>	West African Gas Pipeline
<b>WAPP</b>	West African Power Pool
<b>ZANTEL</b>	Zanzibar Telecom Ltd
<b>ZMM-GT</b>	Zambia-Malawi-Mozambique Growth Triangle

#### Notation

- (f):** French
- (g):** German
- (n):** Norwegian
- (p):** Portuguese

# I. Overview and Summary of Findings

## OVERVIEW

There are several stakeholders who are playing an important role in the implementation of the New Partnership for Africa's Development (NEPAD). The private sector's critical role in the NEPAD's implementation is well acknowledged by the leaders both of African countries and of the private sector itself. In this regard, much emphasis has been placed on private sector engagement in several programmes of the NEPAD, in particular in the infrastructure sector.

The present publication provides preliminary insights into the nature and scope of the private sector's participation in the implementation of the NEPAD, and with a view to analyzing the progress of and obstacles to private sector participation in the NEPAD, it assesses the experience of three subregions, namely, West Africa, Southern Africa and East Africa.

Various business conferences, seminars and workshops have been organized in order to enhance the processes for private sector development in Africa as well as to strengthen further the private sector's involvement in the NEPAD. These numerous forums have advocated policy and institutional reforms conducive to private sector development. More importantly, the African private sector is also showing considerable interest in the implementation of various constituent programmes of the NEPAD. For example, the African private sector has organized itself to support the NEPAD by establishing the NEPAD Business Group (NBG), which has essentially become a vehicle for interface among the NEPAD secretariat, Governments and the private sector, with the aim of developing real and effective public-private partnerships (PPPs). The African Business Roundtable (ABR) has appointed a staff member to act as a private liaison person at the NEPAD secretariat.

Notwithstanding the private sector's interest in increased involvement in NEPAD programmes, effectively harnessing the role of the private sector in the implementation of the NEPAD remains a major challenge.

This publication examines such questions as, what is the nature and extent of private sector involvement in the NEPAD? In what projects and sectors of NEPAD programmes is the private sector participating? Are African-owned private firms more involved than foreign-owned firms in the implementation of NEPAD projects? What are the sources and methods of financing these projects? Have public-private partnerships (PPPs) been formed to implement NEPAD programmes? If so, in what sectors? What are the major challenges constraining the private sector's participation in the implementation of the NEPAD? How can the international community and donor countries help in promoting private sector involvement in the NEPAD?

The regional case studies, which were undertaken in the period between August 2004 and February 2005, reveal the diversity of the experiences among the three subregions in terms of both the opportunities and the challenges to private sector involvement.

Two approaches towards private sector involvement in the NEPAD are highlighted in the studies, namely (a) the broad approach, which has defined private sector participation in terms of all the sectors in which the private sector is already involved; and (b) the sector-specific

approach, which has focused on private sector involvement in specific NEPAD programmes/projects.

The studies were presented to, and benefited from discussions at, the Ad Hoc Expert Group Meeting on The Contribution of the Private Sector to the Implementation of the New Partnership for Africa's Development (NEPAD) by the Office of the Special Adviser on Africa of the UN Secretariat organized in collaboration with the NEPAD's secretariat and held in Midrand, South Africa, from 28 February to 2 March 2005.

The Expert Group Meeting validated the key findings of the studies, which were that much progress has been made in the preparation of feasibility studies for projects under the short term action plan for infrastructure development but many have yet to reach the completion stage and that the involvement of the private sector in the implementation of NEPAD programmes had been rather limited. One significant piece of evidence of the lack of private sector involvement in NEPAD implementation projects comes from the analysis of AfDB. It had estimated that half of \$ 7.13 billion for the physical investment for the Short Term African Plan (STAP) for infrastructure development would come from private sector. This has not materialized<sup>1</sup>.

Three points bear emphasis. One is that the domestic-owned private firms, as compared with foreign-owned firms, have been less involved in the implementation of NEPAD projects, especially those projects involving public-private partnerships. Second, the relative prominence of foreign-owned firms in the implementation of infrastructure projects is attributable to their better capacity to undertake construction of projects, the most important phase of implementation. Third, state-owned enterprises remain the key instruments for African governments' participation in the public private partnerships formed for NEPAD projects.

To understand the extent of private sector involvement in the implementation of NEPAD programmes and projects, it is helpful to explain that implementation straddles several distinct phases: (a) project conception; (b) feasibility studies; (c) definitional phase; (d) construction; and (e) financial closure. While the private sector can participate in any of these phases, in each project, implementation is understood strictly to signify involvement in, and completion of, the construction phase.

Much therefore remains to be done to actively and creatively engage the private sector in the implementation of the NEPAD. Measures for better engagement of the private sector would entail creating effective and innovative partnerships, strengthening the capabilities of national Governments and regional economic communities (RECs) to broker partnerships with the private sector, and providing long-term capital to fund the NEPAD's key projects.

## **SUMMARY OF FINDINGS**

A distinctive feature of the NEPAD is its two-track approach to the implementation process: national Governments have assumed responsibility for implementing NEPAD programmes at the national level, while regional economic communities (RECs), or, where appropriate, joint ventures between national Governments, are the preferred vehicles for implementation of the agreed projects with regional or subregional dimensions. The majority of

---

<sup>1</sup> See *The AfDB and NEPAD – Towards More Effective African Support to NEPAD*, Presentation by Adrian Rakatobe at the IPA Seminar on NEPAD in Nairobi, on 28-29 April 2006, who provided this clarification

the projects examined in this study have either been promoted by individual member Governments or been facilitated by the RECs or sponsored under their auspices.

The summary is organized around five main issues that are critical to the private sector's involvement in the implementation of the New Partnership for Africa's Development (NEPAD). These are: (a) private sector engagement in NEPAD's priority programmes; (b) resource mobilization; (c) building partnerships for implementation of the programmes/ projects; (d) the enabling environment; and (e) international support and lessons learned.

## **Private sector engagement in NEPAD priority programmes**

In West Africa, NEPAD priority projects encompass the areas of transport, energy, telecommunications and integrated water management/sanitation. So far, the private sector has been involved in: (a) the West African Gas Pipeline (WAGP) project, one of the NEPAD flagship energy sector projects in the Economic Community of West African States (ECOWAS), which has reached the stage of laying the foundation for construction and is the only NEPAD priority project that has reached such an advanced stage; and (b) the West African Power Pool (WAPP) project, for which a project document has been developed. The telecommunications sector is another major infrastructure area where action under the auspices of the NEPAD is to be initiated. The secretariat of the Economic Community of West African States (ECOWAS) has conducted a study on the harmonization of sector policies and the regulatory framework as part of its efforts to revamp the telecom industry. All in all, however, a review of the various private sector engagements indicates that the scope of participation of the African private sector firms in West Africa thus far has been very limited, owing in part to lack of funds and the unfavourable policy environment.

In Southern Africa, none of the Short-term Action Plan (STAP) projects has reached completion stage. The private sector has contributed to the development of the South Africa/Mozambique natural gas project. Unfortunately, so far there has been no private sector involvement in the Grand Inga hydropower project (Inga III), one of the most significant projects on the Short-term Action Plan (STAP) list. In the Information and Communication (ICT) sector, the involvement of private sector partners has been noteworthy in an e-Africa Commission priority project: the e-schools initiative. The restructuring of the Mozambique Ports and Railway Company, although not a NEPAD priority project, illustrates effective restructuring of a public enterprise in conjunction with the creation of public-private partnerships. While there are some good examples of private sector participation in infrastructure projects these were not NEPAD related. Further efforts to engage the private sector are needed. The experience so far shows that the private sector is more likely to become involved in smaller-sized projects or projects where the scope and mechanism for private sector involvement have been clearly defined.

In East Africa, the involvement of the private sector in all NEPAD – Short-term Action Plan (STAP) regional projects is envisaged. Several regional projects are in the early stages of preparation of feasibility studies. At the time of this study, only two NEPAD regional projects in the field of energy (namely, the extension of the Kenya- Uganda oil pipeline and Zambia-United Republic of Tanzania-Kenya interconnectivity) and one in ICT (namely the EASSy project) are under early stages of implementation involving the private sector. Health and education are NEPAD priority areas that have been given some kind of regional dimension, and the level of private sector participation in these sectors in East African countries has been growing. In

agriculture, the recent NEPAD Comprehensive Africa Agriculture Development Programme (CAADP) East African implementation planning workshop, held in United Republic of Tanzania in January 2005, has provided the impetus for the initiation of the implementation of the Comprehensive Programme at the regional level.

## **Resource mobilization**

In all three subregions, one of the greatest challenges confronting the implementation of the New Partnership for Africa's Development (NEPAD) is lack of adequate financial resources. The international capital market is not a major source of funding for NEPAD implementation and the capital markets of the countries in all three subregions are too underdeveloped (with the exception of South Africa's) to serve as a funding source. Rather, the use of grants has been the dominant mode of raising funds for the implementation of NEPAD projects.

In West Africa, NEPAD projects depend largely on donor funds for project preparation and risk guarantee. For example, equity investment and debt have been sources of funds for NEPAD projects, most notably the West African Gas Pipeline (WAGP) project. A proposal for the establishment of trust funds with a management board as a mechanism for raising funds for the development and implementation of infrastructure has been widely canvassed by the regional economic communities (RECs) because it can provide a pool of funds from which they can draw. However, as at the time of this study, donors have yet to buy into the idea.

In Southern Africa, the role of the capital market has been limited in the NEPAD priority projects. Grant aid has been used largely to help prepare feasibility and pre-feasibility studies intended to facilitate future private sector involvement in Short-term Action Plan (STAP) and non-STAP infrastructure projects. In the Southern African region, Development Bank of Southern Africa and the World Bank Group remain major sources of loan finance. In addition, the Agence Française de Développement and the Development Bank of Southern Africa (DBSA) have together established an Infrastructure Project Preparation Facility, which makes resources available for preparation of infrastructure projects that meet NEPAD criteria and are approaching implementation. This fund has been used for the preparation of the East African Submarine Cable System (EASSy) project of the Short-term Action Plan (STAP).

East African capital markets are in a very embryonic stage, and the major sources of financing for regional priority projects in East Africa are the Governments of East African countries and multilateral institutions. In particular, the World Bank, the African Development Bank (AfDB) and the Development Bank of Southern Africa (DBSA) are expected to provide funding for NEPAD regional priority projects in East Africa amounting to US\$ 3.237 billion. The East African Development Bank (EADB) is already playing an important role in the financing of projects in East Africa with a regional dimension or those falling within the category of NEPAD regional priority projects. About 80 per cent of the financing is directed towards the private sector, and the Bank has also been playing a major role in the mobilization of investment funds from East Africa's capital market through issues of Bank bonds.

## **Building Partnerships for implementation of the programmes/projects**

In West Africa, the extensive involvement of Governments in the productive sector had historically stifled the growth of the private sector, rendering the development of an effective policy framework for public-private partnerships (PPPs) in the region a challenge. This situation is changing, as PPPs have been formed to implement NEPAD projects in West Africa, as evidenced in the implementation of the West African Gas Pipeline (WAGP). Furthermore, the West African Power Tool (WAPP) project has been adopted as a NEPAD project and has great potential for developing as a PPP, although no mechanism for the creation of a PPP had been devised at the time of this study.

In Southern Africa, the Mozambique/South Africa gas pipeline project entailed the creation of a PPP joint venture drawing inspiration from the NEPAD process. While the NEPAD process obviously promotes PPPs, the actual brokering of specific partnerships is largely dependent on such bodies as the RECs and the e-Africa Commission. The e-Africa Commission has played a major role, for example, as a broker of NEPAD, in using the private sector as a primary driving force for project delivery. The Southern Africa Development Community (SADC) and the Common Market for Eastern and Southern African (COMESA) have developed partnerships with parastatals in the case of COMTEL, the SADC Regional Information Infrastructure Project (SRII) and Grand Inga, and are planning in the future to expand the partnerships to include the private sector.

There are two major PPP-based NEPAD priority regional projects that are currently undergoing implementation in East Africa. These are the EASSy project and the Kenya–Uganda oil pipeline which both include various African government ministries and offices as well as international and African private sector companies. These two projects in fact mark the beginning of an effort to encourage the private sector in East Africa to come on board and engage in NEPAD regional priority projects. However, the challenge is to move from ad hoc arrangements to a clear definition of the roles of each stakeholder and to create a coordination mechanism for PPPs.

### **Enabling environment**

By aiming at improving the quality of macroeconomic management and governance, NEPAD contributes in varying degrees to enhancing the enabling environment for private sector participation in economy. The NEPAD process emphasizes, the importance of improved governance at all levels, including particularly through the African Peer Review Mechanism (APRM).

In West Africa, one barrier to active private sector investment in infrastructure, including NEPAD projects, is the lack of an appropriate policy and project environment. There are problems of the lack of a regulatory framework for private sector engagement and the high cost of doing business.

In Southern Africa, it does not appear that there exist clearly identifiable channels for use by the private sector in engaging in NEPAD projects including PPP formation. Besides, there are capacity problems of RECs, which primarily engage with the private sector. In addition to

problems directly related to the NEPAD process, there remain other challenges related to private sector activity in Africa, whether in or out of the NEPAD framework, such as the lack of financial resources, governance and capacity problems, the serious risk of currency fluctuation, the lack of understanding of the NEPAD process and the lack of coordination. In order to improve the enabling environment linked to the NEPAD process, the NEPAD secretariat is promoting the concept of the Investment Climate Facility (ICF).

In East Africa, the critical private sector constraints on the implementation of NEPAD regional projects for East Africa still centre on the lack of a legal and regulatory framework, financial resources, and technical expertise, as well as inadequate energy, transport and communication infrastructure which hamper private sector's investment. Moreover, the multiplicity of RECs, as well as their lack of capacity, sets a limit to a coherent and coordinated process of support.

## **International support and lessons learned**

The NEPAD enjoys the substantial support of the international community. Donor support and foreign capital play an important role in all three subregions. The WAGP offers a concrete example of how the support and involvement of donors and foreign capital can promote private sector activities and PPPs.

Moreover, the role of the World Bank as an investment risk guarantor in some of West Africa's subregional projects has been crucial. Donor countries and agencies helped market the project and build the confidence therein of other would-be investors.

In addition to the World Bank, other multilateral and bilateral institutions such as the International Monetary Fund (IMF), the European Union (EU) and the United States Agency for International Development (USAID) have provided support in the areas of private capital flows and loans, while the United Nations Industrial Development Organization (UNIDO) and the United Nations Development Programme (UNDP) have initiated a technical cooperation programme on private sector development.

The lessons learned thus far from the private sector's involvement in the NEPAD include the need to: (a) place more emphasis on PPPs in agriculture; (b) begin with joint PPPs in the formulation of the PPP policy itself; (c) foster the domestic private sector's mobilization of its own resources and increase its sense of ownership for NEPAD projects; (d) mobilize more regional financial resources to reduce reliance on foreign donors; and (e) improve the legal and regulatory frameworks for NEPAD regional projects.

At the same time, it is essential that measures be undertaken that specifically address the following challenges: (a) providing risk guarantee for foreign investments in infrastructure and other businesses and harmonizing different legal and regulatory frameworks in the subregion; (b) involving small and medium-sized firms in the NEPAD implementation process; (c) developing a more sophisticated and better-structured NEPAD private sector programme, as well as clear channels for interaction on all levels, including particularly, the channels for effective interaction between private sector and public entities supporting NEPAD programmes; (d) developing mechanisms to facilitate access to venture capital and guarantees for investments made, (e) improving the capacity of RECs, given their primary responsibility for NEPAD delivery and

engagement of the private sector as partners; and (f) improving analysis of issues relating to project implementation, including stakeholder involvement and PPP coordinates.

Effective policies and strategies are now necessary in order for African countries to strengthen active involvement of the private sector in the implementation of the NEPAD. Foremost among such policies should be ones that effectively address all the challenges identified in this publication and build on the lessons learned from the implementation process of the NEPAD and the participation of the private sector therein.

## **II. West Africa**

### **Introduction**

The present chapter evaluates the extent to which the private sector has contributed to the implementation of the priority projects of the NEPAD in West Africa, with particular emphasis on projects of a subregional nature. Within the context of the subregional economic communities, that is to say the Economic Community of West African States (ECOWAS) and the West African Economic and Monetary Union (WAEMU), it examines the nature and scope of the activities reflecting the private sector's engagement in the implementation of NEPAD projects. It analyses the mobilization of resources for NEPAD projects, and the development of PPPs, examines the policy and project environment, and concludes with a discussion of international support and lessons learned.

That the main focus of the present study is infrastructure, reflects the centrality of infrastructure in not only deepening integration in Africa, but also fostering its development and the competitiveness of its economy globally, which will hopefully help actualize the objectives of the NEPAD initiative. However, references will also be made to NEPAD projects other than those involving infrastructure.

### ***Subregional context, the NEPAD initiative and the ECOWAS***

The two West Africa RECs mentioned above have the similar objectives of creating a common market, securing peace and prosperity, and deepening integration among member states. The ECOWAS was established in May 1975 by the Treaty of Lagos, a revised version of which was signed in July 1993. Its secretariat is in Abuja. The WAEMU was founded in 1994 and is administered by its Commission in Ouagadougou. The long-term plan of the political leaders of the subregion is for both RECs to be fused into one organization in future as part of the strategy to deepen integration in Africa, especially as the African Union has recognized ECOWAS as the subregional focal point for the NEPAD in West Africa. The ECOWAS is composed of 15 countries, 8 of which are WEAMU countries, namely - Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, the Niger, Senegal and Togo. The remaining seven countries are Cape Verde, the Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone.

The NEPAD's core programmes of deepening integration, good governance, development of infrastructure and conflict prevention are not only congruent with the programmes of the ECOWAS, but anchored in the REC as the NEPAD's focal point and implementing agency in the subregion. It is within this framework that the Heads of State of the ECOWAS held a meeting in Yamoussoukro in May 2002 on the implementation of the NEPAD in West Africa at which they adopted the Yamoussoukro Declaration. This is distinct from the declaration adopted at the meeting of African ministers of aviation held in Yamoussoukro in June 2002, on the liberalization of access to air transportation markets in Africa.

The Yamoussoukro Declaration of 2002 formally launched the NEPAD at the subregional level, designating the ECOWAS as a coordinator and monitor of the implementation of the new regional agenda and its programmes in West Africa, with full cooperation from the WAEMU. Furthermore, it was agreed at that meeting that the ECOWAS would be provided with the appropriate resources to perform its newly assigned duties. A NEPAD focal point within the Community's executive secretariat was created as well. Each Member State was requested to

establish a NEPAD national focal point and institute an ad-hoc inter-ministerial committee to supervise implementation.

Despite the adoption of the 2002 Yamoussoukro Declaration, there is still controversy at the ECOWAS and the WAEMU over the yardstick used in designating NEPAD projects in West Africa, even more so as these projects pre-date the regional agenda. There are subregional projects, particularly on infrastructure in the areas of transport, energy, water and telecommunication, that pre-date the NEPAD, but that do fall within the purview of programmes of the NEPAD and the RECs. The NEPAD decided to prioritize these projects for development at the subregional level, and they are referred to as NEPAD projects in this study. The selection of projects was guided by criteria that specified: (a) projects that were at an advanced stage of preparation and that could be fast-tracked; (b) projects that supported both a regional approach to infrastructure provision and regional integration; (c) projects that had stalled for political reasons and where the NEPAD intervention could be expected to make a difference; and (d) initiatives that offered solutions to regional policy, regulatory or institutional constraints on regional infrastructure activities.

On the basis of the guidelines indicated above, the NEPAD requested the AfDB to produce top-priority projects (20 for Africa) for a STAP. These are linked to and complemented by a medium-to-long term action programme which will require more time to prepare and implement. These top-priority projects under the STAP can take any of the following forms: facilitation, studies, capacity-building, and investment projects. Funding is project-specific. It is the STAP projects and any other projects at the subregional level that are NEPAD-related that will be evaluated in the context of the contribution to their implementation of the private sector and public-private partnership.

### ***Nature and scope of private sector involvement in the implementation of NEPAD projects***

The nature and scope of the involvement of the private sector in any projects (not least of all, NEPAD projects) are largely guided by the level of returns on investment, the extent of the guarantee against political risks by national Governments, a considerable commitment to funding by local public and private capitals, and the bankability of the project.

In West Africa, the NEPAD priority projects are basically on: (a) transport: air, roads, railways and sea; (b) energy: electricity-generation largely from hydro and thermal sources; (c) telecommunications: telephone lines and information management; and (d) integrated water management/sanitation: hydro and irrigation. Quite often, much emphasis has been placed on private sector implementation of these NEPAD projects, but with limited understanding of some of the critical issues involved.

The unsettled questions in respect of the implementation of NEPAD projects will first have to be resolved in order for a deepened understanding to be achieved of the nature of participation of the private sector- local or foreign - in the implementation of NEPAD programmes.

The STAP projects are classified as: (a) facilitation : which entails helping to implement decisions reached by the RECs and the AfDB on a project in cases where the size of financial commitments will be an impediment to achieving objectives; (b) studies basically on the

feasibility of projects; (c) capacity-building, which entails equipping the RECs and their institutions, and regional organizations with the right human skills and consultants to enable them to perform their assigned duties; and (d) investment projects which entail decisions to commit funds and begin implementation (see table 1 for details).

The private sector can participate in any of the project types at various levels. This will entail the provision of funds for hiring consultants and project development, but it would be inappropriate to talk of implementation at such levels. Consultations at the ECOWAS, the WAEMU and the AfDB have addressed the misconception. To understand the extent of private sector involvement in the implementation of the NEPAD, it is helpful to explain that there are several distinct phases that a project has to pass through : (a) project conception; (b) feasibility studies; (c) definitional phase (which comprises drawing commercial and legal frameworks and planning, concluding the legal agreements, environmental impact assessment, and the financial investment decision (FID)); (d) construction (which means implementation); and (e) financial closure, when the project is completed. While the private sector can participate in any of these phases, in each project, implementation is understood strictly to signify involvement in, and completion of, the construction phase.

Typically, the private sector can be involved in any of these stages through consultants, legal advisers, financiers or builders of the project. Strictly speaking, it is the stage of construction that is regarded as encompassing implementation because it is at this stage that project's completion is determined. By this definition, any project that did not achieve the FID has not reached the implementation phase and is therefore still on the drawing board.

So far, one of the NEPAD flagship projects in the ECOWAS in the energy sector, the West African Gas Pipeline had reached the stage of implementation at the time of the study. The WAPP has already generated a project document which is currently being studied by the World Bank. If the assessment of the document by the World Bank is favourable, the funding and marketing processes will begin. Although considerable progress has been recorded in these projects, mobilizing funds from UN organizations, the World Bank Group, the AfDB, the Arab Development Bank, the European Commission (EC), donors and other private foreign development banks remains the major constraint. Some details on these projects will give useful insights into the nature and scope of participation by the local and foreign private sectors.

As the facilitator of NEPAD projects in the subregion, the ECOWAS has made a considerable effort to have them implemented. In the energy sector, the REC adopted the Energy Protocol on 31 January, 2003. One of the gains from the Protocol is the availability to local and foreign private firms interested in the subregion's energy sector of basic data, guidelines and the conditions for investment.<sup>2</sup> The WAGP is a private sector initiative, while the WAPP is a facilitation project. Although the two projects began first as ECOWAS projects, they are now under the umbrella of STAP projects of the NEPAD in the subregion.

The WAGP project began in 1995. The project developers are Chevron/Texaco and Shell, which represent the international private sector. The public institutions are: (a) the Nigerian National Petroleum Corporation (NNPC), Nigeria; (b) the Volta River Authority (VRA), Ghana; (c) SOBEGAZ, Benin; and (d) SOTOGAZ, Togo. The last two are public oil corporations of Benin and Togo, respectively. The 678 kilometre long pipeline project was valued at US\$ 400 million, and the equity structure of the WAGP Corporation, the transporter of the gas, is as

---

<sup>2</sup> See ECOWAS Energy Protocol A/P4/1/03 (secretariat ECOWAS: Abuja, January 2003).

**Table 1. Short-term action plan on infrastructure in the ECOWAS**

<i>Project</i>	<i>Sector</i>	<i>Type</i>	<i>Status</i>	<i>Category</i>	<i>Priority</i>
Air transport liberalisation for West and Central Africa	Air Transport	Facilitation	STAP	Continental	High
West African Power Pool (WAPP)	Energy	Facilitation	STAP	REC-ECOWAS	High
West African Gas Pipeline (WAGP)	Energy	Investment	STAP	Private initiative	High
Information and communication technologies (ICT) and regulatory framework at regional level	ICT	Facilitation	STAP	REC	Medium
SAT-3/WASC/SAFE utilization to improve interconnectivity	ICT	Investment	STAP	Private initiative	Low
Rail inter-connection feasibility study for ECOWAS countries	Rail transport	Study	STAP	REC	High
Road transport facilitation action plan	Road transport	Facilitation	STAP	REC	High
Action plan for integrated water management in West Africa	Water	Study	STAP	REC	Low

(*Sources: African Development Bank/NEPAD, Infrastructure Short-Term Action Plan (STAP): Review of Implementation, Progress and the Way Forward, Vol. 1 (Tunis, AfDB, May 2003); and AfDB/ECOWAS, NEPAD STAP: Infrastructure: Summary for Discussions with ECOWAS (Tunis/Abuja, AfDB/ECOWAS, March 2003).*)

follows: Chevron/Texaco holds 36.7 per cent; NNPC, 25 per cent; Shell, 18 per cent; VRA, 16.3 per cent; and Société Béninoise de Gaz (SOBEGAZ) and Société Togolaise de Gaz (SOTOGAZ) hold 2 per cent each. The WAGP Corporation is the regulatory body monitoring the project. The project facilitator is the Economic Community for West African States (ECOWAS), and the technical assistance in terms of funding of the first three phases of the project development was provided by the United States Agency for International Development (USAID); and its major consultant/adviser has been NEXANT based in San Francisco, California, USA. Findings from the ECOWAS and the USAID show that about US\$ 74 million was spent on project development between September 1995 and December 2004, with the USAID having been the major provider of the funds, with minimal contributions from the community.<sup>3</sup>

Another major infrastructure project of the NEPAD in West Africa is the West African Power Pool (WAPP). Developed under the auspices of the ECOWAS, the WAPP was set up in 1999 for subregional electricity exchanges and marketing. It is aimed at integrating national power grids of five coastal countries (Benin, Côte d'Ivoire, Ghana, Nigeria and Togo) and three landlocked countries (Burkina Faso, Mali and the Niger). It also provides a framework for promoting the realization of regional investment, in terms of both energy production and interconnection and grid systems, and for setting a general regulatory framework for regional energy exchanges. In spite of all this, there are still fundamental problems like financing, weak institutional capacity, and reluctance of private sector firms to invest in infrastructure. The key role of the NEPAD in this project is in facilitating cooperation and the conclusion of agreements, monitoring the implementation of the WAPP project, and helping put into place the necessary energy institutions, frameworks, structures, policies and strategies to further the development of the energy sector.

Historically, the government had provided public utilities, with the foreign private firms hired as contractors to build and maintain infrastructure. This explains, in part, why there was very little or no local private sector participation in the provision of roads, electricity, airports, rail networks and seaports.

Not surprisingly, the major actors participating in the NEPAD projects are the World Bank, the USAID, the AfDB, the West African Development Bank (WADB) and the ECOWAS Bank for Investment and Development (EBID); and the Governments of the member States of the ECOWAS/WAEMU. Based on the consultations at the RECs, the total cost of the WAPP project has been estimated at US\$ 13 billion. Of this amount, the World Bank is expected to provide US\$ 151 million including 15 per cent contingencies, while the AfDB and the WADB will contribute US\$ 41 million. Other donors that have supported the project so far are Japan (US\$ 829,500 to finance project preparation) and the French Cooperation (€1.1 million for institutional support to the ECOWAS).<sup>4</sup> Although the USAID had provided financial support for overall legal framework studies as well as technical planning and modelling of the physical networks and interconnections, no figure was given on its actual financial commitments and how much is expected from the donor for other components of the projects. The WAPP project is phased into two stages: (a) project development and (b) project implementation.

---

<sup>3</sup> See the Treaty and International project Agreement between West African Gas Pipeline (WAGP) Benin, Ghana, Nigeria and Togo, signed on 23 May, 2003, p. 33. Additional details were obtained from an interview with Alain Rosier, technical adviser on the WAGP, held on 8 December, 2004 in Abuja.

<sup>4</sup> See Final Report of the Sixth Meeting of the Steering Committee on the West African Power Pool (Energy Ministers), Dakar, 27 September – 5 October 2004, pp. 1 – 28.

The West African Power Market Development Project is the first phase and under this is the preparatory work required for the execution of the priority interconnection projects:

1. 330 KV Volta (Ghana) – Mome-Hoagou (Togo) – Sakété (Benin) transmission line
2. 225 KV Ferkessedougou (Côte d'Ivoire) - Sikasso (Mali) transmission line
3. 150 KV Sikasso - Koutiala (Mali) transmission line project
4. 330 KV Aboadze - Prestea (Ghana) transmission project

The feasibility studies on the above-cited projects have been concluded. The ECOWAS secretariat, in collaboration with the concerned national utilities and energy ministries has undertaken a line route survey and updating of the feasibility study, including preparing preliminary and detailed design, and elaborating on bidding documents and environmental and social impact assessments of the projects. The above-cited activities are being financed with US\$ 800,000 grant from the AfDB, the Development Bank of Southern Africa and funds from WADB.<sup>5</sup> The second stage, which is implementation, is yet to get underway.

The telecommunications sector is another major infrastructure area that has much potential through the NEPAD's actions to upgrade telecom equipment and harmonize policy. During the 1970s, the ICT sector across West Africa, with a tele-density of 2 per cent, had been dominated by the Governments. However, in the 1980s when the majority of the countries in the subregion embraced one form of economic/structural adjustment programme or another, the Governments embarked on a reform of the telecommunications sector with the national telecommunications corporation either commercialised or privatized. As part of its efforts to revamp the telecommunications industry, the ECOWAS secretariat had obtained, under the Private Participation in Infrastructure Advisory Facility (PPIAF), a grant of US\$ 279,000 with which it conducted a study on the harmonization of sector policies and the regulatory framework. The outcome of the study will form the basis for the formulation of a common telecommunications framework which, hopefully, will be competitive, open and conducive to private sector participation. Several privately owned mobile telecommunication firms are now operating in West Africa; but there is no subregional framework guiding their operations. The framework currently being developed will be adopted by the Heads of State and Government of the ECOWAS in December 2007. It is only then that the telecommunications industry in West Africa will be taken seriously in terms of building public-private partnership (PPP) in the sector and increasing the tele-density to 10 per cent by 2010. However, some progress has been recorded, particularly in upgrading the equipment in the capitals of ECOWAS/WAEMU countries, thereby making them more accessible than before.

In the transport sector, there is regular and close contact between the AfDB's NEPAD Infrastructure Unit and the ECOWAS Infrastructure Team, as evidenced in the grant by the AfDB for the funding of the study of the corridor project within the transport sector: Programme Routier 1 (PR1). Considerable progress has been made on facilitation in terms of economic and technical studies for the construction of the Boke-Quebo 206-kilometre road; financing of the Ghana-Togo road (Akatsi-Dzodze-Noepe); upgrading of the 31-kilometre road for which the AfDB provided US\$ 18.6 million; and the Burkina Faso-Niger road (Dori-Tera road study) for which the WADB provided US\$ 1 million. The WAEMU-Ghana Road Programme 1: Mali-Burkina Faso-Ghana will cost US\$ 100.7 million, for which the AfDB will finance the Ghana section, and the WADB will fund the Mali-Burkina end.<sup>6</sup> There was no involvement of the

---

<sup>5</sup> Ibid.

<sup>6</sup> Abstracted from African Development Bank/NEPAD *"Infrastructure Short-Term Action Plan (STAP): Review of*

private sector or that of a PPP on these projects because the provision of public utilities has been the responsibility of the Governments.

The Yamoussoukro Declaration on the Liberalization of Access to Air Transport Market in Africa is the major platform for air transport under the STAP projects for the NEPAD. In this context, West and Central African countries - 23 in all - decided to collaborate to implement the Declaration. This is being coordinated from the ECOWAS secretariat in Abuja. According to the Community, if all had gone well, the air transport project would have been the third flagship project of the NEPAD in West Africa, after the WAGP and WAPP projects, especially as the World Bank indicated interest in its development. However, there has been little movement in respect of this project, as there has been no progress in mobilizing financial and human resources, pressurizing donors to support and commit funds to the projects, and helping to develop a PPP.

Regarding the rail sector, the AfDB provided US\$ 3.7 million for a feasibility study on rail interconnection within the countries of the ECOWAS.<sup>7</sup> In respect of the rail network corridor, the secretariat of the WAEMU is about to undertake a study on the Abidjan-Bobo-Ouagadougou-Niamey-Paraku-Cotonou corridor, which will link Paraku to Niamey-Ouagadougou-Bobo-Abidjan.

In response to the growing problem of dilapidated intra-country roads and largely un-tarred inter-State roads among member States of the WAEMU, which has hindered inter-State commerce, the secretariat of the WAEMU contracted experts to conduct studies on road infrastructure and facilitation issues. This undertaking is aimed at developing safer roads, adopting the corridor approach for interconnectivity, and promoting one-stop borders within the countries of WAEMU. There are designated community roads such as the Burkina Faso-Niger road, with feeders, which the AfDB will fund. In respect of the facilitation of road transport, the construction of a joint border post between Burkina Faso and Togo is the only major project. Its construction began in September 2004 and will be completed in April 2005. Based on the consultations at the ECOWAS, the estimated cost of the border post is 1.8 billion CFA francs (CFAF), all raised by the ECOWAS; and the harmonization of legal, police, customs, computer and scanner, and immigration issues had been concluded as of 4 December, 2004. With a planned revenue target of CFA 10 million per annum, the joint border post will, upon completion in 2005, be managed by a private sector firm including maintenance and collection of tariffs.<sup>8</sup> In that way, a PPP will be encouraged in infrastructure development.

The WADB and the AfDB had commissioned a feasibility study on the Lomé-Cotonou-Ouagadougou road through Ghana, and indicated their readiness to commit funds for the construction of the connection; since the linkage would shorten the distance and haulage of say, petrol, from Lomé and Cotonou to Burkina Faso.

---

*Implementation Progress and the Way Forward*". Vol. 1, (AfDB, Tunis May 2003); "Summary of the Round-table of Donors on Road Transport and Infrastructures of WAEMU Member States" (WAEMU Commission, September 2001); and Final Report of the Sixth Meeting of the Steering Committee, WAPP, op. cit.

<sup>7</sup> For details, see Declaration of Yamoussoukro on a new African Air Transport Policy (Addis Ababa, ECA, October, 1988); Decision Relating to the Implementation of the Yamoussoukro Declaration concerning the Liberalization of Access to Air Transport Markets in Africa (ECA/RCID/CM.CIVAC/99/ECAT Annex I: Addis Ababa, June 2002); and "Infrastructure Short-Term Action Plan".

<sup>8</sup> Based on an interview with Augustine Karanga, Head, Road Transport Unit, The Commission, WAEMU, Ouagadougou, 3 December, 2004.

Overall, the scope of participation of the African private sector as well as of the development and investment banks of the RECs is very limited, owing in part to lack of funds and to the policy environment. For its part, the World Bank has indicated interest in the funding of infrastructure, given its mandate as a development bank. The Bank has also shown its willingness to provide support in the funding of the infrastructure projects as a guarantor against political risks, when a project is bankable. Providing political risk guarantee for such projects in the past has been an important contribution of the Bank.

The World Bank's indemnity guarantee will be converted into an automatic loan for Ghana under the West African Gas Pipeline (WAGP), should the Government of Ghana fail to pay N-Gas. However, while the guarantee against political risk is important for a PPP, the perception of the RECs of such a guarantee by the World Bank is that instead of making the economies of the West African countries competitive, it will cause them to go deeper into debt. The majority of other donors like the ADF, the European Development Fund (EDF) and the USAID prefer to provide support at the preparatory stages of the projects, by providing financial assistance for hiring consultants to undertake project conception, structuring, commercial/legal frameworks and environment and social impact assessments. The mobilization of financial and human resources for NEPAD projects remains a major challenge.

## **Resource mobilization**

Resource mobilization for the implementation of NEPAD priority projects entails the acquisition of both technical skills and financial resources. There are several sources and methods of financing for project development and implementation. These are self-financing, donations, retained earnings, equity, debt, leasing, suppliers' credit, subscribers' credit, grants, trust funds, and private sector participation in concessions on the basis of PPP like build-operate-transfer (BOT) and build-own-operate (BOO).

Self-financing means that member States of the RECs should establish mechanisms and strategies for mobilizing funds for project development and implementation -- all the more so, if the ownership of the NEPAD initiative is to reside with African Governments and institutions. Though the AfDB has helped in building institutional capacity, across the RECs, the few consultants hired are mostly for project development. In the ECOWAS, it has been observed that there is one consultant for the WAGP, and two for the WAPP, all funded by the United States Agency for International Development (USAID); and one consultant on road transport in the West African Economic and Monetary Union (WAEMU), paid by the Commission. In essence, the RECs still lack the institutional capacity, the skilled staff, and the framework needed to undertake the mobilization of human and financial resources required for the delivery of NEPAD programmes in the subregion. The RECs are also faced with inadequate financial resources, a situation caused largely by non-payment of levies by member States; lack of a constitutional provision that permits the ECOWAS and the WAEMU through their financial arms, namely; the EBID and the WADB, to raise funds from the capital market; and absence of a pool of funds from donors from which they can secure funds for project development and implementation. As a consequence, the majority of the projects reviewed had been funded by donor agencies.

Equity investment means that the project developers will commit funds on an agreed ratio for a project, as in the case of the WAGP, which is a private initiative. It could entail establishing a company established with an equity structure and the shares paid up, or placing its shares in the stock market for subscription in the hope of raising funds for project development and

implementation. Debt, as a source of financing for project start-up, could take the form of outright borrowing from financial institutions and donors; or it could entail the mechanism of an indemnity agreement, in which the fund would be transformed into a loan. The latter approach will be used by the World Bank for the WAGP; the Bank's US\$ 125 million guarantee will become a loan to Ghana in case it defaults. So far, equity investment and advancement of debt have been sources of funds for NEPAD projects (not least of all, the WAGP project).

The establishment of trust funds with a management board, as a mechanism for raising funds for the development and implementation of infrastructure, has been widely canvassed by the RECs, because it can provide a pool of funds from which they can draw. The donors have yet to buy into the strategy at the time of this study. Furthermore, foreign investors who obtain funds from the international capital markets are reluctant to invest such funds in subregional infrastructure, which are not core business areas and therefore largely unattractive.

Consultations with the RECs, the WADB, and the AfDB revealed that the lack of private sector funding of infrastructure, including the NEPAD-STAP projects, had stemmed from the political instability in some of the countries in the region, as well as ineffective regulatory systems. It was also learned at those consultations that international capital markets had not been a main source of funds for implementing NEPAD projects because the majority of the foreign private firms that could tap such funds were not attracted by the infrastructure sector for reasons already advanced. Rather, the use of grants constituted the dominant mode of raising funds for financing NEPAD projects, with most of the grants advanced by African development banks like the AfDB, the EBID and the WADB. Multilateral financial institutions and donor agencies such as the World Bank, the USAID, the ADF, the EDF and the Canadian International Development Agency (CIDA) have also provided grants for project development and indemnity funds against political risk. However, the WADB has, on account of its equity structure, gradually started raising funds from international sources and processing loan agreements with the World Bank, an approach that constitutes a kind of guarantee against political risk for the emerging medium-sized local private firms in WAEMU countries.

The WADB's equity structure accounts for its rising profile. It composes two categories: (a) category A which consists of the 8 WAEMU countries with 6 per cent each, and the central bank of WAEMU controlling 47.98 per cent; and (b) category B which consists of France with 1.9 per cent, and Belgium, Germany, the EIB, the AfDB, China and India sharing the remainder. This equity structure contrasts with that of the EBID, the WADB's counterpart in the ECOWAS, whose equity is dominated by the Governments of the member States and is still unpaid, partly explaining its financial weakness. Country-to-country lending predated the NEPAD, although it is becoming a source for infrastructure financing.

Another source of funding of infrastructure is private sector participation in concessions on the basis of a PPP like BOT and BOO. Both methods would further the growth of PPPs, but discussions with some private and public sector firms in Ouagadougou and Abuja and the investment unit of the AfDB, suggest that the 'transfer' clause makes BOT unattractive; BOO will be preferred by the private sector as it holds prospects for revenues accruing from maintenance. Neither BOT nor BOO had been used for financing NEPAD projects in West Africa at the time of the study.

There also exists the NEPAD Infrastructure Project Preparation Facility (IPPF), a multi-donor facility, which is aimed at mobilizing the technical and financial resources needed to strengthen the capacity of African institutions to formulate viable projects and programmes that

can attract public and private investments. Managed by the AfDB, it was initially endowed with Can \$ 10 million by the Government of Canada. The facility is untied and currently being developed into a multi-donor facility, with a maximum grant of US\$ 500,000. The beneficiaries are the RECs, specialized infrastructure development agencies, Governments of at least two countries involved in the projects, and PPPs in infrastructure. There were no indications that the RECs or the specialized infrastructure development agencies and associations, among others, had tapped into this facility at the time this study was conducted.

Overall, NEPAD projects depend largely on funds from donors. This is because the donor agencies are able to offer loans to host African governments and the RECs at concessional rates and with long maturities. The funds, however, are conditional on the adoption of social and economic reforms, which cause delays in project implementation. It is noted that the thinking of the RECs and the AfDB is that the donor agencies as well as the Bretton Woods institutions need to review their internal rules and strategies to accelerate the pace of infrastructure development and the priorities and objectives of the recipient African countries as well as the larger NEPAD initiative. One of the strategies for overcoming this problem is the construction of PPPs.

## **Building partnerships for the implementation of the programmes/projects**

Historically, the extensive involvement of the State in the productive sector stifled the growth of the private sector and resulted in the neglect of the importance of PPP in implementing programmes. As such, the need for an appropriate policy framework for a PPP in Africa becomes a challenge for public policy. The concept of PPP is not new, but it is a recent phenomenon in the discourses on Africa's development, especially as the public sector is facing increasing budget and financial constraints. Granted that the PPP is not really the panacea for Africa's development crisis, it can nonetheless go a long way towards facilitating programme implementation involving the private sector and the public sector.

Not surprisingly, private firms - local and foreign - have placed a high premium on good governance, peace and security, appropriate policy and project environments, which provide for the enforcement of rights and obligations of all parties, appropriate government guarantees, and an adequate knowledge base and the skills required for the development of PPP, etc., as conditions for investment in infrastructure in West Africa.

As a leading development partner for NEPAD projects, the AfDB helped create the African Business Roundtable (ABR) to assist in improving the poor policy environment, raise and strengthen the organized local African business class capable of interfacing with the public sector in the continent's development; and was able to source for funds from the World Bank, IMF, EU, and international capital markets. Moreover, the ABR could intervene in the development of infrastructure, deepen regional integration and invest in the development of the continent, as well as be a strong advocate for PPP in Africa.

## **Concrete case(s) of PPP participation in NEPAD projects**

PPPs have been formed to participate in some of the NEPAD projects in West Africa. One concrete example is the WAGP. The other project with a potential for PPP is the WAPP. As previously noted, the WAGP project is valued at US\$ 400 million. The equity structure of the WAGP Corporation by percentage is as follows: Chevron/Texaco holds 36.7 per cent; NNPC 25 per cent; Shell 18 per cent; VRA 16.3 per cent; and SOBEGAZ and SOTOGAZ hold 2 per cent each. N-GAS (made up of Chevron/Texaco, NNPC and Shell) is the supplier of the natural gas from the Escravos-Lagos gas pipeline, the main source being the Escravos gas field operated by Chevron in Delta State, in the Niger Delta region of Nigeria. N-Gas is also the seller of the gas. (see Table 2)

The company, WAGP Corporation (consisting of Chevron and Texaco, NNPC, Shell and VRA), is the transporter of the gas. The buyer of the gas is the Government of Ghana, with its VRA as the consumer in terms of firing the turbines with the gas. The International Project Agreement was signed on 22 May, 2003 between WAGP Company, N-Gas and four countries, Benin, Ghana, Nigeria and Togo. The Government Concerned and Support Agreement was signed between N-Gas and the Government of Ghana. The Indemnity Agreement between N-Gas and the Government of Ghana for the sale of gas to the VRA, should the Government of Ghana fail to pay N-Gas, is guaranteed by the World Bank's Multilateral Investment Guarantee Agency (MIGA) and its International Development Association (IDA) to the tune of US\$ 75 million for 20 years, and US\$ 50 million for 22 years, respectively, bringing the cost of the project to US\$ 525 million.

With the FID concluded on 16 December 2004, the WAGP is now at the stage of laying the foundation for construction and is the only NEPAD priority project attaining such status in West Africa (see table 2 for details of subscription on the WAGP).

On the WAPP project, which has great potential for a PPP, considerable progress has been made in the interconnection and exchanges of electricity between West African countries. Burkina Faso has been linked with Côte d'Ivoire, which already had a connection with Ghana, Togo, and Benin. Nigeria is linked with the Niger, and interconnection between Benin and Nigeria is under way. Senegal and Mali are already linked. The task ahead is how to connect Guinea, Guinea-Bissau and the Gambia to Senegal, and Liberia and Sierra Leone to Côte d'Ivoire.

There is a need to generate enough electricity and ensure its optimal transmission within the subregion. As a result, the ECOWAS Generation and Transmission Master Plan were revised. The Master Plan includes 16 WAPP priority generation (hydro and thermal) and transmission projects. Of the total of 7639 megawatts (MW) of power that will be generated from the Master Plan, 337 MW will come from hydro, costing about US\$ 506 million, while 7302 megawatts (MW) will be generated through thermal, costing about US\$ 6.4 billion at 2004 prices. Of this, US\$ 1.3 billion is required for the capital projects by the 14 countries involved, namely, Benin, Burkina Faso, Côte d'Ivoire, the Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo. Expenditures may be broken down as follows: Benin/Togo (US\$ 19 million) and Nigeria (US\$ 21 million) totalling US\$ 40 million on the Benin-Nigeria connection coming into force in 2006; Burkina Faso (US\$ 61 million) for the Bobo-Ouagadougou line coming into force in 2006; Ghana (US\$ 38 million) for the Volta line effective in 2007; Nigeria (US\$ 10million), the Niger (US\$ 64 million) and Burkina Faso (US\$

**Table 2. Sample of a PPP in NEPAD projects in West Africa**

<i>Name of project</i>	<i>Private sector firm (including foreign donors)</i>	<i>Public sector organisation (including countries involved)</i>	<i>Sector of project</i>	<i>Cost of project (with percentage shares of the investors) in United States Dollars</i>	<i>Remarks (date agreement signed, etc)</i>
WAGP	N-Gas consisting of: Chevron/ Texaco and Shell (and NNPC-public)  World Bank as indemnity guarantor (MIGA and IDA)	<i>Benin:</i> SOBEGAZ  <i>Ghana:</i> VRA  <i>Nigeria:</i> NNPC  <i>Togo:</i> SOTOGAZ	Infrastructure sector: energy (gas) subsector	Cost of project: \$ 400 million  Percentage share of the cost:  Chevron/ Texaco: 36.7  NNPC: 25  Shell: 18  VRA: 16.3  SOBEGAZ: 2  SOTOGAZ: 2  <i>Total: 100 per cent</i>  Cost of indemnity guarantee: \$ 125 million to be provided by World Bank agencies : MIGA: \$75 million (for 20 years) IDA: \$50 million (22 years)  Total cost of project, including indemnity cost of \$125 million: \$525 million	International Project Agreement between WAGP Corporation and N-Gas and the four countries – Benin, Ghana, Nigeria and Togo - was signed on 22 May, 2003.  Financial investment decision was concluded on 16 December, 2004, making the project bankable  Groundbreaking ceremony for the construction of the pipeline was performed on 3 December, 2004 in Ghana by President John Kufour  The project, first of its kind in West Africa, has been implemented and will take about 24 months to complete

Source: Culled from documents of the ECOWAS secretariat, Abuja, 8 December, 2004.

55 million), totalling US\$ 130 million for the Nigeria–Niger-Burkina Faso-Benin connection, effective 2008; and the Organisation pour la Mise en Valeur du Fleuve Gambie (OMVG) Loop involving the Gambia (US\$ 41 million), Guinea (US\$ 120 million), Guinea-Bissau (US\$ 52 million) and Senegal (US\$ 122 million), totalling US\$ 335 million. These projects are planned to spread over three phases of the WAPP Project Implementation Strategy (2004-2020), with the majority of the projects coming into service as from 2006.<sup>9</sup>

<sup>9</sup> See Revised ECOWAS Electricity Generation and Transmission Master Plan (ECOWAS Secretariat, Abuja, October 2004).

The overall investment required for generation and transmission is US\$ 16 billion out of which US\$ 9 billion is required for the first phase and second phases, 2004-2011 and 2011-2015, respectively; and US\$ 7 billion during the third phase, 2015-2020. An average of US\$ 58 million will be required annually to service the project, along with huge financial commitments on a country basis, which could further burden some of the countries like Guinea (US\$ 245 million), Senegal (US\$ 169 million), Mali (US\$ 140 million) and Burkina Faso (US\$ 143 million). Pursuant to consultations at the RECs, the World Bank is studying the document, but its funding will depend largely on PPP, though no mechanism had been devised for such NEPAD at the time the study was conducted.<sup>10</sup>

The plan to have a regional regulatory body (RRB) for the electricity sector has progressed. Its main objective will be to regulate inter-State electricity exchanges and support national regulatory mechanisms or entities. Its major activities will be the development of standards and automatic production of information, and realization of audits and specific surveys missions. The detail design of the RRB and final transfer of all regulatory responsibilities to the body will be financed with a grant of € 5 million provided by l'Agence Française de Développement (AFD) spread over five years beginning from July 2004.

Overall, PPPs have been formed to implement NEPAD projects in West Africa, as evidenced in the implementation of the WAGP, which is the first of its kind in the subregion. The WAPP project is another NEPAD project with great potential for a PPP. In the WAEMU, the joint border post between Burkina Faso and Togo, currently being built by the Commission, has prospects for a PPP. This is because the Commission has planned to engage a private sector firm to manage the joint border post upon its completion in April 2005. There has been strong advocacy by the Heads of State and Government Implementation Committee (HSGIC), national focal points, the NEPAD Business Group and the African Business Round-table for the engagement of the private sector in the NEPAD process through PPPs.

## **Enabling environment**

The nature of the enabling environment for the participation of the private sector and the building of PPPs in the implementation of NEPAD projects has to be understood in two related contexts. First, there is the policy environment, which refers to the general public policy, and the rights and obligations of the actors; the nature of the decision-making process, project development, implementation, evaluation and monitoring, institutional framework and capacity; and issues of openness and responsiveness to the needs of the people. Second, there is the project environment, which deals with the issues of project conception and definition by the private sector, integration of skills and knowledge, project decision-making structures, staffing and financial requirements.

The major barriers to private sector investment in infrastructure in West Africa are lack of appropriate policy and project environments, lack of a level playing-ground for participation by both public and private sector firms, lack of a regulatory framework for private sector engagement and the high cost of doing business. Moreover, the majority of the national Governments that constitute the subregional economic communities have not started putting into place the right policy and project environments for the emergence of PPPs and their participation in NEPAD programmes.

---

<sup>10</sup> Ibid.

Across the RECs, the majority of public corporations providing public utilities have multiple objectives, operating with limited funds and under severe budgetary constraints. The consensus of opinion is that private sector participation in the NEPAD will be enhanced by addressing such issues as creating an appropriate legal and regulatory environment, developing government guarantees, especially against political risks, and embracing a PPP in infrastructure development.

### ***Major challenges constraining private sector participation in NEPAD***

The public sector has been historically dominant in infrastructure development partly owing to the huge financial outlay and partly owing to lack of appropriate legal and regulatory frameworks that promise a ready market and returns on investment. Funding remains a major problem, because there are few development banks that can fund the development of infrastructure with a long gestation period and low rate of returns on investment. The major challenges the private sector firms are facing, therefore, are a need for increased institutional framework and capacity, funding, advocacy and networking, partnership and association, harmonization, and guarantees.

There is much that the private sector can do to help address these issues. Private sector firms need to form subregional associations with appropriate institutional frameworks and capacities; or where they already exist, as in the cases of the ABR and EOMARINE International, their institutional framework and capacities have to be strengthened across West Africa. For example, according to the discussions with the President of the ABR (an umbrella association for the organized African private sector, created in 1990 by the AfDB), the ABR will be able to push for active engagement of the private sector in Africa's development and interface with foreign capital in implementing NEPAD projects. The same is true for EOMARINE International. Though there are private sector associations like the West African Chamber of Commerce and Industry, the West African Clearing House, the West African Bar Association, and the West African Association of Auto-parts Dealers, they lack a strong institutional framework and the capacity to intervene meaningfully in the private sector of the subregion's economies.

The private sector firms should put pressure on the appropriate public authorities at the national level for an appropriate policy and regulatory framework specific to the private sector-RECs relationship on infrastructure like air and sea transportation, and telecom, because across the ECOWAS and the WAEMU countries, there is a need to review the air transport system in terms of approving multiple national carriers and having some of the busy airports converted into hubs, while those with skeletal services remain as feeders.

Although the EBID, the WADB and the AfDB have been the major financiers of NEPAD projects in West Africa, there is an emergent medium-sized local private capital, which together with the development banks, donors and foreign capitals, can establish a common pool of investment funds from which the ECOWAS and the WAEMU can draw to implement NEPAD projects. Though at various stages of development, and with a discernible medium-sized category in Nigeria, Ghana and Côte d'Ivoire, the private sector firms can help actualize this plan. Even in WAEMU member countries, with a weaker financial base, for instance, there are medium-sized companies that guarantee business to the tune of US\$ 70 million, namely, Azate in Côte d'Ivoire, Fonds Africain de Garantie et de Cooperation Economique Fagace in Cotonou, Benin; Fédération

Française des Sociétés d'Assurances (FFSA) in Niamey; Garantie des Investissements en Afrique de l'Ouest (GARI) in Lomé.

The private sector has to campaign for a guarantee against political risk from the Governments and RECs, especially because the development of a project into one with a bankable status in West Africa is perceived by private sector firms and donors as a high-risk activity. All that is required, therefore, is a kind of guarantee for the right policy and project environments; and a strategy for getting the private sector firms really involved in the development of infrastructure and building the PPP for the implementation of NEPAD projects. At the urging of the West African Economic and Monetary Union (WAEMU), the West African Development Bank (WADB) had requested the World Bank to guarantee the financing of infrastructure projects by the fledgling local private capital source within the Community, should the Government fail with respect to upholding its part of the bargain, and the Bank did just this. The aim of the guarantee, among others, is to create employment, consolidate the private sector and deliver public utilities. For instance, if a private sector firm decided to provide electricity in a WAEMU member country, and should the government decide to disallow midway a further increase in the tariff, because of its social and political implications, the World Bank would agree to guarantee such political risks. In that way, the private sector could be strengthened and consolidated, and the PPPs would begin to grow. Overcoming these and other related challenges, however, does not automatically bring about the increased private sector intervention in NEPAD projects.

### ***Proposed mechanisms for private sector participation in NEPAD programmes***

There is a need to establish specialist NEPAD working and advisory groups for each sector, transport, telecom, trade facilitation, energy and water within the ECOWAS and the WAEMU. The members of these groups should be drawn from the relevant ministries of the member countries from groups of professionals. These sector-specific NEPAD focal points in the RECs would complement the NEPAD subregional focal unit in the ECOWAS secretariat, in contrast with the lumping of NEPAD projects in various project units. This would make for proper reporting, planning and harmonization of human and natural resources, and the sharing of experiences and coordination of NEPAD projects within the subregion.

The proper conducive environment for private sector participation in regional and subregional infrastructure should be created by the ECOWAS and the WAEMU by ensuring that member States promote a fairly stable macroeconomic environment, transparent legal and regulatory frameworks, an appropriate alternative dispute resolution mechanism and contract enforcement. The establishment of a common currency zone for the WAEMU and the relative progress made in economic convergence promise significant lessons for ECOWAS and private sector participation in NEPAD projects.

Subregional sectoral policy formulation, harmonization and the programme development function should be separated from the project development and implementation function in order to attract private capital. This is because the ECOWAS infrastructure team, which deals with policy formulation, harmonization and programme development, also engages in project implementation; and this is opposed by the private sector because it does not provide for efficiency, transparency and accountability. This will require that additional funds be committed to supplement the capacity of the RECs. In fact, the Community Institutional Capacity Building

Programme for the NEPAD-STAP projects made provision for 12 full-time professional staff in the Infrastructure and Industry Unit by 2005, yet nothing concrete has really been done. A professional to manage the NEPAD focal point in the ECOWAS secretariat had yet to be hired at the time of the study.

A project development and implementation unit (PDIU) should be established by the RECs in order to help overcome the capacity gap and high risk associated with the subregion. In this context, the RECs should create a joint facilitation committee for project development and implementation. This body would work in close liaison with the Policy and Harmonization Unit of the ECOWAS and the WAEMU on NEPAD programmes, especially in those areas where the private sector presence is marginal. The PDIU would promote private sector participation through standard risk transferring and mitigation mechanisms in infrastructure projects like contract leasing, joint ventures and variations of build-operate-transfer (BOT) and build-own-operate (BOO) project structures, and the management of subregional trust funds for infrastructure.

## **International support and lessons learned**

### ***Role of the international community and donors***

The NEPAD initiative has been acclaimed internationally as the most important development blueprint produced since the 1960s, when the majority of the countries in the continent gained political independence. EU, G8, the UN and multilateral financial institutions like the World Bank, have all pledged support to the NEPAD.

The role of foreign capital in promoting private sector activities is sector/project-specific, with emphasis on funding and the returns on investments. It helps market the project and builds confidence of other would-be investors in it. The WAGP and WAPP projects of the NEPAD, among others, present concrete cases of the support and involvement of foreign capital in promoting private sector activities and PPPs.

As noted earlier, the WAGP is the first of its kind in West Africa and an example of PPP in infrastructure, especially in the energy subsector. Though the AfDB and the ECOWAS contributed funds, it is the USAID that provided most of the funds for the development of the project in terms of feasibility and market studies, sourcing of funds, economic and social impact assessment, and hiring of consultants to build capacity at ECOWAS. With the World Bank having signed the indemnity agreement, the confidence of foreign oil capital, (Chevron/Texaco and Shell) in the project was raised. All this eventually led to the conclusion of the FDI on 16 December, 2004.

The West African Power Pool (WAPP) had hardly attracted the kind of private sector participation that characterized the West African Gas Pipeline (WAGP) at the time of the present study. Further, the perception of the role of donors in infrastructure development across the RECs was that once a project's development interested the World Bank, there were prospects of involving private sector capital. Perhaps this explains why the World Bank's study of the ECOWAS Electricity Generation and Transmission Master Plan containing 16 WAPP projects signalled the great potential of the project. In essence, the Bank is seen as playing the role of investment risk guarantor in the subregional projects.

The donors have also played a key role in funding some of the mechanisms being developed to build capacities for the RECs and PPP in infrastructure, especially in writing proposals and project development. As noted, the Canadian Government and other donors have made contributions to the NEPAD Infrastructure Preparation Facility, to which Can \$ 10 million in seed money has been provided.

### ***Lessons learned in private sector participation in NEPAD***

Several lessons have been learned from NEPAD projects implemented in West Africa. First, there is the challenge of having foreign capital and donors repose their confidence in Africa's private sector firms. The donors are reluctant to deal with the local business class, because it is weak, and prefer to work with the public, which though financially weaker, has the political power to see a piece of business through.

Second, there is the urgent need to reduce Africa's increasing financial dependence on foreign donors. So far, the majority of the projects being developed have relied on donors' funds, raising fear about the ownership of the NEPAD initiative and its project, the kind of partnership being constructed and the negative implications for the engagement of the private sector.

Third, there is the concern with empowering the RECs to discharge their new duties. Though NEPAD initiatives are similar to those of the RECs, NEPAD programmes placed a greater burden on the RECs than they ought to have shouldered. Worse still, the RECs have not been provided with adequate capacities in terms of manpower and financial resources, etc., to cope with their duties as newly assigned by the NEPAD.

Fourth, there is the importance of facilitation committees at the Community level that will deal with the implementation of the agreements on the border posts, including their maintenance. This will facilitate the management of the truckers. In addition, corridor management committees should be established to work with the Facilitation Committees, and special funds should be mobilized for each project.

Fifth, there is the challenge of guaranteeing for foreign investments/foreign capital engaged in infrastructure and other businesses, especially since infrastructure is not a core business area for the private sector firms owing to the low returns on investment, long gestation period, and high risk. The private sector firms - local and foreign, small and medium-sized - would want assurances and guarantees from the Government against such political risks before they invested in infrastructure.

Sixth, there is a need to have African small and medium-sized private sector firms brought to the centre of the NEPAD initiative, inasmuch as the medium-sized local business class comprises the majority of African private sector firms and has competencies in the maintenance of various aspects of the public utilities built by foreign contractor companies. In that way, the local private sector would be empowered to participate meaningfully in NEPAD projects and the overall development of the subregion.

Seventh, there is the challenge of harmonizing the three legal cultures and frameworks in West Africa - French, English and Portuguese - stemming from its colonial history. This achievement would lead to the creation of a conducive environment for private sector participation in the subregion's economy and NEPAD projects. The poor engagement of the

private sector in the development process and infrastructure in West Africa is partly traceable to the difficulty of reconciling the various legal structures involved in the enforcement of contracts and agreements signed between public and private sector firms.

Eighth, there is the issue of building the private sector's confidence in development banks and financial development institutions in West Africa, a situation where the West African Development Bank (WADB) (for the WAEMU), and the EBID (for the ECOWAS) are the only major development banks in the region (coupled with the fact that they are still financially fragile compared with their counterparts in Europe like the European Investment Bank) reinforces the increasing dependency profile of the RECs. In addition, project financing can hardly be handled by the commercial banks, because their funds are mostly short-term and cannot be loaned to a private sector firm that might be willing to engage in the development of infrastructure.

Lastly, there is the challenge of reorientation. It is important to re-orient the aviation industry towards private sector initiatives, because the majority of the airlines operating in West Africa are public corporations and are not really profit-oriented. (The private sector participation is limited). Part of the strategy for accomplishing this task would be to designate other carriers for multiple routes, instead of having one carrier for just one route. The enterprises in charge of aviation and aeronautic services will have to be separated to enable the PPP to intervene in non-aeronautic areas. The aviation services will have to be autonomous and self-accounting. There is a need to implement the Convention on International Civil Aviation (signed at Chicago on 7 December, 1944), which emphasized that the revenue derived from aviation services should be spent to maintain aviation infrastructure. Finally, it is important to develop a subregional aircraft system, where some of the airports would be hubs, and others would act as feeders.

### **III. Southern Africa**

#### **Introduction**

The present chapter explores the extent to which the private sector is helping to implement key aspects of the NEPAD process in the Southern African region.

The chapter focuses on physical infrastructure projects of the Short-term Action Plan (STAP) as well as the priority projects of the e-Africa Commission, an entity directly linked to NEPAD, as they are notable as being among the most specific projects to emerge as NEPAD priority projects.

NEPAD has identified RECs in Africa as the key building blocks for implementing African development, including the STAP. In this study, the crucial role of RECs in NEPAD implementation is highlighted as being of key significance. The Southern African RECs have special relevance for private sector mobilization in NEPAD implementation, given their location in a region that has a well-developed private sector presence.

This chapter will mainly focus on the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA), as these entities are the two relevant RECs for NEPAD. Note should nevertheless be taken of the Southern African Customs Union (SACU) within the SADC that is possibly one of the most successful and most integrated regional entities in Africa.

#### ***Official structures for interaction with the private sector***

The secretariats of the SADC, the COMESA and the SACU are already engaged in activities to strengthen regional private sector development and facilitate the involvement of the private sector in NEPAD programmes. SADC, and, to a lesser extent, the COMESA, are also actively involved in buttressing project implementation with private sector mobilization and/or collaboration in PPPs.<sup>11</sup>

The COMESA and the SADC secretariats have officials responsible for private sector development, who act in most cases as liaison officials regarding strengthened private sector involvement in NEPAD projects. The SADC secretariat especially has embarked upon an ambitious programme for assisting private sector involvement in NEPAD implementation. SADC has been assigned such a role because it is the primary driver for the regional implementation of Southern African programmes and projects in NEPAD.

The SADC Regional Indicative Strategic Development Plan (RISDP) for 2004/2005 includes under its private sector programme the institutionalization of a private sector unit to carry out a support function for both the secretariat and private sector institutions as part of the restructured SADC secretariat.<sup>12</sup> Nevertheless, capacity is currently relatively small and, in most

---

<sup>11</sup> Discussions at COMESA and SADC secretariats in November 2004.

<sup>12</sup> See "Regional Indicative Strategic Development Plan", SADC Secretariat, 2004, p. 63.

cases, officials directly responsible for sectors take responsibility for private sector mobilization and involvement.<sup>13</sup>

Both the COMESA and the SADC have a number of NEPAD priority projects among their projects, specifically in infrastructure/ICT. Most of the NEPAD priority projects identified in the NEPAD process involve infrastructure/ICT. Work being undertaken by the COMESA and the SADC secretariats to facilitate the implementation of these projects is therefore coinciding directly with specific NEPAD priorities. Such implementation of NEPAD could increasingly involve private sector participation with the assistance of the relevant REC secretariat activities. It is noteworthy that in light of the sometimes confusing definition of “NEPAD projects”, the SADC secretariat has stated that all SADC projects are actually NEPAD projects and are meant to further the NEPAD agenda.<sup>14</sup>

The establishment of a SADC Business Forum, spearheaded by the SADC secretariat, would seem to be a promising new channel for private sector involvement in SADC projects, all of which the SADC secretariat sees as being NEPAD projects, as well as projects that are designated as priority projects.<sup>15</sup> The future collaboration between the SADC and the South African NEPAD Business Group (NBG) and NEPAD Business Foundation (NBF), perhaps increasingly utilizing the SADC Business Forum, would seem promising. In early 2005, the first consultative meeting between the SADC Business Forum and the SADC secretariat to determine how to better integrate support from the SADC private sector into the SADC operations including NEPAD priorities set new and promising precedents for follow-up actions. Even so, this engagement does not appear to have produced many results for a variety of reasons.<sup>16</sup>

The e-Africa Commission, operating as the ICT task force of NEPAD and linked directly to the broader NEPAD process, *inter alia*, by having the members of its executive committee drawn from the NEPAD Steering Committee, offers a useful platform for identifying priority NEPAD projects and facilitating private sector partnership. The Information Society Partnership for Africa’s Development (ISPAD) is a partnership programme of the Commission through which private sector partners can directly participate in project implementation. The location of the secretariat of the e-Africa Commission in Pretoria underscores the relevance of the Southern African region for facilitating private sector involvement. This is illustrated by the South Africa-based location of the private sector participants in the Information Society Partnership for Africa’s Development (ISPAD).<sup>17</sup>

## **Private sector engagement in priority projects of NEPAD**

Private sector activity is in itself a multifaceted activity, which cuts across all NEPAD sectors. However, as mentioned previously, this study largely focuses on the social and physical

---

<sup>13</sup> In the COMESA, the section dealing with infrastructure is taking the lead in the IT project known as COMTEL. In the SADC, Dr. Joao Caholo, Infrastructure and Services Director, expressed commitment in conversations in November 2004 to improve private sector mobilization in key projects and is already taking a leading role in the creation of Westcor, the corporate entity, which will oversee the Western Power Corridor Project in the SADC region.

<sup>14</sup> Discussion with Mr. Gideon Phiri, Private Sector Development Director, SADC secretariat, 25 November 2004.

<sup>15</sup> Discussion with Mr. Gideon Phiri.

<sup>16</sup> Message from CEO of the SADC Business Forum on 8 February 2005.

<sup>17</sup> See “e-Africa Commission” (NEPAD secretariat: Johannesburg, South Africa), 2004.

infrastructures and, specifically, NEPAD priority programmes, in particular the STAP projects and projects of the e-Africa Commission.

### *Physical infrastructure projects, NEPAD and the private sector*

The STAP projects are individual, large projects that are far easier to identify and “market” to the private sector with recognizable economic benefits. The priority projects of the e-Africa Commission are also more specific, with private sector participation being a key ingredient, and the structure of the Commission’s operations facilitating such participation.

Physical infrastructure projects are particularly amenable to private sector involvement and are especially suited to the PPP processes. As such, infrastructure projects serve as a litmus test for the involvement of the private sector in NEPAD implementation. The successful implementation of infrastructure projects is of the utmost relevance to the success of NEPAD implementation. This underlines the usefulness of focusing on physical infrastructure, generally, when analysing the role of the private sector in NEPAD implementation.

In Southern Africa, although much progress has been made in STAP projects regarding facilitation and preparation, none have reached the completion stage. While this study focuses on the specific priorities of NEPAD, the broader objectives should always be borne in mind, especially in the case of infrastructure. The region has seen many successful infrastructure projects implemented (even if not under the STAP specifically), with many having preceded the formal commencement of NEPAD. These projects certainly helped pave the way and have often been taken up in the framework of the ongoing NEPAD goals. They support the latter in many ways and are catalysts for the STAP and further PPP mobilization. Such projects include the Cahora Bassa hydropower project in Mozambique, the Lesotho Highlands water scheme, and the Maputo Corridor.

The infrastructure development goals of the SADC for the near future in the Regional Indicative Strategic Development Plan (RISDP) have been formulated to take into account how they can be vehicles for achieving the Millennium Development Goals (MDGs) as well as the related goals of NEPAD. The newly created Directorate of Infrastructure and Services in the SADC secretariat was well aware that the SADC had a primary responsibility for implementing NEPAD projects in the SADC region. Also, the SADC has special responsibilities in conjunction with national entities for creating the business-enabling context in project implementation.

While infrastructure is a major facet of the SADC activity, and the secretariat has a key role in implementing many projects of its own as well as those also appearing in the STAP, the situation of the COMESA is somewhat different. Following from the main thrust of COMESA activity, most of the attention regarding infrastructure projects is related to projects that facilitate economic activities. However, a large number of infrastructure projects are receiving attention from the secretariat. Only a few have made it to the STAP list of partnerships. In the SADC, projects on the STAP list are in the energy, transport, ICT and water sectors. The COMESA projects in the STAP are in the infrastructure and ICT sectors.

A noteworthy initiative supporting NEPAD goals generally and STAP projects is the Zambia-Malawi-Mozambique Growth Triangle (ZMM-GT), a project based in Lusaka that is largely UNDP-funded and–managed. It also cooperates with the SADC. The concept behind the ZMM-GT is one that is derived from geo-economic growth imperatives in South-East Asia that target tourism, investment promotion and infrastructure.

(a) Energy projects

The Mozambique-Malawi Interconnection Project is needed to link Malawi electrically with its neighbours and into the Southern African Power Pool (SAPP). Progress is being made, but the project is basically a public sector initiative, although there is a need for private sector contractors to do much of the work. The Democratic Republic of the Congo (DRC)-Angola-Namibia interconnection study will focus on the linking of the existing Inga power station in the DRC with the electricity grids of Angola and Namibia. At present, the involvement of the private sector is a far-off possibility.

The Southern African region is home to the Grand Inga hydropower project, also known as Inga III, a power generation project on the Congo River in the DRC that is one of the most significant projects of the STAP in the current NEPAD framework.<sup>18</sup> Its priority rating is especially high, given its relevance to NEPAD and NEPAD's credibility in the international context, especially regarding foreign private investment.<sup>19</sup> The five energy utilities primarily involved with Inga at this stage signed a memorandum of understanding (MOU) on 22 October 2004, facilitated by the NEPAD secretariat. This will lead to the creation of a joint venture company known as Westcor. These five utilities are: Empresa Nacional De Electricidade of Angola, Botswana Power Corporation (BPC), Societe Nationale d'Electricite (SNEL) of the DRC, Eskom of South Africa and NamPower of Namibia. All of these are public sector or parastatal entities, but it is now up to Westcor to work out the details for the involvement of other players (including the international private sector) in further implementation. There will be considerable support for this from the SADC secretariat, as SADC has the primary responsibility for Inga. In addition, the new management of SNEL and SAPP have especially important key roles in moving Inga forward.<sup>20</sup>

Inga could become a major test of the private sector's participation in the implementation of NEPAD, and the strategy, outreach and creative structuring by Westcor/SADC and other stakeholders of a suitable enabling context within which to involve the private sector would have an especially large impact on private sector involvement in other NEPAD projects. African leaders have directed NEPAD to look for ways to "fast-track" Inga as a NEPAD anchor project. The process currently unfolding with Inga could well be duplicated in the Mepanda Uncua hydropower project and possibly also in the future intended expansion of Cahora Bassa.

The South Africa/Mozambique natural gas project has, as a key component, a gas pipeline from the newly developed gas fields in Mozambique to the Johannesburg region of South Africa. While the AfDB has contributed US\$ 80 million towards the estimated cost of US\$ 1,190 million, the World Bank Group supported the project specifically to encourage private sector participation. Such support will take the form of World Bank partial risk coverage of US\$30 million, MIGA guarantees of US\$ 72 million and other resources. This strategy has been successful and private sector entities are now involved as central participants, notably the South African company, SASOL. The strategy highlighted the key role of public entities as facilitating agents and the relevance of a project regarded as highly commercial yet economical in the short term.

---

<sup>18</sup> Discussion with Dr. Joao Caholo, Infrastructure and Services Director, SADC Secretariat, 26 November 2004 and in personal communication on 8 December 2004.

<sup>19</sup> Conversations with Mr. Roger van Steenberg, Director, SIEMENS, Belgium, January 2004.

<sup>20</sup> Personal communications from Dr. Lawrence Musaba, Coordination Centre Manager, SAPP, Harare and Dr. Joao Caholo of SADC secretariat, 8 December 2004.

(b) ICT sector

The ICT sector is another NEPAD infrastructure priority where there is considerable scope for private sector involvement. The private sector is helping deliver the goals of NEPAD on a number of fronts involving ICT in Southern Africa. There now exists a useful vehicle for initiating implementation of key ICT projects in Africa through the establishment of the e-Africa Commission which is linked to the NEPAD structures.

The e-Africa Commission presented seven projects that were endorsed by the NEPAD Head of State and Implementation Committee (NEPAD-HSGIC) in mid-2003, although none are on the STAP list. These were:

- i. Partnership
- ii. NEPAD e-schools initiative;
- iii. Low-cost satellite access project for e-schools;
- iv. East African Submarine Cable (EASSy) project;
- v. Associated broadband access fibre-optic project for landlocked African countries;
- vi. The NEPAD capacity-building project for e-learning in Africa;
- vii. E-policies and e-strategies project.

The e-Africa Commission conducts its work through the NEPAD in the context of the International Society Partnership for Africa's Development (ISPAD). In creating the ISPAD, the Commission paved the way for collaboration with the private sector, which accepts the responsibility for facilitating the work of the Commission and discharging financial and other obligations in support of the Commission and its programmes. Partners from the private sector can become "foundation partners" in one of four categories depending on the size of the financial contribution made to support the Commission. Such contributions can be for varying lengths of time and allow the "foundation partners" to meet once a year with the full Commission to discuss matters of common interest affecting project implementation. The Commission can also assist foundation partners in securing advice on relevant projects.

The following companies were foundation partners at the end of 2004:

- a) Platinum class: Microsoft Corporation (USA); Oracle Corporation (USA); SAP, AG (Germany); Multichoice Africa and Mobile Technology Networks (South Africa); and ZTE (Africa);
- b) Gold class: MARSAT Ventures Limited (UK); and
- c) Silver class: TELSAT (USA); Grintek (South Africa); and ViaSat (USA).

One of the achievements of the e-Africa Commission has been the identification of the need for, and subsequent facilitation of the implementation of a submarine optical fibre system along the Eastern and Southern African coasts. In taking the so-called EASSy project forward, the e-Africa Commission had facilitated a MOU among 11 telecommunications network operators and service providers from East and Southern Africa, in which they agreed to participate in the development and implementation of the project.

The involvement of private sector partners has been considerable in the two priority projects among the seven mentioned above upon which the Commission has mostly concentrated thus far, namely, the e-schools initiative and the EASSy project. Prior to the formal launch of the e-schools initiative in early 2005, a consortium was put together by Oracle Corporation, Cisco

Systems, Microsoft, Hewlett-Packard and SAP to launch the rollout of the project. Among the entities that have signed a MOU for the EASSy project, there are a host of parastatals but also some private sector companies such as MTN Uganda (the Ugandan subsidiary of MTN of South Africa), Dalcom Co., Ltd (of Somalia) and Sentech (of South Africa).

Working with the e-Africa Commission, the COMESA secretariat has coordinated activities with a variety of stakeholders, such as the information technology (IT) utility entities from the Eastern and Southern African regions, to establish a regional telecommunications network known as COMTEL. COMTEL is one of the few COMESA projects in the NEPAD-STAP. The decision for the COMESA to establish COMTEL was viewed as supporting the general thrust of COMESA activities that focused on trade liberalization and facilitation and had the potential to stimulate market integration while encouraging private sector activities. The results of COMTEL will be beneficial for a host of other activities ranging from education to lower tariffs and will generally enhance regional and intraregional integration.

The COMTEL project would seem a good example of a NEPAD's project being facilitated and implemented by a REC in collaboration with relevant national bodies and with increasing involvement of the private sector. In addition, there is an awareness of coordination between this project and other COMESA activities. The fact that SADC is working on a similar and, to a certain extent, overlapping project, the SADC Regional Information Infrastructure (SRII) project to strengthen the Southern African regional telecommunications network, should facilitate the success of COMTEL, which links Southern Africa (that is to say the SADC region) and the other subregions of the broader COMESA region and has a wider ICT agenda.

The SRII is a STAP project for the SADC and deals largely with the needs of the Southern Africa Telecommunications Association (SATA) of fixed wire line telecommunications operators. It does not envisage involving private sector interests in a corporate entity such as COMTEL. Nevertheless, the involvement of private sector in COMTEL management and in implementing the SRII, which will feed into the COMTEL system, is seen as a vehicle to ensure effective harmonization between COMTEL and SRII.<sup>21</sup>

### (c) Transport Sector

The list of STAP projects pertaining to transport is the largest of all those for Southern Africa for which the SADC has the primary regional responsibility. It is noteworthy, however, that a large majority are related to facilitation rather than physical construction. This helps explain the role of the COMESA, which often takes only these aspects as justification for its involvement in such projects.

Among the projects started with some earnest in Southern Africa (although on a piecemeal basis, thereby somewhat disguising linkages to the STAP) is that on institutional support for the concession of railways. Although not directly involving private sector entities, the result is specifically designed to support greater participation by the private sector in regional transport. The COMESA, for example, held meetings with railway stakeholders to try to enhance the concession process in the region. The practice of concession has taken place in recent years on many major lines in the region, notably in Zambia, Zimbabwe, Botswana and Mozambique.

---

<sup>21</sup> Discussions with Mr. Amos Marawa, Director, Infrastructure Development, COMESA secretariat; Mr. Gilbert Maeti, Senior Transport Economist, COMESA secretariat; and Dr. Abu Dafalla, Telecommunications Officer, COMESA secretariat, on 16, 17 and 18 November 2004.

These railways can be envisaged as key social and commercial arteries, where the private sector is playing a vital role in delivering effective transport for regional integration and development.

In examining infrastructure projects in Southern Africa, it is useful to note some projects carried out in recent years that, albeit not NEPAD priority projects, are often related to NEPAD. Most of these centre on Mozambique and are transport-related. They also act as good examples of what can be done to deliver important infrastructure of pivotal relevance for regional integration in Southern Africa in partnership with the private sector.

The Maputo Corridor with Maputo port facilities, the Beira Corridor and the linked Sena Corridor, and the Nacala Corridor are all among the important SADC spatial development Initiatives (SDIs) that began late in the last century and laid vital foundations for future regional integration and development in Southern Africa.

In particular, one can note the restructuring of the publicly owned Mozambique Ports and Railway Company (CFM) in the last few years, which can be regarded as a classic example for other African countries. It further illustrates effective restructuring of a public enterprise, in conjunction with the creation of PPPs that have produced effective and well-managed infrastructure assets. Since 1995, the CFM had begun to implement sweeping reforms, including the restructuring of its interests involving private stakeholders and a constructive rationalization of its labour force, securing support from both the national Government and the World Bank. In the process of the restructuring, the CFM leased out key infrastructure assets to private sector interests, with the latter undertaking some upgrading and construction work, as well as operation of the projects for a specified period of time in conjunction with public entities. This saw CFM leasing out the 88-kilometre Ressa Garcia railway between Maputo and the South African border, the 600-kilometre Sena railway between Beira and the rich Moatize coal deposit in the direction of the Zambian and Malawian borders, and the operations of Maputo harbour.

The Maputo Corridor Company was established as a PPP entity overseeing the construction and operation of an upgraded road and rail transport corridor between Maputo port and the Johannesburg/Pretoria heartland of South Africa as the backbone of the Maputo Development Corridor. The latter has been one of the most successful of the SDIs undertaken by SADC with particular support from the Development Bank of Southern Africa (DBSA), most of which are based on developing transport corridors. The Maputo Corridor Company has proved to be an extremely effective company and has pioneered many concepts.<sup>22</sup>

As part of the Maputo Corridor SDI concept, there are private sector franchise-holders operating the highway toll road systems within the corridor, such as Trans African Concessions (TRAC) which operates the Johannesburg-Witbank section of the road. Sections of the rail link within the corridor are also operating on a PPP principle. As a result of the CFM leasing programme, which saw the leasing of the Mozambican section of the railway between Maputo and the South African border, the Maputo Port Terminal Operator (MIPS) and the Maputo Port Development Company (MPDC) are now operating on an effective commercial basis and making Maputo a premier harbour of choice for trade flowing to and from the South African hinterland and Swaziland. The Maputo Corridor Logistics Initiative (MCLI) exemplifies a new format of PPP cooperation on the Maputo Corridor involving TRAC and MIPS. The MCLI is a non-profit initiative aimed at improving operational efficiencies and ensuring corruption-free borders along

---

<sup>22</sup> Discussion with corridor officials during 2001-2002 as well as with Dr. Paulo Zucula, SDI Projects Director, DBSA, in 2002.

the corridor in the context of a business-enabling corridor paving the way for the economic development of its regional territory.

## **Some observations**

In any review of the engagement of the private sector in NEPAD priority projects in Southern Africa, it becomes apparent that there is still much to be done. Naturally enough, as most of the priority projects identified so far entail infrastructure, this means that any kind of implementation cannot be achieved in a short time, given the size of many of the projects in the STAP. The considerable progress being made by such entities as the NEPAD secretariat, the RECs and the DBSA will lead to increasing private sector participation.

There has been considerable private sector engagement with some of the ICT infrastructure projects handled by the e-Africa Commission. Among the reasons for this is the effective structuring of the e-Africa Commission in such a way as to facilitate private sector participation. The smaller size of projects makes it easier for the private sector to identify means of engagement and make profits. While the COMTEL and SRII projects from the STAP share many characteristics of the e-Africa ICT projects, the same could be said about the gas pipeline project between Mozambique and South Africa.

There is a growing trend towards involving Africa- or South Africa-based companies in the projects. Much of the pre-feasibility consultancy manifests this tendency. An example would be the contract awarded in late 2004 by the AfDB to a South African engineering company, Africon, to conduct a survey of the status of the implementation of the STAP projects.

## **Resource mobilization**

In Africa, one of the greatest challenges confronting the implementation of NEPAD is resource mobilization, which affects projects being undertaken by public enterprises as much as private sector ventures and PPPs. There is a dire need for investment capital for private sector development and economic development.

The mobilization of foreign direct investment (FDI) is as much a problem as raising local investment, despite the fact that Africa has the highest returns-to-investment ratio in the world. On the other hand, the risks entailed in reaping such rewards when an investor is successful are indicated by the fact that Africa also has the highest rate of domestic capital flight in the world, which is roughly 39 per cent. Such problems of resource mobilization are among those impairing Africa's abilities to improve its business-enabling context and thereby sustain the challenges.<sup>23</sup>

In these circumstances, the injection of private sector stimuli is of critical importance for improved investment and trade flows and for achieving a self-sustainable critical mass in private sector growth and activities. The Southern African region can make a major contribution to the implementation of NEPAD by taking advantage of the attractive features of the South African economy, which has a well-developed capital market, and of the opportunities offered by the SACU economic area. The region is therefore poised to be above the sub-Saharan African average in terms of domestic savings and investments.

---

<sup>23</sup> The World Bank *World Development Report 2005* focused on the need to improve the investment climates in developing countries and again stresses the pivotal role of private investment as “the engine for growth and poverty reduction”, New York; Oxford University Press; 2004.

## Resource mobilization and NEPAD implementation

In the NEPAD priority projects being implemented in Southern Africa, the role of the capital market has been rather limited.<sup>24</sup> The STAP-supported projects for the concession of railway lines has envisaged the protection of BOT and BOO. These methods of resource mobilization have not been used for NEPAD priority projects in Southern Africa. Grant aid has been used largely to help prepare feasibility and pre-feasibility studies intended to facilitate future private sector involvement in STAP and non-STAP infrastructure projects.

Major sources of loan finance continue to be the AfDB, the DBSA, and the World Bank Group. Like the DBSA, which is a regional entity currently providing supportive resources for NEPAD projects, so is the South Africa-based Industrial Development Corporation. It should be remembered that, as in the Mozambique/South Africa natural gas project, such financial resources help trigger private sector resource flows. In a recent example of international support for NEPAD, both the AFD and the DBSA established an Infrastructure Project Preparation Facility of 25 million in South African rand in 2003. This facility makes resources available for infrastructure projects meeting NEPAD criteria and close to implementation. Pre-feasibility/feasibility studies using the resources available contribute to the progress of the projects and encourage eventual private sector engagement. In 2004, the yearly allocation of the fund was used and the same is expected for 2005. The funds are for use in any African region, and Southern African public entities make heavy use of them. Funds have been used for the EASSy project of the STAP. The fund is similar to the Canadian-sponsored Infrastructure Project Preparation Facility (IPPF) managed from the AfDB in Tunis. Whereas the latter has a ceiling of US \$500,000, the ceiling of the DBSA-based fund is US\$ 300,000.<sup>25</sup>

## Building partnerships for implementation of programmes and projects

The NEPAD process is meant to use a variety of partnerships between various stakeholders, including the private sector, to implement the NEPAD programmes. In this context, it has previously been noted that PPPs can help provide and coordinate the needed resources and, in any case, are particularly relevant for the implementation of a programme such as NEPAD; while the entire network of interactive cooperation between African public entities ranging from the RECs to the African Union can be regarded as encompassing a series of partnerships implementing NEPAD and its priorities, it is the partnerships that engage the private sector in NEPAD implementation that are of particular relevance in this study.

Apart from national entities, RECs have the primary responsibility for NEPAD delivery and for engaging the private sector as partners. Unfortunately, the capacity constraints at both levels play a major role in hindering this process along with the shortcomings previously noted. This impact on effective channels of interaction between the private sector and the NEPAD process is present even in Southern Africa, where there is usually more capacity than elsewhere in Africa.

The various channels of contact with the private sector that have been developed by the SADC and the COMESA reflect the private sector mobilization behind NEPAD. The results

---

<sup>24</sup> Conversation with the Infrastructure Division of NEPAD secretariat, 24 January 2004.

<sup>25</sup> Interview with Ms. I. Weerlink, Project Director, DBSA, 11 November 2004 and Dr. Piet Viljoen, Africa Partnerships Division, DBSA, 25 January 2005.

being obtained with COMTEL and the SRII are examples of how the activities of both the COMESA and the SADC have facilitated new partnerships with parastatals, and are well on the way to expanding the partnerships to include the private sector as key participants. The same can be said of Westcor regarding the Grand Inga, where the NEPAD secretariat helped facilitate its establishment. The Mozambique/South Africa gas pipeline project illustrates the creation of a PPP joint venture having firm roots in the NEPAD process with AfDB support as a STAP project. The e-Africa Commission defines its role as a broker of partnerships, including the private sector as a primary driving force for project delivery. While these are NEPAD priority projects, the various infrastructure projects implemented in Mozambique and commenced before the adoption of NEPAD, fall outside the purview of NEPAD per se. Nevertheless, they well illustrate very successful partnership formation with a REC playing a leading role in support of NEPAD.

The NEPAD process therefore obviously promotes PPPs, but the brokering of specific partnerships is largely dependent on such bodies as the RECs and the e-Africa Commission. These, in turn, have a variety of means by which to use limited capacity to facilitate private sector engagement. Private sector participation is also dependent on the stage of project preparation. Nevertheless, the NEPAD process is achieving some progress towards all these ends.

## **Enabling environment**

### **Enabling environment for NEPAD implementation**

The mobilization of the private sector in support of NEPAD implementation can occur only in a business-enabling context and this is what should be addressed, if such activity is to be enhanced. In contemplating the enabling environment for private sector engagement in NEPAD projects, one can consider either the macro-dimension or project-specific elements, as each project has its own enabling context. In turn, each of these sets of variables is composed of a variety of factors ranging from political and public policy/governance to social and commercial viability. While the latter is crucial to ensuring private sector engagement, they are linked to governance and the regulatory policy framework.

NEPAD has taken into account the fact that improvement in the quality of governance on political, economic and corporate levels is fundamental to an enhanced business-enabling context for NEPAD implementation. NEPAD has set up the African Peer Review Mechanism (APRM) to deal with all these aspects of governance. This fits in well with the Seal of Good Corporate Governance Programme for African companies, which was commenced under NEPAD auspices in conjunction with the ABR. The achievement and maintenance of peace and stability in Africa encompass another aspect of NEPAD. They are vital to a good business climate and are related to good governance. All these aspects of NEPAD are supportive of improving the business-enabling environment.

The NEPAD secretariat has promoted the concept of an Investment Climate Facility (ICF), which is in conjunction with the ABR, supported by a variety of entities including those from the international private sector. The ICF is seen as an entity that would be strongly supported by the African and international private sector and would act to improve the business-enabling climate in Africa in respect of a wide variety of issues, especially by facilitating the regulatory framework. It would identify problems and facilitate improvement, making Africa more attractive as an investment destination for FDI, and mobilize domestic finance. Further

development of the ICF and the network of public-private contact already developing around it could go far towards enhancing the manner in which NEPAD could improve its enabling context for the private sector.

## **Possible mechanisms through which to increase private sector involvement in NEPAD**

Among the ways to improve private sector involvement in NEPAD is first, to improve the general enabling environment for business. This can be carried out in general terms or the approach can be project-specific. Second, there is a need to improve the channels for effective interaction between private and public sector entities supporting NEPAD programmes. A mechanism like the ICF would go far towards improving the enabling context, although channels of communication would be needed in order for the ICF to interact in rectifying problems and ensuring permanent successes linked to the APRM. Other important specific mechanisms would include those facilitating access to venture capital and guarantees for investments made. An increase in the number of officials at the NEPAD secretariat tasked with private sector matters is especially needed. There is also a need for officials in national administrations who can facilitate access to NEPAD priority projects. At all these levels, there should be greater coordination and clarity for the purpose of facilitating interaction with the private sector.

The private sector has to be provided with more commercially targeted materials that encourage it to become involved in NEPAD implementation. This implies the provision of project-specific materials, in which the business-enabling context of projects is demonstrated to the private sector, and also implies that specific proposals on how to proceed to the next step and on what is needed on all relevant fronts are provided. A new mechanism is required to process such materials and use them in an ongoing liaison with the private sector and all public entities involved in the NEPAD process. Such a mechanism could be split among various bodies; but it would be useful, for example, if there was a lead body on activities that would interact with whatever elements were developed out of the ICF proposal.

On the private sector side, there is a perceived need for an improved structuring regarding ways to interact with NEPAD. This could include support for various activities, including those noted previously as well as the ICF proposal, even on a project sector-specific basis.

In implementing projects, it would be a good idea if the model of the e-Africa Commission could be duplicated for various projects and sectors. In such cases, various ISPAD-type structures could ensure private sector participation for mutual benefit. The targets of such actions would be supported by mechanisms previously cited and should ideally be targeted at small, easily identifiable projects such as e-schools.

## **International support**

International support is essential in fostering private sector growth and activities in Africa. The world economy provides linkages for African business affected by severe market limitations, capacity shortages and financial scarcity. An expanded international business presence in Africa, especially accompanied by capacity-building joint venture partnerships with local business, is a key ingredient for NEPAD delivery. International political support bolsters conditions for NEPAD success not only of the partnership, including improved capacity support for business activities, but also of international business partnerships with Africa.

Most of the international support for Africa currently tries to conform to NEPAD parameters and goals, with the 2002 G8 Africa Action Plan (AAP) setting the pace for active support to key NEPAD sectors. The Africa Partnership Forum (APF), which brings together the G8 and 11 other Organization for Economic Cooperation and Development (OECD) member countries in a dialogue with Africa, has attached importance to private sector development as a key priority for international partners' support to NEPAD. The United Kingdom's Commission for Africa, the latest of a range of international initiatives to support NEPAD, is emphasizing private sector activities and supporting new initiatives to decrease the debt burden on Africa, raise new capital for development and promote an ICF concept.

A variety of international bodies, notably development banks such as the World Bank Group, provide direct support to enable the private sector to engage in NEPAD. Of special note is the NEPAD support programme of OECD which aims to foster better capacity for Africa with special emphasis on an improved business-enabling context.

The Commonwealth Business Council (CBC) is a strong proponent of private sector activities behind NEPAD and a key initiator of the ICF. The CBC perceives the need to develop private sector capacity as a major challenge in Africa, recognizing that Africa's infrastructure deficit is fundamental and damaging to market forces and that a major injection is needed of concessionary, public and long-term capital to kick-start PPPs and reduce the risk for private capital.<sup>26</sup>

The British African Business Association (BABA) offers one of the channels through which the British private sector can collaborate with NEPAD; the French private sector has the Conseil Français des Investisseurs en Afrique (CIAN) as a structured channel. The CIAN strongly supports a more institutional format within which the private sector may engage the African public sector. It views good governance as the current main role of NEPAD, with national and regional entities being responsible for projects. The CIAN would like developmental agencies such as the World Bank to better interact with the private sector and NEPAD so as to become an African version of the OECD, acting from that platform as facilitator among all stakeholders.<sup>27</sup>

The Afrika Verein, a Hamburg-based association of German companies operating in Africa, and the Corporate Council on Africa (CCA) in the United States of America (USA) are similarly trying to engage NEPAD in cooperation with African partners. Both entities, however, often have problems of identifying projects and finding channels through which to engage public authorities. Notwithstanding the variety of existing projects emanating from the European Union (EU), they have not been engaged as much as they could on private support for NEPAD despite developments such as new budget lines for African, Caribbean and Pacific (ACP) countries to support private sector development. The activities of such entities in Brussels, which are funded from the European Development Fund (EDF) and operate in the EU-ACP context as the Centre for the Development of Enterprise (CDE) and the linked Pro-Invest, have considerable potential for improved mobilization of private sector forces in the NEPAD context. It may be noted, for example, that Pro-Invest is already a key supporter of the SADC Business Forum and the COMESA Business Council. While Japan has no private sector entity such as the Verein, the

---

<sup>26</sup> Discussions with Mr. Stephen Godfrey, Director of Research of CBC, in June 2005 and correspondence from him on 7 February 2005.

<sup>27</sup> Correspondence with Mr. Henry Castelnau, CIAN representative in Southern Africa, 28 January 2005.

CCA, the CIAN or the BABA, it has been giving support to programmes aimed at strengthening African trade and investment. Japan's initiatives have no targeted projects and have not as yet had results regarding private sector action.

## **Lessons learned**

A more sophisticated and better structured NEPAD private sector programme would help address the challenges of improving private sector engagement in NEPAD for the purpose of achieving its implementation. Well-developed and clear channels for interaction are necessary at all levels. There seems to be a particular need to focus on specific rather than generic goals, with strategies to create entities that could drive each project. Such bodies would have private sector representation as a key strategic partner along with public sector representation.

In securing enhanced private sector involvement in NEPAD implementation, the position and abilities of RECs have to be especially strengthened as part of a clarified structuring of management and interaction. In the course of such structuring, there would be a need for enhanced database systems that would assist RECs in achieving improved capacity to assess the state of implementation of the various projects and in acquiring knowledge about relevant private sector entities including trade associations, service providers and support bodies.

There is also a need for improved analyses of issues relating to project implementation including stakeholder involvement and PPP coordinates. Among issues to be assessed is the identification of challenges in the enabling context for enhanced results, including the sourcing of resources and the involvement of relevant stakeholders, and possible solutions. There is also a gap in the ability to use such capacity in establishing suitable mechanisms for engaging all stakeholders in activities for project implementation and for addressing inhibiting factors in the enabling context.

## **IV. East Africa**

### **Introduction**

The present chapter focuses on the contribution of the private sector to the implementation of NEPAD regional projects in East Africa. It includes analysis of the progress in, and obstacles to, private sector participation in NEPAD regional projects, in particular those projects designed to bridge “the infrastructure gap” and “the digital divide”. These include regional projects in infrastructure such as roads, highways, airports, seaports, railways, waterways, energy, telecommunications etc.

This chapter focuses on three East African countries Kenya, Uganda and the United Republic of Tanzania with some general references to other countries in the region. Their economies are also closely linked through a Customs Union that came into effect on 1 January 2005 under the East African Community (EAC). In addition, the countries jointly own the EADB, which effectively serves as a financing arm of regional or individual country projects. This unique configuration which integrates the countries provides an effective framework for the implementation of the NEPAD regional priority projects.

Regional economic communities (RECs) constitute the regional focal points for the coordination and facilitation of regional NEPAD activities. The Abuja communiqué of 30 October 2003 issued by the chief executive officers of Africa’s nine RECs and the NEPAD secretariat along with 14 other regional and international institutions involved in NEPAD decided that all the NEPAD regional projects would become part of the programmes of the respective RECs. The RECs’ CEOs also recognized that Africa’s private sector and corporate friends of Africa had a critical role to play in the implementation of programmes under the NEPAD framework and called upon NEPAD, RECs and national Governments to draw on the capital, technical and human resources of these entities. Two of the three aforementioned East African countries, namely Kenya and Uganda are members of the EAC, the Common Market for Eastern and Southern Africa (COMESA) and the Intergovernmental Authority on Development (IGAD), but not Southern African Development Community (SADC). The United Republic of Tanzania is a member of the EAC and the SADC but not of the COMESA or the IGAD. It is therefore the EAC that is responsible for the facilitation and coordination of the East African region’s NEPAD projects.

The first task for East Africa was to agree on a list of regional projects at the summit level. The first NEPAD Summit of the Heads of State and Government of the countries in Eastern Africa were held in Nairobi in June 2002, but did not approve any list of projects. A second follow-up summit took place in Nairobi on 29 October 2003. It was attended by leaders of nine countries with representatives from the COMESA, the EAC, the IGAD and the NEPAD secretariat. The summit exchanged views on issues relating to the identification of and agreement on the NEPAD priority programmes/projects for the Eastern African region; and determined a coordination mechanism for the region and the enhancement of private sector participation in the implementation of NEPAD projects. The Summit recognized the importance of the private sector in the overall development agenda for Africa, and emphasized the significance of the sector in the implementation of the NEPAD regional projects and programmes. It identified the NEPAD regional priority projects that would be fast-tracked; and approved the establishment of a regional NEPAD office in Nairobi to facilitate the implementation of NEPAD regional projects.

## **East Africa: the private sector and NEPAD**

East Africa has a long history of common regional projects undertaken in social and physical infrastructure with varying levels of participation by the private sector from the pre-independence days. Such structures included a single telecommunications system, a common railway infrastructure, a joint harbours authority, a single airline and a range of other common services. The three countries had been on the verge of attaining full common market status and becoming, at the time, the most integrated region in the world when the EAC collapsed in 1977, after prior 30 years of existence.

The re-establishment of the EAC in 1999 and the emergence of the NEPAD-STAP at a time of improved investment conditions in the region have given East Africa a renewed beginning and new impetus for its regional projects based on an enhanced role by the private sector. Currently, the private sector plays a dominant role in the economies of East African countries in the areas of NEPAD priority programmes.

Articles 127–129 of the EAC Treaty commit its member states to a cooperation regime that would make the private sector an effective engine for regional integration and development. These articles include a provision on private sector cooperation and development; cooperation in investment and industrial development; common development of infrastructure and services; coordinated, harmonized and complementary policies on roads, rail, air, the maritime sector, inland waterway, etc.; monetary and financial cooperation; agriculture and food security; health and social services; and free movement of persons, labour, services and the right to establishment of residence. Thus, specific articles of the EAC Treaty have created a foundation for common investment policies in the region.

As part of the implementation of its article on the private sector, the EAC conducted a major study on the EAC Private Sector Development Strategy in 2003<sup>28</sup> which laid down the perspectives on the role of the private sector in the East African economies. The study recognized that the participation by the private sector in the implementation of the NEPAD priority regional projects for East Africa provided the vehicle for both the private sector's driving of the regional integration; and the implementation of the projects that were necessary for the realisation of the goals of the integration process; but that an enabling environment within the countries and the region as a whole was crucial in order for both objectives to be realized.

East Africa, like most other regions, has investment regimes that are nationally not regionally based. The implication is that aside from projects for which the private sector is contracted directly by the two or the three governments, a legal anchor does not exist for a NEPAD East African project engaged in by the private sector alone.

### **Private sector engagement in NEPAD regional programmes**

The EAC Private Sector Development Strategy statistics in 2003 showed that the private sector in East Africa had a share ranging from close to 99 per cent in agriculture to about 80 per cent in mining and about 40 per cent in electricity.

---

<sup>28</sup> East African Community, *Private Sector Development Strategy*, volume 1: Main Report (Arusha February 2003).

As for the private sector's participation in NEPAD-STAP projects, out of 52 projects, a number of them were for the East African region. However, the second NEPAD Summit of East African leaders held in Nairobi on 29 October 2003 agreed on a slightly altered list of projects to be fast-tracked by the region (see table 3). The private sector is already involved in some of the projects. In line with the region's policy, the private sector will be involved in all NEPAD-STAP regional projects listed in the table.

Other East Africa-related projects in the NEPAD STAP list included: Mombasa – Nairobi – Addis Ababa road corridor; The United Republic of Tanzania/Kenya - Arusha – Namanga – Athi Road; Nile Lake countries Electricity Network Interconnection; Rwanda – The United Republic of Tanzania - Kigali – Isaka railway; The United Republic of Tanzania/Kenya road study; SADC shared water courses support project; Zambia – The United Republic of Tanzania – Kenya interconnectivity; and the establishment of centres of excellence to enhance food production and nutrition.

Several of the above-cited NEPAD regional projects are in their very early stages of preparation for feasibility studies. At least three specific regional infrastructure projects involving the private sector are at a stage entailing some degree of substantial implementation.

## **Nature and scope of private sector involvement in NEPAD priority projects**

### **Types of NEPAD regional projects in which the private sector is involved**

Only two NEPAD regional projects in the field of energy for East Africa and one in ICT are currently under implementation with private sector participation. However, the fact that the process is in its early stages makes it difficult to realistically assess the prospects for successful implementation of these projects. The projects are described directly below.

#### **(i) Extension of the Kenya–Uganda oil pipeline**

The above pipeline is being implemented on the basis of PPPs. The estimated total cost for the project is US\$ 140 million. About 60 per cent of the cost of the project will be loan-financed from a consortium that is expected to include the EADB, and 40 per cent will be provided as equity by the project partners. Current plans are for private sector partner(s) to have 51 per cent shareholding, and the rest to be retained by public sector entities.

The implementation of the Kenya–Uganda oil pipeline is the responsibility of a Joint Implementation Coordinating Committee (JICC) made up of representatives of Kenya and Uganda. The committee has already carried out its initial task of identifying private sector partners through tenders. An advertisement for the expression of interest in the project was presented in May 2004 and closed in July 2004. A total of 23 applicants were received, and the committee pre-qualified 12 firms/consortia that are to submit detailed proposals/quotations for the project. A notable aspect in the implementation of the NEPAD regional project in Kenya and Uganda is the cross-cutting dimension in the project's implementation machinery. On the Kenyan side, it involves four different ministries (Finance, Energy, Justice and Foreign Affairs), in addition to two public sector corporations, namely the entity on environment and the Pipeline Company, while the Ugandan side has three ministries (Finance, Energy and Justice) and the public sector entity on Environment.

**Table 3. NEPAD-STAP for regional projects in East Africa**

<i>Programme/ project</i>	<i>Sector</i>	<i>Category</i>	<i>Action</i>
programme to enhance peace and security	Governance	Continental	Continuing
Common Africa Agriculture Development Programme (CAADP)	Agriculture	Regional	Regional implementation plan DD/FS stage*
Access and connectivity			
• Corridor 1: Mombasa – Malaba – Katuna – Kigali – Bujumbura	Road	Regional	None
• Corridor 2: Dar-es-Salaam – Masaka	Road	Regional	None
• Corridor 3: Biharamulo – Lodwar – Lokichogio	Road	Regional	DD/FS stage*
• Corridor 4: Nyakanazi – Tunduma	Road	Regional	DD/FS stage*
• Corridor 5: Tunduma – Arusha – Nairobi – Moyale	Road	Regional	None
• The road corridors connecting the Sudan, Ethiopia, Eritrea and Djibouti	Road	Regional	None
• Gedarif – Gallabal – Gondar – Addis Ababa	Road	Regional	None
• Gedarif – Humera – Gondai – Barentu	Road	Regional	Implementation stage
• The East Africa coast submarine fibre optic cable project with inland connection including to landlocked countries.	Information and Communication Technology (ICT)	Regional	None
• The oil pipeline extension projects from Mabala to Bujumbura	Energy	Regional	Implementation stage
• Kenya – Uganda Oil Pipeline	Energy	Regional	FS/stage
• Zambia – The United Republic of Tanzania - Kenya Interconnection	Energy	National	Continuing programme

\*DD = detailed design; FS =feasibility study

Source: Communiqué of the East African NEPAD Summit, 29 October 2003, Nairobi.

(ii) Zambia–United Republic of Tanzania–Kenya interconnectivity

The above project falls within the ambit of the SADC (based on the fact that the United Republic of Tanzania is a community member) and links with the EAC (in which both the United Republic of Tanzania and Kenya are members).

It involves electricity transmission from Zambia through the United Republic of Tanzania to Kenya. The estimated total cost of this project is US\$ 305.9 million. The project is being developed to enhance regional power transmission interconnections between Zambia, the United Republic of Tanzania and Kenya. The implementation of the project is structured into three phases, and each of these phases is currently subject of feasibility studies involving the private sector. The phases encompass:

- The Zambia (Pensulo) – the United Republic of Tanzania (Mbeya) sector interconnector, which involves the construction of 700 kilometres of power lines. A feasibility study for the project was completed in 1996, and the MOU was signed in 1997. In 2002, the member states agreed to update the feasibility study, which is currently continuing. This portion of the project is estimated at US\$ 138 million
- The extension of the Mbeya–Arusha kilometres power lines (the former being on the United Republic of Tanzanian side of the Zambian border, and the latter, the nearest city to the Kenyan border with major power infrastructure). Re-enforcement involves 220 kilometres to strengthen the 1095 kilometres line that will facilitate electricity transmission from Zambia to Kenya through the United Republic of Tanzania. The estimated cost of this portion of the project is US\$ 139 million.
- The Arusha–Nairobi interconnector involving the construction of the power transmission interconnections between Arusha (the United Republic of Tanzania) and Nairobi (Kenya). The relevant MOU was signed in 2001, and a consultant to conduct the study has been secured. The estimated cost of this final sector of the project is US\$ 28 million.

(iii) East African Submarine Cable System (EASSy)

This project falls within the rubric of NEPAD priorities in the bridging of the digital divide. East Africa is currently the only region in the continent that lacks a fibre-optic maritime cable along with the efficiency of communication services that goes with it. At the East African Business Summit held in November 2002 in Nairobi, Kenya decided on the establishment of the East African Submarine Cable System. Upon its implementation, this will be a landmark project in global telecommunications which will have brought together a diverse group of countries and investors to pursue a common purpose of bridging Africa’s digital divide profitably. Potentially, the project may involve the largest number of African countries in a single project (22 altogether), as well as all the East African telecom companies (15 altogether), and 5 international private sector companies. It is a PPP undertaking on a very high scale.

The task of promoting the project is being carried out by a selected group of promoters, which include telecommunications and mobile network companies in East Africa namely, Telecom Kenya (TK), Uganda Telecom Limited (UTL), MTN, and Zanzibar Telecom Ltd (ZANTEL) aided by an expert group.

The estimated total cost of the investment needed for the EASSy is of the magnitude of US\$ 200 million. This seemingly huge investment pales in comparison to the US\$ 400 million that the three East African countries pay annually as the cost of relaying intra-continental calls through Europe. The system will result in a substantial reduction in such payments. However, the key consideration is the expansion of telecommunication services at reduced rates that is so vital for higher economic growth in East Africa, and the easing of communicating links between East Africa and the rest of the world.

An international firm, AXIOM Consultants has been appointed to carry out a detailed feasibility study of the EASSy project. It was understood that the study, which has begun in mid-November 2004, was scheduled for completion by March 2005. Essentially, the study is in three dimensions: technical, commercial and financial viability of the project; system desk top study; and back haul terrestrial connectivity study. The feasibility study for the project has finally been

completed. No decision has been made on the timetable for the implementation of the project. However, it is expected that the project will become fully operational by 2007. Projects that have been approved are being considered by the World Bank, the DBSA or the AfDB.

Table 4 below provides the list of projects relevant to East Africa that have been approved for a feasibility study or are under consideration for funding by the World Bank, the DBSA or the ADB.

**Table 4. Regional projects at some level of implementation or under consideration for funding by the World Bank, the DBSA or the AfDB in East Africa**

<i>World Bank</i>	<i>DBSA</i>	<i>AfDB</i>
<p><b>Southern African power market development project (Board approval: 11 November 2003) for all Southern African power Pool members</b></p> <p><i>First Phase:</i> US\$ 178.6 million in credit to Democratic Republic of the Congo (\$177.5 million) and Zambia (\$1.1Million) (fiscal year 04)</p> <p><i>Second phase:</i> US\$ 62 million to Malawi and (fiscal year 04)</p> <p><i>Third phase:</i> US \$215million to Democratic Republic of the Congo, Zambia and The United Republic of Tanzania (fiscal year 06)</p> <p>Total cost: \$ 452 million</p> <p><b>Southern African regional gas project (Board approval: 20 November 2003)</b></p> <p>Total cost: US\$ 721 million</p> <p>IBRD guarantee: US\$ 30 million</p> <p>MIGA: US\$ 72 million IFC Equity: US\$ 18.5 million</p> <p>( World Bank guarantees expedited the involvement of private investors such as SASOL) South Africa</p> <p><b>Support to EAC on transport and trade facilitation US\$ 60 million (fiscal year 05)</b></p> <p><b>Support to EAC: Customs Union budget support to offset revenue losses.</b></p> <p>Estimated cost US\$160 million Kenya; US\$ 77 million for Uganda; and US\$ 28 million for The United Republic of Tanzania</p> <p><b>Lake Victoria Environmental Management Project</b></p> <p>Estimated cost US\$ 80 million</p>	<p><b>Zambia/ The United Republic of Tanzania-Kenya interconnector</b></p> <p>Total cost: \$250 million under DBSA consideration; project development work funded by World Bank</p> <p><b>Inga hydro extension (DRC and Southern Africa Power Pool) (total cost: to be determined under DBSA consideration)</b></p> <p>DBSA having discussion with World Bank, SAPP and (DRC's) Société National d'Electricité on time frames and priorities</p> <p><b>COMESA Great Lakes railway network construction</b></p> <p>Total cost: US\$ 435 million under DBSA consideration (provided technical support to 2001 study )</p> <p><b>Mombassa – Mabala – Kafuna Corridor road network in Kenya and Uganda</b></p> <p>Total cost: US\$ 235 million under DBSA consideration; EU has indicated an interest in funding</p> <p><b>Dar-es-Salaam – Isaka Mutukula – Masaka Corridor road network in The United Republic of Tanzania and Uganda</b></p> <p>Total cost US\$ 241 million under DBSA consideration, and IDA/EU/AfDB; DANIDA have indicated interest in funding)</p> <p><b>East Africa submarine fibre- optic cable and associated terrestrial networks project</b></p> <p>Total cost US\$ 300 million, excluding cable station building and ancillary services</p> <p>Under DBSA consideration; some country operators have already signed the MOU</p>	<p><b>The United Republic of Tanzania – Arusha –Namanga – Athi River road study</b></p> <p>AfDB financing US\$1.39 million Total project cost US\$ 1.47 million</p> <p><b>Kenya/ Burundi/ Rwanda/ DRC: interconnection of Electricity Networks Study</b></p> <p>AfDB financing US\$2.96 million and project cost US\$ 3.12 million</p> <p><b>Nile Lake countries electricity networks</b></p> <p>Interconnections study; AfDB financing US\$ 2.86 million</p> <p><b>Rwanda –The United Republic of Tanzania Kigali – Isaka Railway: Pre-feasibility study</b></p> <p>Project under preparation for funding by AfDB</p> <p><b>The United Republic of Tanzania– Kenya road study</b></p> <p>Project under preparation for funding by AfDB estimated cost US\$1.48 million</p> <p><b>Zambia–The United Republic of Tanzania–Kenya Interconnection: Project</b></p> <p>Under preparation for funding by AfDB</p> <p>Estimated total cost US\$ 111 million</p> <p><b>SADC shared water course support project</b></p> <p>Under preparation for funding by AfDB (estimated total cost US\$ 17.76 million)</p>

Sources: Resolution of the G8 Evian Summit – annex I section D; and NEPAD Action Programme for the United Republic of Tanzania, President's Office, May 2003.

## *Nature and scope of the involvement of the African private sector versus foreign firms*

There is considerable disparity between the participation of the domestic and foreign owned private sector firms in the NEPAD regional projects in East Africa. It is significant that of the 12 firms/consortia that have been pre-qualified for the Kenya-Uganda pipeline project, 8 are foreign, and 4 are East African. In the activities carried out so far with respect to the EASSy project, 5 out of the 15 companies are non-East African. Moreover, most of the East African companies are state-owned corporations. All 5 private companies that have expressed interest in investing in the EASSy project are foreign. Feasibility studies in the Zambia – Kenya interconnectivity project have also been conducted by the foreign private sector.

## **Resource mobilisation**

A fundamental challenge in the implementation of the NEPAD regional projects in East Africa concerns the mobilization of resources, in particular financing the participation of the private sector. A rough estimation would suggest that the sums needed to implement all the NEPAD-STAP priority projects for East Africa would be of the magnitude of US\$ 4 billion, excluding the Inga Dam and the Comprehensive Africa Agriculture Development Programme (CAADP) projects.

In an East African business survey of a representative sample of 99 firms, large and small, from the major sectors of the regional economy, inadequate access to financial resources was cited by 77 per cent of the firms as a major constraint on the private sector's participation in regional projects for East Africa. The second constraint cited by 69 per cent of the firms was inadequate working capital at the enterprise level. The source of these data is the East African Community Private Sector Development Strategy report.

In an effort to broaden and coordinate the operations of their financial sector, the East African countries have put together some important facilitating instruments. These include:

- East African Monetary Affairs Committee
- East African Capital Markets Development Committee
- East African Partner States Securities Regulatory Authorities

In spite of these efforts, the capacity of the financial sector in East Africa remains grossly inadequate with respect to the magnitude of financing needed by the private sector in the implementation of the NEPAD projects.

## **Sources and methods of financing of NEPAD regional projects in East Africa**

The major sources of financing of regional priority projects in East Africa are the governments of East African countries and the multilateral institutions (for example, World Bank, African Development Bank, Development Bank of Southern Africa, East African Development Bank, bilateral donors and private sector funds). The capital markets in East Africa are still in an embryonic stage with the exception of Kenya's.

Kenya has a relatively advanced capital market; but the capital markets of the other two countries are still in a very embryonic stage owing to the fact that: (a) while the stock market in Kenya had been established in 1954, the ones in Uganda and the United Republic

of Tanzania were established in 1997 and 1998, respectively; (b) cross-listing is recent and limited, for example one Kenyan Company is listed on the Dar-es-Salaam Stock Exchange; (c) there is limited participation by global investors in the capital market partly owing to restrictive regulations; (d) there is a low-level supply of issues; and (e) the three capital markets are fragmented with limited intermediation capacity for large-scale private sector funding, leading to the high cost of capital.

The commercial banking sector is largely foreign and cannot lend for long-term infrastructure projects. Its lending rates are way above 10 per cent, a rate that is also too high for infrastructure projects. The overall situation in East Africa is characterized both by a small domestic private sector with limited capacity to generate large liquid resources for the capital market and by a lack of access to credit facilities, especially by the domestic private sector.

### ***Multilateral sources of funding for NEPAD regional projects***

Major sources of multilateral funding for NEPAD regional projects in East Africa are the World Bank, the DBSA and the AfDB. On the assumption that all the commitments already made and the loans under consideration are realized, the World Bank will eventually provide funding to NEPAD projects in East Africa amounting to US\$ 1.6 billion. The DBSA for its part will fund projects amounting to US\$ 1.5 billion excluding provisions for the Inga Dam; and the African Development Bank will provide funding for projects amounting to US\$ 137 million. Altogether, these three institutions will provide funding to NEPAD priority regional projects in Eastern Africa amounting to US\$ 3.2 billion. It should be noted that in agriculture, which is not included in the above figures, for Africa as a whole, US\$ 4 billion will be needed through 2015.

### ***East African Development Bank***

The EADB is already playing an important role in the financing of projects in East Africa with a regional dimension or those falling within the category of NEPAD priority regional projects. Out of the Bank's total lending of US\$ 51.2 million to the three countries in 2003 (compared with US\$ 41.6 million in 2002), agriculture and fisheries accounted for 28 per cent, while 21 per cent was directed to infrastructure projects, specifically to the transport, communication and energy sectors. It is significant that about 80 per cent of the Bank's financing has been directed towards the private sector. The Bank's has also been playing a major role in the mobilization of investment funds from East Africa's capital market through issues of Bank bonds.

In the immediate future, the Bank is expected to participate in the financing of NEPAD regional projects currently in the preparatory phase including the Kenya-Uganda oil pipeline project; the rehabilitation of the Kenya-Uganda railway; and possibly, the Arusha-Nairobi power interconnection line. The participation of the Bank in these NEPAD projects can only be on a limited scale, given the Bank's capital base of US\$ 150 million. In effect, its lending has an upper limit of US\$ 20 million, and its single largest loan ever amounted to US\$ 15 million to Uganda Telecom. These are very small sums in relation to the cost of US\$ 140 million for the Kenya-Uganda pipeline; US\$ 305.9 million for the Zambia-The United Republic of Tanzania - Kenya interconnector; and US\$ 300 million for the EASSy project.

### ***Bilateral sources of funding***

A substantial portion of bilateral funding to regional projects in East Africa goes through EADB. Currently Netherlands Development Finance Company, (FMO) (Netherlands)

holds 10 per cent of Bank shares with 2.7 per cent by Deutsche Investitions-und Entwicklungs-gesellschaft mbH (the Germany Investment and Development Company (DEG)). The African Development Bank holds 13.4 per cent and the rest is held by the Bank's member states, namely, Kenya, The United Republic of Tanzania and Uganda). In 2003, the NORDIC Development Fund extended lines of credit of €7 million, which enhanced the bank's lending capacity to projects in the region.

Some other private sources of funding have made commitments to support NEPAD projects in East Africa (at least at the facilitation level). In October 2004, Bundesverband für Wirtschafts-förderung und Aussenwirtschaft (BWA), a German business association with a membership of 20,000 companies involved in international economic cooperation and foreign trade in Germany signed a MOU with NEPAD–Africa Social Equity Trust (NEPAD–ASET). Under the MOU, BWA will not only cooperate with NEPAD–ASET in a range of areas, will also help with finance for the facilitation by NEPAD–ASET of some NEPAD regional projects for private sector participation. The Corporate Council on Africa (CCA) is also expected to sign a MOU with NEPAD-ASET similar to that signed by BWA.

## **Building partnerships in NEPAD priority regional projects**

NEPAD has always recognized the principle of PPPs. This had to be expected with the movement to market-based economies in the continent, making Governments' direct involvement in the production of goods and services inadvisable. However, the social and physical infrastructures, whether national or regional, are an exception to this rule as they are facilitators of inputs that the market cannot profitably provide. What is nevertheless still missing in the East African situation is a redefined role for each stakeholder and a mechanism for coordinating the inputs. The three NEPAD regional projects covered in this study were on based on PPPs, but these were organized on the basis of ad hoc arrangements.

The challenge is the creation of workable partnerships in PPPs with targeted goals and measurable results based on a clear timeline and a framework for implementation.

### ***Areas in which Public Private Partnerships have been formed to implement NEPAD regional priority projects***

There are two major Public Private Partnerships-based NEPAD priority regional projects that are currently undergoing implementation in East Africa. These are the East African Submarine Cable System project and the Kenya–Uganda oil pipeline. Both reflect the involvement of the Governments and State-owned corporations, the foreign private sector, and domestic private sector. Tables 5 and 6 below provide the configurations.

**Table 5. Public-private partnerships: project preparatory phase Kenya – Uganda pipeline project**

<i>JICC</i> <sup>29</sup>	<i>Private sector</i>	<i>Funding sources</i>	<i>Financing plan</i>
<p><b>Kenya</b></p> <p>Kenya Ministries of Energy and Finance; Office of the Attorney General; Kenya National Environment Management Authority (NEMA); and Kenyan High Commission.</p> <p><b>Uganda</b></p> <p>Ministries of: Energy and Mineral Development; Finance, Planning and Economic Development; and Justice and Constitutional Affairs, and Uganda National Environmental Management (NEMA)</p>	<p><b>Foreign</b></p> <ol style="list-style-type: none"> <li>1. Energem Petroleum Corporation Ltd</li> <li>2. China Petroleum Pipeline Engineering Corporation</li> <li>3. Indian Oil Corporation</li> <li>4. Stone &amp; Webster Management Consultants Inc.</li> <li>5. Asia Petroleum Ltd</li> <li>6. Petroleum India International</li> <li>7. Stroytransgaz</li> <li>8. MISA Inc. / Shell Uganda Ltd;</li> </ol> <p><b>Domestic</b></p> <ol style="list-style-type: none"> <li>1. Tamoil East Africa Consortium</li> <li>2. Zakhem Construction (K) Ltd</li> <li>3. Petronet East Africa Consortium</li> <li>4. East Africa Infrastructure Consortium</li> </ol>	<ol style="list-style-type: none"> <li>1. Kenya and Uganda Governments</li> <li>2. Private Sector firms that will carry out the project;</li> <li>3. Multilateral institutions including EADB</li> </ol>	<p>60 per cent loan financing from a consortium including the East African Development Bank</p> <p>40 per cent equity by project partners.</p>

<sup>29</sup> Joint Implementation Coordinating Committee.

Source: Ministry of Energy and Mineral Development, Kampala.

Table 6.

**Details of the public-private partnerships on the East African Submarine Cable System Project**

<i>Key features</i>	<i>Country or area</i>	<i>Interested investors</i>	<i>Project promoters</i>
<p>Completion of an optic-fibre ring around Africa length 8,840km in conjunction with other fibre submarine cable systems.</p> <ul style="list-style-type: none"> <li>• First optic fibre connectivity between Eastern Africa and the global optic fibre network.</li> <li>• Cost-effective alternative transmission medium providing excellent diversity and restoration options for the capacity users as well as for the other submarine systems in the region</li> </ul> <p><b>Advantages and benefits of the system</b></p> <ul style="list-style-type: none"> <li>• Bring the power of high speed, high bandwidth connectivity to Africa</li> <li>• Enable new services and products not possible hitherto owing to bandwidth restrictions</li> <li>• Improve high capacity optic connectivity within Africa and the rest of the world</li> <li>• Reduce unit costs (capital and operational) for global connectivity.</li> <li>• Reduce out-payments to foreign telecommunications (satellite) facility providers</li> <li>• Provide direct routes through own infrastructure, obviate the need for transit through third parties by reducing out-payments</li> </ul>	<p>Kenya Zanzibar Uganda Mozambique Ethiopia Somalia Malawi South Africa Djibouti Botswana Madagascar Sudan Rwanda</p> <p>Potential Participants from other African Countries:</p> <p><b>Category I</b> Swaziland Lesotho Eritrea</p> <p><b>Category II</b> Zambia Zimbabwe Seychelles Burundi Democratic Republic of the Congo Comoros</p>	<p>The following international carriers have shown interest in investing in the project</p> <p>Belgacom (Belgium) AT&amp;T –(United States of America)</p> <p>BT – (United Kingdom) MCI – (United States of America)</p> <p>Teleglobe – (Canada) France Telecom</p> <p>Telenor – (Norway) KPN - Netherlands</p> <p>Cable &amp; Wireless Telekom Malaysia</p>	<p>The following (15) parties have signed the memorandum of understanding for the development of the East African Submarine Cable System</p> <ol style="list-style-type: none"> <li>1. Telkom Kenya</li> <li>2. Zanzibar Telecom</li> <li>3. Uganda Telecom</li> <li>4. MTN Uganda</li> <li>5. Telecommunicacoes de Moçambique</li> <li>6. Telkom South Africa</li> <li>7. Djibouti Telecom</li> <li>8. Sentech South Africa</li> <li>9. Telecom Malagasy</li> <li>10. Rwanda Telecom</li> <li>11. Botswana Telecom Corporation</li> <li>12. Malawi Telecom Ltd</li> <li>13. Ethiopian Telecom Corporation</li> <li>14. Sudan Telecom Ltd (Sudatel Co Ltd)</li> </ol> <p>Dalkom Co. Ltd (Somalia)</p>

Source: East African Submarine Cable System promoters: Telecom Kenya, Uganda Telecom, and Zanzibar Telecom Ltd.

## **Enabling environment for the private sector**

East African countries have carried out far-reaching economic reforms that have substantially created conducive environments for investment. Yet, much more needs to be done, especially at the regional level.

### **Elements of NEPAD programmes that unintentionally hamper private sector participation**

NEPAD programmes are structured in a helpful manner for the participation of the private sector in the implementation of the NEPAD projects at the national level, but not at the regional level, where most of the NEPAD projects are centred. At the national level, NEPAD focal points can provide some information and support to private sector on such projects. At the regional level, however, private sector facilitation is different as a result of multiplicity of actors, which is why some elements of NEPAD programmes unintentionally hamper private sector participation in NEPAD projects.

First, Regional Economic Communities have correctly been designated as NEPAD regional focal points. In the case of the East Africa region, the multiplicity of Regional Economic Communities (East African Communities, Southern African Development Community, Common Market for Eastern and Southern Africa, Intergovernmental Authority on Development and Economic Community of the Great Lakes Countries) does inevitably limit a coherent and coordinated process of support to the private sector. In addition, the Regional Economic Communities have not had adequate resources to build effective bridge of cooperation and support to the private sector in the region.

Second, while NEPAD effort has focused on mobilising resources, with emphasis on the role of the private sector, less attention has been directed towards the empowerment of the RECs and other entities to facilitate private sector participation in NEPAD projects. For example, while EAC has a senior official responsible for NEPAD, it has not yet been able to set up a specific programme for the coordination of NEPAD programmes in East Africa. Likewise, since no discernible direct support has been provided to the organized private sector in East Africa, it has not been able to effectively promote NEPAD regional projects.

Third, the organized regional private sector has not been involved meaningfully– if at all in the consultative processes of projects at regional level, for example, the various high-level NEPAD meetings that have taken place in East Africa including the East Africa Subregional Ministerial Meeting held in Kampala in March 2002, the East Africa Subregional Summit on the New Partnership for Africa's Development held in Nairobi on 22 June 2002 and the experts and ministerial meetings that preceded the second Summit held in Nairobi in October 2003. Given the critical role that NEPAD would like the private sector to play in the implementation of regional projects, a mechanism so as to effectively associate the regionally organized private sector could have been considered to allow for a more direct participation of the sector in these high-level meetings.

Fourth, to the extent that NEPAD must place substantial reliance on the foreign private sector in the implementation of the NEPAD regional projects, the sustainability of the NEPAD-driven transformation in Africa will depend on the domestic private sector. However, NEPAD has not yet laid out a deliberate strategy for its direct empowerment. In the same context, in order to maintain a level playing field between the domestic and the foreign private sector and in deference to the preferences of donors, the NEPAD has not

directed its attention to mechanisms that would deliberately facilitate domestic/foreign private sector collaboration in the implementation of the NEPAD projects.

There is a feeling that the involvement of non-state partners in Africa's financial institutions such as the East African Development Bank does create some form of competition in major NEPAD regional projects with the East African private sector, since such non-state partners also have an obligation to promote the operations of the private sector in foreign markets.

The East African Business Council also depends on financial support received through international cooperation. About 50 per cent of the total expenditure of the Council comprises donations from international donors. The same, in varying degrees, applies to other regional bodies related to NEPAD regional programmes. This form of dependency by bodies responsible for the implementation of NEPAD programmes poses serious questions of sustainability.

### Private sector challenges on NEPAD priority projects

The effectiveness of the private sector in Africa with respect to NEPAD regional projects will depend on the extent to which the sector can organize itself at regional and continental levels for coordinated effort. Institutionally, such cooperation already exists in terms of the Africa Business Roundtable and the East African Business Council. In the case of the Council, which acts on behalf of the private sector in the three East African countries, its effectiveness can be gauged from the fact that in a representative sample of 99 East African firms, one third rated the Council's effectiveness in the promotion of private sector participation in regional integration as "low", over a third rated it as "fair" and only less than a third or 27 per cent rated it as "high". Deficiencies in these organizations are more organizational than financial, considering that the Council obtains considerable donor support.

Taking a long-term view on investment is necessary for any meaningful participation in NEPAD infrastructure programme. Such infrastructure projects in the past were carried out directly by the State or by state-owned corporations, even in the developed countries. The private sector in Africa must therefore reorient itself to the realities of its new role in long-term investment.

### Mechanism to increase private sector involvement in NEPAD projects

East Africa is building a good track record of good governance. However, the institutional, legal and other barriers need to be addressed in order that conditions for private investment in regional projects may be provided. Thus, an enabling environment for private sector investment in the regional projects in East Africa must be anchored in these three areas: political stability; a transparent process for infrastructure bids, devoid of red tape, bureaucracy and corruption; and conditions for the rule of law, where legal claims are enforceable in the judicial system with minimum delays.

The review of the status of NEPAD regional projects in the three East African countries revealed a considerable inadequacy in the integration of NEPAD programmes in national and regional development structures. In fact, an effective mechanism to actively facilitate private sector participation in NEPAD regional projects in East Africa does not actually exist. This obstacle is due, in part, to the lack of a consultative process at national and regional levels with major stakeholders in NEPAD projects. In the case of Uganda, however, two sets of consultative meetings took place in January 2005. The first meeting was at the

level of government ministries and institutions and the second at the level of the private sector and civil society.

A critical facilitation issue on NEPAD priority projects has been the question of how to package engineering projects so that they attract the stage at which they can be considered for funding. Investment in the preparation of the NEPAD regional projects (including design and feasibility studies to facilitate private sector involvement in seeking financing) will go a long way towards increasing private sector participation.

Effective facilitation by a Government-assisted body would provide greater participation of the private sector in NEPAD regional projects in the absence of better-organized private sector bodies. In the case of East Africa, where there is a multiplicity of Regional Economic Communities, the East African facilitation office established during the 29<sup>th</sup> October 2003 Summit has yet to be created. The office would be the focal point for cooperation with the East African Community to provide coordinated mechanisms to the private sector in the implementation of NEPAD regional projects at East African level.

The harmonization of investment laws including investment codes to provide for common tax incentives to investors is important for NEPAD projects in East Africa; there is also the issue of harmonisation of customs regulations and administrative procedures for private sector investment in regional projects. For infrastructure projects in particular, a common legislation and regulatory arrangement at the regional level for user fees should be enacted. Access to physical infrastructure (transport, telecommunication, power and water) and supporting services including finance and energy should be based on common investment policies for the private sector.

Ultimately, meaningful participation of the private sector in regional projects in East Africa requires a common legal and regulatory structure for the relevant investment areas.

East Africa, like the rest of Africa, is facing the dilemma of having to rely on the private sector as the engine of growth, despite the fact that it lacks the capacity to play such a role. In creating an enabling environment for the private sector in NEPAD projects, two sets of measures applicable to different actors in the private sector are called for: an enabling environment for the private sector as a whole and targeted empowerment measures directed towards the domestic private sector.

Finally, the private sector should play a role in facilitating a mechanism for the implementation of the NEPAD regional projects. An effort to enable the private sector to play such a role is in the pipeline in East Africa. The multiple memberships in Regional Economic Communities in East Africa create some complex problems with regard to achieving a common framework for the coordination of a NEPAD regional project by any single Regional Economic Communities in Eastern Africa, and/or the facilitation of a private sector implementation of such regional projects.

This has necessitated the establishment of the East Africa Infrastructure Development Group (EAIDG) as a fulcrum of the facilitation of rapid implementation of NEPAD regional projects with private sector involvement. The Group will start initially in East Africa with five representatives from each of the three countries, but it will ultimately expand to accommodate other countries in the Eastern African region. The launching of EAIDG was scheduled for early 2005 in Dar-es-Salaam.

## Barriers to investments in Africa

Critical private sector constraints on the implementation of NEPAD regional projects for East Africa centre on problems of good governance, transparency, predictability and the capacity for project facilitation. In addition, there are problems related to the legal and regulatory framework; financial resources; access to social and physical infrastructure; an inadequate human resource base; and energy, transport and communication.

*(a) Good governance:* Private investment in infrastructure projects is long term and often carries very low returns. Consequently, political, and policy stability becomes the key to such investment by the private sector. In a World Bank Investment Climate Survey, 70 per cent of the respondents in Kenya identified crime as a major constraint on their business operations, while 59 per cent reported unpredictable interpretation of regulation as a constraint in the United Republic of Tanzania. Corruption was reported as a major constraint by 74 per cent in Kenya, 51 per cent in The United Republic of Tanzania and 38 per cent in Uganda. This is particularly relevant in infrastructure projects which often lead to lack of transparency of rules and procedures in bidding for infrastructure.

*(b) Access to financing:* In an East African study covering Kenya, Uganda and the United Republic of Tanzania, 77 per cent of the respondents cited access to finance as a major constraint. The World Bank survey showed that about 68 per cent of responding firms in sub-Saharan Africa cited inadequacies of finance for investment as a major constraint. These financial inadequacies have translated into lack of the regional capacity to invest in project preparation carried to a bankable stage including design and feasibility studies to facilitate easier financing and private sector participation.

*(c) Access to physical infrastructure.* Access to physical infrastructure (electricity, telecommunications, transportation, etc) was cited by about 50 per cent of the sub-Saharan firms in the World Bank study as a major constraint. That this constraint created added costs for electrical generators was cited as a problem by 75 per cent of the firms in Kenya, 58 per cent in The United Republic of Tanzania and 35 per cent in Uganda. An other dimension emerges from the East African study in which 67 per cent of the respondents considered infrastructure to be too costly.

*(d) Legal and institutional framework.* The highest number of respondents (94 per cent) in the East African study cited heavy taxation as a major constraint on their businesses irrespective of their size, and 56 per cent cited customs regulations as a constraint. In the World Bank survey 73 per cent of firms in the United Republic of Tanzania, 68 per cent in Kenya and 48 per cent in Uganda cited tax rates as major constraint. The widespread belief that courts would not uphold their property rights was cited by 70 per cent in Kenya, 27 per cent in Uganda and 26 per cent in The United Republic of Tanzania as a major constraint. The number of days required for enforcing a contract were 360 in Kenya, 242 in The United Republic of Tanzania and 209 in Uganda. On institutional framework, 77 per cent of the respondents in the East African study cited this as a major constraint, which encompassed the lack of a legal and regulatory framework based on harmonized laws on finance and investment in social and physical infrastructure including user fees in major infrastructure projects; restrictive investment policies and bureaucratic red tape in registering a business (requiring 47 days in Kenya, 35 in The United Republic of Tanzania and 36 in Uganda); and the lack of harmonized regional investment laws and procedures on access to finance and credit.

*(e) Facilitation.* Lack of a consultative process and support institutions constitute a major constraint on enhanced private sector participation in the implementation of NEPAD regional

projects. In the East African study, inadequate public-private sector consultative processes were cited by 77 per cent of the businesses as a constraint; and inadequate public and private institutions to support the private sector were cited by 78 per cent of the firms. This has clearly resulted in a lack of an effective regional mechanism for the coordination and facilitation of greater private sector participation in NEPAD projects.

*(f) Human resources development.* Africa still lacks an adequate level of human resources comparable with that of Asia and of Latin America. The World Bank survey has established that improvement in the investment climate always increases the demand for human capital. In the case of sub-Saharan Africa, only about 20 per cent of its population over the age 25 have completed secondary or higher education. In a world that is constantly innovating, a critical mass of skilled workers, which may not yet have emerged in Africa, is necessary to handle new technologies.

*(g) Facilitation at national and regional levels.* The levels of integration of NEPAD projects in the East African countries are far below those already achieved in the leading countries (Algeria, Nigeria and South Africa). Kenya has been leading, having started with a full-fledged national NEPAD secretariat. In the case of The United Republic of Tanzania, its NEPAD national focal point has only two professional staff members. The Uganda focal point recently shifted from the Finance Ministry (which had only one professional staff member responsible for NEPAD) to the Uganda National Planning Authority which did not yet have a staff on NEPAD, but had been expected to have recruited one in January 2005.

## **International support and lessons learned**

The private sector in East Africa has seemingly been slow in playing its rightful role in the implementation of NEPAD priority regional projects. It is possible that the public sector and the private sector in East Africa have not yet achieved a shared vision and a common understanding of the way forward; it is also possible that a serious effort has not been made by both sides to reach an understanding on the contribution of the sector towards the NEPAD priority regional projects. In fairness to the public sector, the private sector in East Africa does not seem to have fully grasped the realities of the emerging era of PPPs and its role in it. True, East Africa did not decide on its priority regional projects until October 2003. However, many of the projects had already been in the pipeline, and the private sector had not effectively picked them up. As a result of this passivity, private sector engagement in the NEPAD priority regional projects in East Africa has been slow and limited.

Two of the NEPAD regional projects, namely, the EASSy project and the Kenya-Uganda oil pipeline seem to have signalled the beginning of a prompting of the private sector in East Africa to come on board and engage in NEPAD regional priority projects. In effect, the proposal to push the EASSy project originated in the private sector which had realized that it was achievable under the NEPAD umbrella. Yet, in addition to these projects, which are in the advanced preparatory phase, there are many NEPAD-STAP projects for East Africa that are in their early feasibility study.

The NEPAD priority regional projects represent an immense and historic opportunity for the private sector in East Africa, but also a great challenge. A total investment of more than US\$4 billion, for which financing at affordable rates may be available in the foreseeable future, could be the start of an era of structural transformation of East African economies. The private sector would be the principal beneficiary of such a development. There are positive signs that the private sector in East Africa is beginning to rise to the challenge. However, an enhanced level of regional facilitation, coupled with an enabling environment for investment

in regional projects is necessary for effective response and participation by the private sector in the NEPAD regional projects.

There has been considerable enthusiasm demonstrated by the private sector for some ongoing PPP projects in East Africa, especially the EASSy and the Kenya-Uganda pipeline projects. An offshoot of this development was the recognition by the private sector of the necessity and the viability of this PPP as a new mode of cooperation and as the only means for the private sector to be a part of these huge projects and to increase profitability. More importantly, the private sector further recognized the opportunity to profit from participating in the creation of social and physical infrastructure, which is critical to the long-term sustainability of the growth of the sector.

East Africa needs to lay out a foundation for sustainable PPPs which should begin with joint formulation of the PPP policy itself. Key policy elements should include a more clearly defined role of the private sector specifically in the NEPAD regional infrastructure projects; identification of the areas of complementarities in terms of optimal combination of inputs and the activities that each side could best perform; articulation of the critical elements required to facilitate an effective participation of the private sector in the implementation of NEPAD regional projects; and prioritization of strategic areas and actions in the NEPAD regional projects that PPPs must carry out first, in order to create better conditions for the implementation of other NEPAD regional projects.

Another issue concerning PPPs is their almost total absence of PPPs in agriculture. It is clear that East Africa's performance in agriculture and food security has been poor for some time. It is evident from past performances in agriculture that the private sector alone may not be able to significantly turn the situation around. Thus, the challenge to East African governments is not just to create an enabling environment for agricultural development, but also to place on agriculture the same emphasis that they have placed on social and physical infrastructure by including PPPs in agriculture in the region.

This review has shown that there are some NEPAD elements that unintentionally hamper the private sector participation in NEPAD regional projects. First is the emphasis that NEPAD has placed on foreign donors for priority regional projects with the result that the regional private sector has not been challenged to mobilize resources from its own domestic and external sources and to feel a sense of ownership for those projects. Second, NEPAD had focused on the formulation of NEPAD-STAP by assuming that the instruments for facilitating the participation of the private sector and the private sector itself were ready to carry out the implementation. Consequently, the empowerment of relevant regional bodies (namely, the RECs) and the private sector, especially the domestic private sector, was not undertaken concurrently with the creation of the Action Plan.

The barriers to investments in Africa, especially in NEPAD priority regional projects are ironically the very problems NEPAD is trying to solve namely, governance weaknesses, and unfavourable legal and regulatory conditions for investment. These are compounded by inadequate social and physical infrastructure (arising from the "infrastructure gap and the digital divide"), weak capital markets resulting in a limited access to the financing of investments, and a weak human resources base which limits innovation, competitive technology and capacity for market access.



Office of the Special Adviser on Africa (OSAA)  
United Nations  
Tel.: (212) 963 5006  
Fax: (212) 963 3892  
<http://www.un.org/africa/osaa>