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* This briefing paper is an abridged version of CABRI's research paper on regional public goods (RPGs) in Africa and several RPG case studies.

REGIONAL PUBLIC GOODS IN AFRICA

Incentives, Financial Frameworks and Institutional Arrangements

1. INTRODUCTION

Regional public goods (RPGs) have become the anchor for the economic integration agenda in Africa. An RPG is 'any good, commodity, service, system of rules or policy regime that is public in nature and that generates shared benefits for the participating countries and whose production is the result of collective action by the participating countries' (Estevadeordal, Frantz & Nguyen 2004). This concept can be applied across many sectors, wherever two or more countries come together to supply a public good that benefits the citizenry. In Africa, the artificial boundaries that emerged from the colonial era resulted in a high level of social and economic fragmentation. Consequently, RPGs can play an important role in growth and development strategies by helping African countries to achieve sufficient economies of scale in market size to compete at the global level. Nonetheless, the optimal provision of RPGs does create dilemmas. For instance, in the case of national public goods, the cost to a government of supplying the good can be recouped through taxes; however, at the regional level, it is not feasible to levy taxes. Thus, national governments would prefer to spend scarce resources on goods whose benefits are confined to their own citizens. This briefing paper places emphasis on the incentives that promote the provisioning of RPGs, the financing framework and institutional arrangements that can be made to ensure successful co-operation.

2. BENEFITS OF REGIONAL PUBLIC GOODS

From a policy perspective, there are several reasons why RPGs should be a focal point of national and regional development plans. First, by pooling their resources to supply a shared good, individual countries can access public goods at a reduced cost due to economies of scale. Second, providing RPGs creates a foundation for future co-operation between countries by creating trust and encouraging formal and informal ties among different national agencies. Third, individual countries may more easily achieve national objectives by contributing to the supply of an RPG rather than trying to go it alone. Fostering national peace and security through regional peacekeeping efforts, as seen in the Eastern Congo region bordering Rwanda and Burundi, is a good example of the latter. Box 1 elaborates on the river blindness programme in West Africa to illustrate the potential benefits of RPGs.

3. INCENTIVES AND INSTITUTIONAL FRAMEWORK

Different types of RPGs offer some insight into the optimal institutional framework. For example, in the cleansing of a trans-boundary lake, each country's contribution adds proportionally to the total value of the regional good. This is known in the literature as summation technology. In such instances, where there is no enforcing authority, the incentives

Box 1: Combating river blindness in West Africa

The River Blindness Control Programme is recognised as one of the best examples of an RPG in public health. River blindness is a parasitic disease transmitted by flies along fast-flowing rivers. Before control programmes began, tens of millions of people were infected and hundreds of thousands suffered from the worst symptom: total blindness. Thirty countries were affected, from Senegal across to Ethiopia in the north and as far south as Angola and Malawi. The control programme began in 1974 through a coalition of African governments, local communities, international organisations, bilateral donors, the business sector, foundations and NGOs. It entailed training hundreds of epidemiologists and entomologists and enlisting tens of thousands of community health workers. The success of the coalition lies in a strong sense of purpose shared by participants and a systematic approach with defined objectives. Equally, the programme's success is attributed to persistence – it has been a 30-year effort. With the programme's success in West Africa, productive labour has increased, 600 000 cases of blindness have been prevented and 25 million hectares of formerly evacuated arable lands have been made safe for settlement and agriculture. These lands have the potential to feed an additional 17 million people per year using indigenous technologies and methods.

for a country to contribute are usually poor. A multilateral organisation or lead nation would have to take the initiative in increasing the supply of the public good. To take the example of a regional transportation network, the smallest contribution (the weakest link) determines the extent of supply for the entire region. If one country were to keep its section of the network in ill-repair, this would affect the reliability of the entire network. In such cases, richer nations are inclined to form partnerships with poorer countries in the region so that the level of supply is raised to a more acceptable standard. In regional peace and stability efforts, richer nations will subsidise poorer nations to ensure that no single country becomes a centre for terrorist threats. In the horn of Africa, Somalia is clearly the weakest link and is a growing centre for piracy. Given the negative impact on the entire region, a regional solution, led by a multilateral institution, would be desirable.

In the RPG setting, a common legal framework is often required to govern the relationships between the participating countries. The legal framework differs depending on the number of countries involved and the type of RPG being provided. The framework should be based on harmonised polices and standards for the technical and financial management of the RPG. It provides a mechanism for financial transfers between the countries and for settling any disputes that may arise. In addition, it confers legal authority on the office bearers appointed to discharge key operational functions (legal, technical and financial). Box 2 highlights the institutional arrangements between South Africa and Mozambique in the provision of a development corridor linking the two countries.

Box 2: The Maputo Development Corridor

The Maputo Development Corridor (MDC) is a transportation corridor comprising road, rail, border post, port and terminal facilities that connect three provinces in South Africa with Port Maputo in Mozambique. Political commitment and active support from the relevant leadership were instrumental in the success of the MDC. The involvement of the ministers of transport from Mozambique and South Africa was a very good example of this level of commitment. Various regional trade bodies, such as the Common Market for East and Southern Africa (COMESA) and the Southern African Development Community (SADC), were involved in a significant amount of complex legal and regulatory reform associated with the move towards free trade zones. A key lesson learned from this initiative, however, is that the initiation of a development corridor does not always require formal legal and regulatory reform. Development corridor initiatives can be pursued via relatively simple bilateral (or tri or multilateral) agreements that do not require the countries to initiate formal legal or institutional reform. As projects are implemented, the legal and institutional reforms necessary to allow for this implementation can be identified and acted upon by the countries participating in the corridor. Notwithstanding this point, one of the major factors the SADC Transport Protocol sought to address was harmonising the regulations and enforcement practices that affect transport costs and operations. Despite an SADC-wide effort to obtain legal and administrative agreement, the lack of uniformity is still a major non-tariff barrier.

4. INVESTMENT APPRAISAL

From a practical perspective, the most important consideration for a country or a region is whether it should invest in the provision of an RPG in the first place. Such a decision cannot be taken lightly, as directing resources towards an RPG may divert scarce resources from well-defined national projects (where all the benefits accrue to the nationals of that country). Citizens of a country might rightly ask why a regional project benefiting other countries should be prioritised over a local flagship project. In a democracy, political principals need to have ready answers for their constituents. One way of rationalising RPG investment decisions is to extend the conventional cost-benefit analysis from a single country (i.e. national economy) framework to a multi-country (i.e. subregional economy) framework (Adhikari & Weiss 2004). Economic analysis of multi-country projects needs to look at the financial and economic net impact as well as at the distributional effects.

As with standard single-country project analysis, the process must begin with demand studies to determine the extent of need among the participating countries. Such studies should inform the project concept paper. Once a project concept has been developed and its market quantified, it is essential to establish that the project is the least-cost means of achieving the particular objectives desired by the group of countries. For example, if the objective is to reduce freight times from the copper mines of Zambia to the coast, there would be several possible routes and modes of transport for doing so. If Zambia wanted to undertake a project jointly with the DRC, the two countries would have to weigh the costs and benefits of road versus rail, as well as considering which port to choose (Lobito, Dar es Salaam or Durban).

5. FINANCING ISSUES

If an RPG is a pure public good (where you cannot exclude a country and where the use of the good does not diminish the quantity available to another country), free riding by some countries is likely to be pervasive and financing is most problematic. To raise funds under this scenario, there needs to be a leader nation that is able to encourage others to follow its example; alternatively, a supranational structure should take the lead and institute some form of ability-to-pay approach. An example at the global level would be the United Nation's contributory system where countries contribute in accordance with their economic strength. The African Union operates according to similar principles when it comes to raising funds for the organisation's various programmes. When an RPG is a common resource pool (e.g. Lake Victoria), the same challenges arise. For club goods, such as regional economic communities, users of the good can be charged a fee for each instance that they access the good, and non-payers can be readily excluded.

Public provision and financing is most applicable to those situations where neither exclusion nor private provision is feasible. When trying to prioritise their funding to RPGs that have low financing options, donors and multilaterals should focus on non-excludable RPGs that are characterised by a summation technology and possess few nation-specific benefits (Rufin 2004). For regional club goods, external assistance should focus on the costs of setting up an effective club that will be able to collect user fees from member countries. However, where the RPG has weakest-link and weaker-link aspects, donors need to focus on capacity-building so that poor nations can meet acceptable provision standards.

Once the financing prognosis has been established, a range of financing mechanisms can be considered. These include:

- internalising externalities, which might involve the imposition of taxes, user charges, fees and levies, possibly through supranational entities;
- international financial institutions such as the World Bank and African Development Bank;
- national funding in the context of a national public good producing benefits that extend beyond the country's borders but with a high proportion of country-specific benefits; and
- private sector resources and partnerships such as the Bill and Melinda Gates Foundation.

Box 3 describes the financial framework of the Regional African Satellite Communications Organisation (RASCOM), and makes proposals for alternative financing arrangements.

6. KEY LESSONS

6.1 Shared purpose and long-term commitment

Perhaps the most important lesson to emerge from the case studies is that a strong sense of shared purpose and long-term commitment is required on the part of those involved. All large cross-border projects, by their very nature, throw up difficult technical, social and political challenges. Therefore, member countries and other parties involved should be committed to what is typically a long-term development initiative. The success in combating river blindness under the Onchocerciasis Control Programme (OCP) was predicated on the enduring commitment of a diverse set of actors including an international drug company, African governments, multilateral agencies, NGOs and the communities themselves.

6.2 Right combination of leadership and management support

The success of the Maputo Development Corridor (MDC) was also built on a foundation of inspired political leadership with appropriate management structures. The MDC planning and development process was 'championed' by the national transport ministers of both countries, who played a very active role in the planning and investor-mobilisation process. Furthermore, in both countries, political leaders at national and provincial level took steps to publicly 'champion' and drive the initiative, and, in practice, played an exceptionally active role, participating in the planning and development processes, and expediting speedy decision making as required. This, in turn, gave confidence to the private sector to commit the necessary financial and human resources.

6.3 Robust and flexible institutional arrangements

It is essential to have very clear institutional arrangements that support the objectives of the project and help to align the political, social and economic interests of the parties involved. This is most dramatically demonstrated in the Nile and Lake Victoria River Basin study, where the absence of a robust basin-wide commission perpetuated conflicts in the region.

Box 3: Regional African Satellite Communications Organisation (RASCOM)

The government of Libya controls approximately 60% of the share capital of RASCOM. The other shareholders, RASCOM and ALCATEL, the French aerospace company, hold the remaining 40%. Sources indicate that Libya had to come to the rescue of RASCOM in 2003 when the organisation was having some difficulty putting together a financing plan for the launching of its first satellite, RASCOM-QAF. The Libyan government, therefore, holds the key to the ownership structure of RASCOM. With the present civil strife in that country and the consequences of that for effective decision making, it would be safe to assume that there will be concern for the future financial viability and sustainability of the RASCOM project. African states such as Nigeria, Egypt, South Africa, Gabon, Algeria, Angola and Botswana could be encouraged to take up shareholdings in RASCOM. The African Development Bank, the West African Development Bank, Ecobank, the Development Bank of Southern Africa and a host of other home-grown financial institutions could also take up shares in the company. The present policy of RASCOM to finance its operations through borrowing and capital subscriptions is not a prudent financial model. RASCOM would be advised to diversify its financing from both its bilateral and international sources such as the World Bank. The World Bank's private sector wing, the International Finance Corporation, has supported the Eastern Africa Submarine Cable System (EASSy) and, therefore, the bank might not be averse to taking an equity interest in RASCOM if the requisite financial arrangements can be worked out. Finally, RASCOM should consider using a reputable investment bank such as the Development Bank of Southern Africa to prepare a comprehensive strategy to secure private funding for its future operations.

The Lake Victoria Basin Commission (LVBC), established in 2003, was completely independent of the establishment in 1999 of the Nile Basin Initiative (NBI), which favours the interests of the only two signatories to a 1958 treaty – Egypt and Sudan. The misalignment in the institutional mandates failed to mediate the divergent political and economic interests of the member countries involved, so much so that management of water resources in the Great Lakes region remains a controversial and contentious issue. This is contrasted with the South African experience, where the existence of functioning structures at sub-basin levels of management, such as those found in the Orange/Senqu River, has fostered the subsequent evolution of a basin-wide structure.

6.4 Strong private sector participation and improved execution

RPGs require very strong government leadership because of the trans-boundary nature of the initiatives and the sometimes large investments required upfront. However, as was seen in the MDC case, the private sector contribution can go far beyond assuming financial risks in transport developments. Private sector operators were contracted to execute large parts of the transport network under concession agreements, bringing valuable technical skills to bear on the strategic vision of the two governments. Such concession agreements drove the rapid expansion of both the road and ports projects. Furthermore, the Maputo Corridor Logistics Initiative (MCLI), which has strong private sector representation, replaced the public-sector driven Maputo Corridor Company and helped to ensure that the interests of its members received attention. RPG provision can proceed with little or no private sector involvement. However, in countries where public sector capacity is weak, the private sector can dramatically increase the chances of successful implementation.

6.5 The importance of financial structures and financing strategies

For most RPGs, a mix of public and private funding sources is required. Even where private financing is viable, private operators have sought some form of public support in the form of outright capital grants or financial guarantees. Cross-border initiatives are usually too large for private agents to undertake the full financial risk without some form of risk-sharing with the beneficiary governments. The extent of financial support a government should provide is influenced by the relative size of private and public benefits that are generated by the project. Where the externalities are very large (such as in the prevention of river blindness), governments should get directly involved in the financing strategy either through direct grants and incentives or by drawing on funding from regional development banks.

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