ECONOMIC COMMISSION FOR AFRICA
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Ad Hoc Expert Group Meeting on Tapping Private Sector Resources, Market Forces and International Capital to Accelerate African Economic Integration

Addis Ababa, Ethiopia
13 – 15 July 1999

REPORT
I. Introduction

1. The Ad-hoc Expert Group Meeting on Tapping Private Sector Resources, Market Forces and International Capital to Accelerate African Economic Integration was held at the headquarters of the Economic Commission for Africa (ECA) in Addis Ababa, Ethiopia, from 13 to 15 July 1999.

2. The meeting was convened within the framework of the 1998-1999 programme of work of the Regional Cooperation and Integration Division of ECA (RCID). Its aim was to consider two draft studies prepared by this Division on the problematic of the financing of African economic integration and on tapping private sector resources, market forces and international capital to accelerate African economic integration.

II. Attendance

3. The meeting was attended by representatives of the Arab Maghreb Union (UMA), the Common Market for Eastern and Southern Africa (COMESA), the Central Africa Economic and Monetary Community (CEMAC), the Organisation of African Unity (OAU), the United Nations Development Programme (UNDP) and the Sub-Regional Development Centres (SRDCs) for North, Southern and West Africa. The list of participants is attached in annex.

III. Opening of the Meeting (agenda item 1)

4. The meeting was opened on Tuesday, 13 July 1999, by Mr. Pierre Adama Traore, Officer-in-Charge of the Regional Cooperation and Integration Division (RCID). After welcoming the participants, Mr. Traore recalled that the search for alternative sources of funding to supplement the assessed contributions of member States and self-financing mechanisms was crucial for sustaining Africa’s integration processes, given the magnitude and complexity of the needs involved in these processes. He invited the participants to do their level best to make proposals that can enrich the content of the two reports so that they can be useful tools for member States and the RECs in their funds mobilization efforts.

IV. Election of Officers (agenda item 2)

5. The meeting elected Mr. Dev Haman from COMESA and Mr. Jamel Boujdaria from UMA as Chairman and Rapporteur respectively.
V. Adoption of the agenda and programme of work (agenda item 3)

6. The meeting adopted the following agenda and its programme of work:

(i) Opening of the meeting
(ii) Election of Officers
(iii) Adoption of agenda and programme of work
(iv) Presentation of Document CA/RCID/ADHOC/EXP/PRVSEC/99/Doc.1 on the problematic of the financing of African economic integration
(v) Discussion on agenda item 4
(vi) Presentation by RECs on their experiences in financing regional integration
(vii) Discussions on agenda item 6
(viii) Presentation of Document ECA/RCID/ADHOC/EXP/PRVSEC/99/Doc.2 on tapping private sector resources, market forces and international capital to accelerate African economic integration
(ix) Discussion on agenda item 8
(x) Any other business
(xi) Adoption of the report of the meeting
(xii) Closing of the meeting.

VI. Presentation of Document ECA/RCID/ADHOC/EXP/PRVSEC/99/Doc.1 (agenda item 4)

7. The secretariat presented the document to set the pace for the discussions on the issue of financing regional integration in Africa.

8. The document makes an overall assessment of integration experiences in Africa and elsewhere. It points out that in spite of efforts made and the affirmation of the political commitment by member States, results of several decades of economic integration endeavours in Africa have fallen short of expectations. The study further points out that among the constraints behind this poor performance is the low level and irregularity of financial resources allocated to regional integration. In connection with the issue of financing regional integration, the study makes a review and an assessment of the traditional system of funding regional integration through assessed contributions of member States as well as the self-financing mechanisms newly adopted by some of the RECs. It concludes by emphasizing the need for identifying new avenues of funding in order to broaden the financial base to sustain integration in Africa.

VII. Discussion on agenda item 4 (agenda item 5)

9. The meeting commended ECA for the quality of the report. It noted that the difficulties with the traditional system of assessed contributions by member States had
led some RECs to experiment with the concept of self-financing mechanism anchored on the principle of imposing a levy on imports from third countries or locally produced goods. However, there seemed to have been an over-emphasis on this mechanism as a panacea for resolving the problem of financing of integration in Africa. There was a consensus that while the mechanism has some merits, it cannot be the sole means of mobilizing resources for the integration process because, being based essentially on external trade, there is a limit to its growth induced by the phenomenon of world trade liberalization and globalization. The meeting also identified, among others, shortcomings of the mechanism as follows:

- The import levy does not appear to be totally synchronized or meshed with the overall taxation structures or systems of member States;
- There appears to be inadequate preparations in terms of training and restructuring of systems and capacities both at the national and sub-regional levels to confidently handle the self-financing mechanism;
- The utilization of self-financing mechanisms alone is likely to weaken the political commitment that member States should give to regional integration;
- The co-existence of different mechanisms within the same sub-regional integration space, such as in West Africa, can give rise to a situation of double taxation and hence, unequal and unfair impact on consumers and traders in countries that have to implement two or more mechanisms, as a result of membership to double or multiple integration groupings;
- The studies on the mechanism have not clearly indicated its limitations;
- Like in the case of CEMAC where countries are allowed to select different product bases such as alcohol, beer etc. for the tax, changes in the demand and consumption of such products can render the mechanism less predictable and dependable.

10. In considering these and other potential difficulties, the meeting recommended that:

- There is merit to maintain the traditional system of assessed contribution alongside the self-financing mechanism;
- The self-financing mechanism needs to be improved in the light of the constraints identified and other limitations;
- The possibility of basing the mechanism also on internal trade should be explored;
- The ECA report on the subject considered by the meeting should also evaluate the system of assessed contributions in terms of its inadequacies, use of the resources, perceptions of member States in relation to the benefits they derive from such contributions; and thereby propose measures to strengthen it. Such measures would include ways and means of enforcing commitments and the fulfilment of obligations, such as the imposition of workable sanctions;
Within each sub-region, studies should be carried out with a view to giving due consideration to the implications of the dual/multiple membership of integration groupings, so as to harmonise their financing mechanisms.

VIII. Presentation by RECs of their experiences in financing regional integration (agenda item 6)

(a) Common Market for Eastern and Southern Africa (COMESA)

11. In his presentation, the representative of COMESA stated that the Common Market for Eastern and Southern Africa established in 1994 to replace the Preferential Trade Area of Eastern and Southern Africa (PTA), started a series of reorganization and restructuring activities in line with its priorities for the coming three to five years clustered around the following objective: Promotion of regional integration through trade and investment. These restructuring activities began following Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis conducted by management, which identified some major weaknesses in the secretariat.

12. Currently, with a new structure, the running costs of the organization are kept within acceptable limits; programmes are designed in response to the needs of the member States and are better consistent with the priorities of the region. On the other hand, sanctions were approved by the Council of Ministers to impose on those defaulting member States which are not up to date with their contributions. Both the restructuring and sanctions have started bearing their fruits. For the first time this year, 80% of contributions from member States was paid. COMESA was also able to purchase the building it currently occupies for about US$ 5.5 million. 50% of the cost was borne by member States, whilst the remainder was financed through a bank loan. Part of the building has been rented, the proceeds of which are being used towards the loan repayment.

13. In terms of development activities, COMESA has carried out a number of feasibility studies in priority sectors of the sub-region. The cost of such development projects is estimated at US$ 20 million annually, much of which is contributed by cooperating partners. COMESA however, tries to involve the private sector in the investment of these projects. For example, the project in telecommunications has generated a lot of private sector interest. COMESA is also working to improve its political profile as a necessary condition for attracting private sector investments. The organisation is also in the process of restructuring the PTA Clearing House to address the issue of guarantees against trade and investment risks.
(b) Arab Maghreb Union (UMA)

14. In his presentation, the representative of UMA first gave an account of the historical process that led to the establishment of UMA in February 1989, emphasizing the general aims of the Union. Regarding financing, while the budget was meant in the early years only to meet the expenses for running the secretariat, the Council of Ministers felt the need to have the Union share costs of feasibility studies as a sign of commitment. As a result, an account was opened in 1996 with an initial endowment of 300,000 dollars which eventually reached 540,000 dollars owing to interest accrued from bank deposits. Funds available on this account are being used to supplement financing provided by partners to carry out feasibility studies. Efforts at developing and diversifying partnership have yielded positive results as evidenced by funding secured for the following projects:

- a study on compensation of losses of revenue resulting from the implementation of the trade liberalization scheme;
- a study on investment incentives;
- a study on the phases of the development strategy in Maghreb;
- a study on harmonization and unification of standards; and
- a study on information and creation of a database at the Secretariat.

15. In addition to the trust account which is being utilized as seed money to attract external funding, the Union has initiated the creation of the Maghreb Foreign Trade and Investment Bank with a capital of 500 million dollars, to be based in Tunis, Tunisia. The Bank is, however, yet to become operational. The meeting was also informed that UMA is striving to develop closer relationship with financial institutions and diversify its partnership, with a view to securing adequate support for its integration programmes.

16. In his concluding remarks, the representative invited the participants to bear in mind that integration in Africa should go beyond economic matters and encompass other dimensions in order to be effective. Basic pre-requisites for integration are peace, security, democracy and good governance.

(c) Central African and Monetary Community (CEMAC)

17. The representative of CEMAC, in his presentation recalled that UDEAC was created in December 1964 and lasted until recently when it was replaced by CEMAC. The Treaty establishing CEMAC was signed in 1994, but became operational only in 1999, when all Member States ratified it. He stated that the restructuring of the UDEAC secretariat which was launched in 1993 had led to the reduction of its staff from 300 to 85.
18. On the issue of financing of integration in CEMAC, he mentioned that three major sources had been put in place, namely:

i) resources from member States are paid on equal basis, through three different modes of payment: assessed contributions from the Treasury, Community Integration Tax (TCI), and excise taxes on tobacco and beer.

ii) external financial and technical assistance resources, and

iii) resources generated by the Secretariat.

19. Concerning contributions from member States, he stated that member States were free to choose among the three options mentioned above. Two countries namely Cameroon and Gabon continue to make their contributions from their Treasuries. Congo and CAR use the TCI and Chad and Equatorial Guinea apply excise taxes on beer and tobacco in order to effect their contributions.

20. The meeting was informed that contributions from the Treasuries are unreliable in the sense that they are not made on time. The TCI has been doing well, especially in the case of Congo which, over a period of four years, has been able to pay up to 564 per cent in excess of its dues. The surplus generated by the TCI has been used to pay for arrears (salaries and utilities) which were accumulated during the 18 months when the secretariat was in crisis, prior to the restructuring exercise. The excise taxes it was pointed out were paid directly into CEMAC bank account from the proceeds generated by the enterprises producing these goods.

21. The CEMAC representative also underscored the respective role of the Central Bank (BEAC) and the Development Bank (BDEAC). He noted that the Central Bank was mainly concerned with the management of the common currency (CFA Franc) and not in the financing of CEMAC activities. But the BDEAC was created to finance community projects, although it was not doing much in this regard. Its good performances are based on yields derived on deposits rather than on interests paid on loans. This state of affairs was worrisome and needed to be addressed. The representative of CEMAC mentioned that the secretariat had generated resources from its own activities such as sale of publications and rent of premises.

22. He also alluded to the Solidarity Fund and stated that this Fund could not be sustained because of ambiguities attached to it. The coastal countries viewed it as just solidarity gesture whereas the landlocked countries (CAR and Chad) attached great importance to it as a compensation mechanism. Differences in the understanding of the role of the Fund led at one time, to the withdrawal of CAR and Chad.
23. Since most of the contributions from member States are used for the running of the secretariat and other community institutions, projects identified as regional in the field of aluminum, petrochemicals and others, could not be funded with internal resources, they had failed to materialize as regional projects. In this regard, he regretted that BDEAC could not play a more proactive role.

24. For the future, the CEMAC representative stated that stability, solvency and development of local financial system would be prerequisites for improved financial environment conducive for the mobilization of resources to finance projects in the field of infrastructure, production and trade.

IX. Discussion on agenda item 8 (agenda item 7)

25. In the discussions that followed, the meeting made the following observations:

- For the immediate future, COMESA does not intend to implement the self-financing study conducted for it by ECA, because of some reservations, but there is a prospect for its application in the long term.

- There is some emphasis on private sector empowerment by COMESA in terms of programmes to assist the sector to reduce the cost of trade, cut down on bureaucracy and map out investment opportunities.

- A study carried out by COMESA showed that revenue losses from the trade liberalization scheme are minimal, ranging from 1-5 percent. The meeting noted however, that this in itself should not be a sufficient ground for discarding compensation mechanisms, because such schemes could also serve as a means of supporting development projects in the weaker economies within the grouping.

- COMESA should ensure that attention to innovative income generating efforts to support the running of the secretariat is in line with its main mission of integration. To this end, the meeting noted that the organisation is considering the establishment of a special wing within the secretariat to deal with these income-generating activities.

- UMA is mainly dependent on member States' contributions and donor assistance. The special facility of UMA with the initial capital of US$300,000 needs to be reviewed to take account of issues such as modalities for replenishment and utilization.

- It was brought to the attention of the meeting that ECCAS has expressed its intention to have a self-financing mechanism. In view of its overlapping
membership with CEMAC, the meeting was of the view that there is a need to harmonise it with the one existing in CEMAC in order to avoid problems in implementation and varying degrees of impact on consumers and traders.

• CEMAC itself should review its mechanisms concerning the running of its secretariat, compensation for losses of revenue and the financing of its regional programmes to ensure that there is a common acceptance and uniformity in their application by all member States and that consideration is given to the financing of development activities from the resources they generate.

X. Presentation of Document ECA/RCID/ADHOC/EXP/PRVSEC/99/Doc.2 (agenda item 8)

26. The consultant presented the draft paper, entitled: Private Sector Investment for Regional and International Capital to Accelerate African Economic Integration. The presentation focused on major issues and options involved in the integration process. He reviewed the recent global developments regarding the flows of finance into Africa and examined the concept of “integration projects” and associated problems. He then dealt with the problems and prospects of mobilizing private sector resources for regional integration. In this connection, he highlighted the role of regional and sub-regional financial institutions, capital markets, and ODA.

27. The consultant underscored the need to distinguish between national and integration projects and to have a clear definition of what should constitute regional projects and who should finance and implement such projects. In this regard, he suggested that private investors should be encouraged to pool resources and form African multinational companies. This, he emphasized, would lead to the effective exploitation of markets created as a result of regional integration. On the other hand, he stated that regional financial institutions should devote more resources to regional cooperation projects and help build capacity for project implementation in member States and the RECs.

XI. Discussion on agenda item 8 (agenda item 9)

28. In the discussion that followed, the meeting underscored the importance of the study in providing policy direction which could be used by the regional integration groupings. In this connection, the meeting emphasized the need to restructure the document in order to better clarify the role of the private sector in funding the regional integration process. The meeting further noted that the study should set out a clear methodological framework, conceptual analysis and then examine case studies that would contribute towards enriching the document.
29. While the meeting was not able to discuss all the issues, it nonetheless emphasized that there would be need to analyze the characteristics of the private sector, their present capacities and limitations, with a view to situating the analysis in the proper context. Furthermore, the linkage between globalization and regionalism had to be clarified as globalization had both positive and negative aspects. The correlation between structural adjustment programmes (SAPs) and regional integration needed to be addressed as the design and the implementation of such programmes has not normally taken account of the regional integration process in Africa. The concept of multinational enterprises also required more clarification.

30. In conclusion, the meeting stated that in the finalisation of the report, additional documentation should be made available to the consultant, as a great deal of work had been carried out in the area of financing African development. The study, it was stressed, should also draw lessons from other regional integration experiences. It was equally stressed that the study could form a framework for other perspective studies on economic integration for regional groupings. The meeting requested that the study should come up with firm policy recommendations.

31. The meeting underscored the need to form a working group to review the draft report presented to it. The working group should include all the RECs, OAU, UNDP, financial institutions, SRDCs and other relevant agencies. The meeting requested ECA to provide adequate resources to carry out this additional work.

32. On the consideration of proposals for new avenues for financing flows to support the regional integration process, the consultant presented a chart on the various sources of funding, their uses, expected outcomes and prerequisites that need to be put in place to ensure the effective operation of RECs.

33. In the discussion that followed, a number of modifications were introduced to improve the chart. Some of the observations referred to the need for an additional column to reflect the necessary conducive environment to facilitate the flow of resources.

XII. Any other business (agenda item 10)

34. Under this agenda item, the meeting noted that interaction among the working group referred to in para 29 could be carried out through e-mail or communication by Internet.

XIII. Adoption of the report (agenda item 11)

35. The meeting adopted the report as amended.
XIV. Closing of the meeting (agenda item 12)

36. In his concluding remarks, the Chairman stated that the issue of financing was a major concern to the entire continent and lasting solutions have to be found to the problem. He added that financial institutions and the private sector would be ready to contribute their share if convinced of the usefulness and viability of integration programmes. He concluded by expressing his conviction that on this vitally important issue the outcome of the meeting constituted a headway in many respects.

37. On his part, Mr. Traore, Officer-in-charge of the Regional Cooperation and Integration Division stated that the meeting had lived up to the expectations and had benefited from the wide experience of participants. He indicated also that interaction between ECA and its partners was considered an important means of testing the relevance of its products. Finally, he thanked all the participants for their active involvement in the fruitful deliberations of the meeting.

38. The meeting was then formally declared closed.
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