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REPORT ON THE SUPPORT PROVIDED BY THE AFRICAN FINANCIAL INSTITUTIONS TO THE ECONOMIC INTEGRATION PROCESS IN AFRICA

INTRODUCTION

The fifth Joint ECA/UNDP/African IGOs/United Nations Specialized Agencies Meeting held in April 1991 requested ECA to collect from the organizations concerned necessary data for the purpose of carrying out a study on the support provided by the African financial institutions to the economic integration process in Africa. A questionnaire was sent to that effect to all economic integration organizations and to selected African financial institutions. Very few of them replied to the questionnaire; this made it impossible to carry out the study asked for. Following the renewal by the sixth meeting of the request of the fifth meeting, ECA sent in August 1992 the same questionnaire to the same addressees with little improvement in response. Since the original request for the study was made long ago, ECA feels that it ought to present a report on the subject, in the absence of a comprehensive study which would have required more data than those made available. Hereafter are, therefore, the salient features of the support of African financial institutions to the economic integration process in Africa, as it stems from the replies to ECA's questionnaire[1].

I. Hinderances to financial support to the economic integration process in Africa.

First of all, the main obstacle to an increased financial support to the economic integration process in Africa is the lending capacity of the African financial instituions themselves. The latter mobilize funds in the international market in order to supplement their own resources. Therefore, they compete with each other for the same resources which the weakest of them obtain with more difficulty than the others.

Moreover, there exists a noticeable tendency on the part of African States to seek on a piority basis funding for their national projects. This inclination is but normal, since the regional projects can only be financed to the detriment of national projects. But it persists even when there is no genuine competition between national projects and regional ones: for example, funds available within the framework of the Regional Cooperation Fund of the European Development Fund (EDF) have not been fully utilized so far, though they are distinct from those earmarked for national projects. In fact, one gets the impression that the States seek actively and jointly with others the funding of the only regional projects which obviously serve their national interests. For example, a country with sea outlet would argue that its port serves not only its own territory but also its neighbours whose support it would secure in its search for funds to build or expand the port. The same applies to roads or

[1]The only organizations which replieed to the questionnaire are the following: East African Development Bank, Kagera Basin Organization (KBO), Preferential Trade Area for Eastern and Southern African States (PTA). The responses contained little figures which could be used to assess the evolution of the assistance to economic integration process during the recent years.

railways which link the port to the hinterland as well as the neighbouring countries.

Furthermore, whereas it may be easy to obtain a consensus on the part of the countries concerned for the purpose of seeking jointly grants or subsidies, this proves more difficult when a regional project is to be financed through loans. Indeed, the modalities for sharing the cost are rarely accepted with satisfaction by all the partners. This is probably one of the reasons for the limited number of regional projects. This is also why the funding of such projects is concluded after a lengthy negotiation process between the partners to the project themselves, then with the donors.

The African financial institutions are not easily in a position to finance integration projects also because the latter are mainly infrastructure (road, railway, port, interconnection of electricity grids) projects and prove highly costly. Given their limited resources, African financial institutions can in most cases play only a marginal role in the funding of those projects.

Lastly, the fact that some economic integration organizations are deprived of the ability to seek funds for projects they have initiated constitutes an obstacle to the obtention of the resources required for the implementation of such projects. For example, one of the organizations was explicitely denied by its policy organs the prerogative to seek financing for the community projects. Given the lack of efforts on the part of member States to raise funds for implementing regional projects, the latter are, therefore, unlikely to get implemented.

II. Arrangements made to facilitate the financing of the economic integration process in Africa.

In spite of so many obstacles hindering the mobilisation of resources in favour of regional projects, African financial institutions seem to have adopted measures to respond to requests for funding such projects.

Some of these institutions have established technical assistance or study funds meant for providing expertise for a limited period and for clearly identified needs. Such funds are also used to carry out studies. Within this framework, the PTA obtained from the African Development Bank (ADB) the following funding:

- 130,000 dollars for the post of Coordinator of the PTA Metallurgy Technology Centre;
- 2.5 million dollars in support for the activities of the PTA Project Preparation and Investment Unit;
- 265,700 dollars for a study on supply and demand of fish products and another study on the development of irrigation.

Similarly, some institutions are bound by their statute to finance integration projects or to assist such projects in various ways. The East African Development Bank, for example, provides consultancy services, identifies, promotes and finances projects of interest to two or all its three member States. This

bank, therefore, does not wait for requests from its member States. This may explain why between 1982 and 1991, this bank allocated to regional projects 11 percent of its overall loans, totalling 10 million Special Drawing Rights (SDR). This performance is commendable, especially in view of the fact that the assistance of this bank covered diversified areas ranging from textiles to interconnection of electricity grids, ports or railways as part of endeavours to create an integrated transport network.

According to certain sources, some of African financial institutions have earmarked a given percentege, far from being symbolic, of their resources for the purpose of funding projects of interest to two or more of their member States. If, for any reason, such funds are not uitilized by their intended beneficiaries, they may remain frozen indefinitely. This would lead the institutions concerned to make use of them for different purposes.

Finally, some financial institutions eagerly look for regional projects with a view to utilizing funds they have earmarked for that purpose. To that effect, they send identification missions to their member States and to the IGOs which can provide information relating to regional projects.

It seems, however, that such efforts on the part of the financial institutions have not achieved the expected results. Indeed, resources which can be mobilised to fund integration projects are far from being fully utilized. Beside reasons mentioned above, this seems to be so because potential recipients of resources meant for regional projects are not always aware of the availability of such resources and conditions for obtaining them. In this respect, the East African Development Bank has taken an interesting initiative: it organizes on a periodic basis briefing sessions for nationals of its member States for the purpose of disseminating information on opportunities for funding integration projects. Other organizations have established communication channels with financial institutions; this is the case for the PTA which has regular contacts with ADB and the PTA Trade and Development Bank. It would have been interesting to know more about the scope of the funding provided by financial institutions created at the initiative of some economic groupings (Development Bank of Central African States, Development Bank of Great Lakes States, PTA Trade and Development Bank) to projects initiated by those institutions which sponsored them.

CONCLUSION

The few data received by ECA in response to the questionnaire it has sent to the organizations concerned are insufficient to provide an accurate picture of the scope and effectiveness of the support provided by African financial institutions to the economic integration process in the continent. However, those data enlighten on the nature of problems encountered by the financial institutions and the economic integration entities as well. The response to the questionnaire provides also information on efforts made to overcome the difficulties. The newly established African Economic Community constitutes the adequate

forum for a joint reflection on the nature, the scope and modalities of the financial support which the promotion of economic integration in Africa requires.