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FINANCING REGIONAL INTEGRATION IN AFRICA: A SYNOPTIC PERSPECTIVE

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Introduction

Lack of funding has been a persistent weakness of the regional integration process. Indeed, the contributions paid by member states have barely covered the operating expenses of the RECs, forcing most into over-dependence on external assistance.

So far the question of financing regional integration in Africa has been chiefly confined to the functioning of the African Economic Community and the regional economic communities. With the African Union, the magnitude of the issue has changed. The spectrum of financing requirements goes beyond the operating expenses of the regional economic communities to providing resources for the meetings of the Union Assembly of Heads of State and Government, the Pan-African Parliament, the Executive Council, and the Economic, Social and Cultural Council, and for running the Commission.

If the Union is to make a decisive difference to the African Economic Community, then key institutions foreseen in the African Union Constitutive Act such as the Peace and Security Council, the African Investment Bank and the African Parliament must become effective, operational, and sustainable. This requires that a holistic financing strategy be put in place that takes into account the short-, medium-, and long-term financing needs of the African Union, the regional economic communities, and other specialized organizations of the AU and the RECs.

Selected financial needs and gaps in Africa's integration

Culled from studies commissioned by ECA in 2000, table 1 gives an idea about the magnitude of RECs' financial gaps, using the example of three RECs over the period 2000 and 2004.

Table 1
Projected financial needs and revenue from member states' assessed contributions for CEMAC, COMESA, and SADC, 2000–04 (US$ millions except as noted)

Item	2000	2001	2002	2003	2004
Medium-term financial needs	176.1	180.7	185.7	198.7	204.5
Assessed contributions	22.7	24.8	26.7	28.8	30.0
Share of financial needs covered (%)	12.9	13.7	14.4	14.5	14.7

Source: Economic Commission for Africa, from official sources.

The situation of these three regional economic communities is representative of that of most others.

Table 2 shows another example of financial gaps in terms of some priority projects for of RECs, for which financing was expected to be mobilized through the TICAD process. Funds for these projects remain uncertain.

Table 2

RECs	No. of projects	Cost (In US$)	Financing obtained	Financing Gap %
ECOWAS	24	786,494,626	26,049,667	96.6%
CEMAC	15	61,722,739	135,000	99.8%
COMESA	6	3,602,700	-	100%
IGAD	17	531,200,158	55,493,000	91.4%
SADC	30	633,678,954	82,800,000	86.9%
Total	92	2,016,669,177*	164,477,667	91.8%

*Table 3 shows the sectoral breakdown.
Source: ECA, from official sources;

Table 3

Sector	No. of projects	%of total value	Cost (US$)
Transport & communications	34	86.45%	1,748,534,251
Agriculture & natural resources	8	4.0%	79,104,268
Water	6	2.7%	53,200,000
Energy	4	2.0%	42,109,000
Human & institutional capacity building	20	2.9%	56,039,825
Environment	2	0.7%	12,175,000
Poverty reduction	2	0.6%	12,050,000
Trade and investment	8	0.25%	5,168,611
Gender	5	0.2%	4,325,358
Conflict prevention & governance	2	0.14%	2,872,864
Health	1	0.06%	1,120,000

Source: ECA, from official sources.

Added to these realities are the financial imperatives of establishing key institutions of the African Union such as the:

- African Investment Bank;
- African Monetary Fund;
- Central Bank;
- Pan-African Parliament;
- Pan-African Court of Justice; and
- Peace and Security Council.

Furthermore, funds are needed to ensure the effective functioning of the AU Commission and related activities and organs such as the Economic, Social and Cultural Council (ECOSOCC), and the Specialized Technical Committees. Securing the necessary resources to ensure the smooth functioning of these various institutions and organs of the African Union will be a Herculean task, besides the resources required to move ahead on the huge NEPAD agenda, which is supposed to be part and parcel of the African Union dispensation.

Roughly assuming the following annual estimates for financing the operations.A

Experience has shown that support from member States through their regular assessed financial subscriptions are barely sufficient to meet the REC and AU financial needs for integration, forcing the former especially to look significantly towards external sources for support.

Search for sustainable financing mechanisms

Some RECs have tried to institute measures to overcome their financial constraints through application of the concept of self-financing mechanism. UEMOA, ECOWAS, and CEMAC have adopted this mechanism, while studies for applying the mechanism have been done for SADC, COMESA, and ECCAS. The basic concept behind this self-financing mechanism is the imposition of a small levy on imports from non member countries of the RECs.

It is opined that such a mechanism is more reliable and predictable and the resources so generated help RECs to substantially meet their needs at least in terms of financing the secretariat and other community projects. Table 8.4 shows projected revenues from such a mechanism for three selected RECs CEMAC, COMESA, and SADC and their impact on their financial shortfalls under two scenarios of high and low revenue hypotheses. It shows that while this financing mechanism may not always meet the needs of regional economic communities, it would help reduce the financing gap significantly.

Table 4

Projected financial needs and revenue from a self-financing community levy for CEMAC, COMESA, and SADC, 2000–04 (US$ millions)

Item	2000	2001	2002	2003	2004
Medium-term financial needs	176.1	180.7	185.7	198.7	204.5
High hypothesis					
Revenue	180.8	188.8	194.9	200.5	207.7
Share of financial needs covered (%)	102.7	104.5	104.9	100.9	101.6
Low hypothesis					
Revenue	143.4	147.7	152.0	156.4	161.6
Share of financial needs covered (%)	81.4	81.7	81.8	78.7	79.0

Source: Economic Commission for Africa, from official sources.

The UEMOA and CEMAC experience in applying the self-financing scheme has shown that it is more easily understood and acceptable to member States, when predicated upon specific studies tailored to the economic conditions, the nature and scope of fiscal policies, the nature and range of commodities to be subjected to the community levy, and the financing needs of the regional economic community. By and large, however, the following unique features need to be preserved:

- Autonomy from national budgets
- The automatic nature of the levy, to ensure a regular flow of resources.
- Steady growth and sustainability of resources so that the flow of resources would at least maintain the capacities of regional institutions and, ideally, support huge integration programs.
- Minimal effect on taxes.

In addition to this mechanism, other possible sources of funding integration activities can include special allocations from GDP, airport taxes, and agreed allocations of dividends from debt relief measures to support integration.