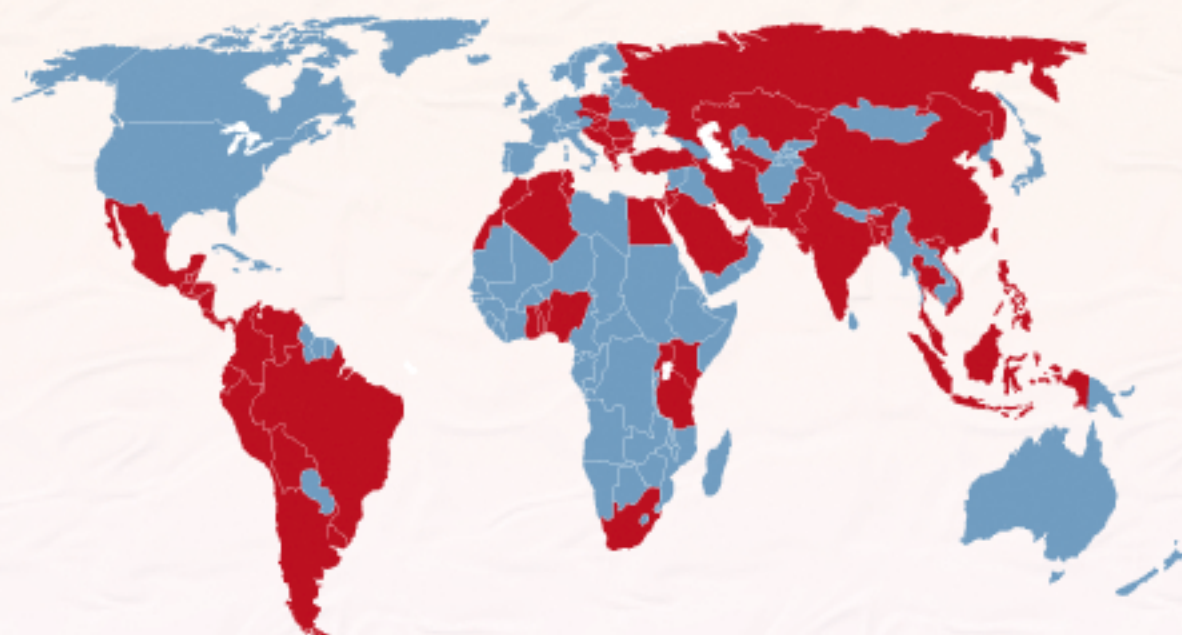


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Emerging Markets Forum

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Issues in Infrastructure Investment in Africa

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Discussion Draft

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**AFRICA EMERGING MARKETS
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1. Introduction

Africa lags in infrastructure. The level of access to electricity in Africa is only 30%, compared to over 75% for other Less Developed countries (LDCs).¹ Access to water and sanitation is about 65% compared to 80% for other LDCs; access to roads is 34% compared to 50% for other LDCs, while the penetration rate for telecommunication is less than 13% compared to 40% in other LDCs.²

This paper explores two questions of importance to all Africans. Why, after three decades or more of independence and foreign aid, do we still have this back-log? And: how can it be fixed? As a freight transportation company owned by the South African government, these questions are at the heart of every working day within the company.

Our thoughts are informed particularly by Transnet Limited's turnaround experience of the past five years, in which we have turned a poorly performing and diversified state-owned conglomerate into a focused freight logistics state-owned company which is now able to sustain much-needed investments in South Africa's freight transportation system. Steady economic growth over the last decade has placed increasing pressure on our aging infrastructure and we are faced not only with a huge backlog catch-up, but with the challenge of providing for future requirements appropriately and ahead of forecast demand. In today's world economic climate, and in the context where the South African revenue funds are focused on critical social investments in health, education, justice, housing and welfare, it is a top priority that state-owned enterprises rally available resources most judiciously in support of further economic growth. Indeed, our Executive Authority, Minister Alec Erwin MP, the Minister of Public Enterprises has emphasised that State Owned Enterprises ("SOEs") must execute their mandate on the strength of their own balance sheets and without any reliance on financial support from the government. South Africa has chosen to place its SOEs in key strategic roles to drive this agenda, as both owners and operators, particularly in the water, electricity and bulk freight transportation sectors.

1.1. Infrastructure as a victim of development fashions

Much of the story of conventional wisdom in development circles over the past decades can be told in terms of attitudes to infrastructure. The World Bank is a useful proxy for the evolution of global development thinking: by the 1960s the World Bank focused on funding infrastructure projects in developing countries. From that point onwards, the

¹ African Development Bank Annual Meeting, 2006

² African Development Bank Annual Meeting, 2006



development agenda grew increasingly crowded, with agricultural development, structural adjustment, macroeconomic stabilisation, human development, social capital, environmental concern and poverty alleviation each in turn rising to prominence and hailed as a key organising device of development thinking.

Whilst each of these ideas is powerful in its own right, the cumulative effect, strengthened by each additional one, was to push infrastructure investment to the periphery of the development agenda: investment spending by governments was reduced by fiscal rules, aid conditionality increasingly directed resources to social spending, and environmental and social concerns added to the costs and delays of infrastructure projects.

In the 1990s, the widespread – and in retrospect optimistic – view that the private sector would provide all manner of infrastructure to developing countries, and do so largely unaided by the public sector, contributed to a shift to other policy priorities. The turn from infrastructure was particularly ironic for an organisation whose proper name is the International Bank for Reconstruction and Development, with ‘Reconstruction’ of course, referring to the physical rebuilding of post-War Europe.

Today, as this paper will attest, the debate has come full circle, with physical infrastructure again recognised as a key factor in growth and development – both by the multilaterals and, more importantly, by governments in the developing world. But it is worth recognising that some of the misconceptions of past years still persist. A key development tool in Africa - debt relief through the Highly Indebted Poor Countries (“HIPC”) initiative – writes-off debt on condition that countries will borrow negligible amounts in ensuing years. This has, in many instances, severely affected governments’ abilities to drive infrastructure development, and undermines what may well be the key benefit of debt relief: the possibility of re-entering international capital markets to fund long-term growth. We shall return to this anomaly below.

Another misconception persisting in some circles is that private capital alone can be the saviour of developing countries in infrastructure provision. In this paper, we argue that the state is a pivotal and lead player in infrastructure development, and that this is particularly the case in poorer and less-resourced countries. This lead role can take a variety of forms, under a variety of circumstances, but it is a role that needs to be recognised and then equipped with appropriate strategies for delivery, if our continent is to shift its levels of infrastructure investment over the next decade.



1.2. Why infrastructure matters

Infrastructure is of key importance to economic growth and prosperity. First and most intuitively, a lack of effective infrastructure significantly deters investment as it makes business either impossible or prohibitively costly. Many of the services which are critical to the development of formal enterprises are dependant on infrastructure investments. Most formal businesses in an average week will need access to, at a minimum, water and sanitation services, telecommunications services, transport services, postal services, and electricity.

Such infrastructure investments are almost by definition large in scale. When individual businesses are forced to self-supply these services, the costs become prohibitive. Own-generated power is, in order of magnitude, more expensive than grid power. The differences in cost between own-provided roads, transport and telecoms, and those provided by even a marginally effective utility are greater still. In network industries, own provision is a non-starter. This is not a theoretical nicety. In many states, particularly in Africa, firms and households have been pushed to choose between self-provision or nothing. A survey of manufacturers in Uganda earlier this decade, illustrates the point.³ The firms surveyed ranked lack of adequate electricity as the No. 1 constraint to investment: on average, firms did not receive electricity from the public grid for 89 operating days a year. We learn something valuable from the response of individual firms to this state of affairs: 77% of large firms purchased generators, representing an astonishing 25% of annual investment in equipment and machinery. In contrast, only 44% of medium and 16% of small firms had managed to purchase generators. Not only is the lack of public provision of infrastructure costly to all firms, it also penalises small enterprises (and we can postulate, the poorer households), which suffer acutely from the tremendous scale features in the provision of power, communication and transport.

Lack of infrastructure adds considerably to the cost of doing business. Freight charges, for example, as a proportion of Customs Insurance Freight ("CIF") value are, on average, 20% higher for exports in Africa than in other low-income countries. For the many land-locked countries in Sub-Saharan Africa, the costs of poor infrastructure are high. To illustrate the point, the World Bank estimates that to transport a container from Baltimore in the US to Tanzania would cost about US\$1 000, but to transport the same container from Tanzania to neighbouring Burundi would cost \$10 000.⁴ It is estimated that Rwanda's location and poor routes to the sea add a cost of \$150 for every ton of goods exported or

³ Reinikka and Svenson (2002).

⁴ Time Europe article, 2006

imported. This is a tax on trade that this country can ill afford. Such a tax could be slashed by the provision of appropriate large-scale transport infrastructure.

In total, infrastructure costs account for 10 – 30% of operating costs in Africa, compared to 10–15% in China and India.⁵ Once adequate infrastructural investment is in place, widespread improvements in business conditions can be expected. More efficient transport links will increase the amount of national and international trade, thereby improving factor mobility, increasing competitiveness and making production more efficient.

Investment in infrastructure also aids regional integration, which has a number of important benefits. Economic activity in many African economies is limited by small and fragmented local markets which act as a barrier to entry for potential investors who look for a certain “critical mass” of customers in order for a project to be profitable. Greater regional integration can therefore have an important effect in terms of allowing economies of scale and the potential for access to a much greater market. Increased regional cooperation also contributes to building more inclusive societies and securing political stability, which further enhances prospects for investment and growth.

Finally, sound infrastructure services, are strongly complementary to social expenditure. Recent studies have shown that the value of increased spending on education and health is significantly enhanced by the presence of sound infrastructure, particularly roads and water. These findings put to rest the simplistic choice posited in recent years between human development spending and spending on infrastructure: for developing countries in Africa, it is not “either . . . or”, but “and . . . and”.

1.3. Enter the private sector

For most of the 20th century, infrastructure investment in developing countries was largely state funded. However, in the last decade of the century a shift in the composition and manner of financing infrastructure projects was introduced. Many SOEs were privatised during this period, and across a range of sectors, private sector participation in infrastructure investment was introduced by using Public Private Partnerships (“PPPs”). PPPs in particular became the source of much investment, and were responsible for a boom in private sector infrastructure investment between 1990 and 2003. Investment to the value of \$755 billion in almost 2 500 private infrastructure projects is recorded for that period,⁶ despite the economic slowdown post the 1997

⁵ African Partnership Forum, 2007

⁶ Harris 2003



Asian crisis, after which investors were more reluctant to invest in developing economies.

The drive to introduce private sector involvement in infrastructure was based on a belief that private sector involvement would improve efficiency, increase investment, and provide clarity on cost and subsidy structures. Many countries have found that these theoretical benefits of private capital have yielded real benefits. However, there is some evidence to suggest that the involvement of the private sector in the provision of infrastructure has not been an unqualified success. According to Estache and Pinglo, in the period subsequent to the PPP boom of the 1990s, overall reported returns have not met cost of capital in any sector or region⁷.

1.4. Explaining the infrastructure deficit – and the path towards a solution

Why, if the merits of infrastructure investment are clear and the private sector stands ready, is there such a lamentable absence of large-scale infrastructure in so many countries?

The answer is, in our view, that the very size and complexity of large-scale infrastructure provision results in a trap, in which small markets, under-developed economic institutions and under-capacitated states combine to delay or eliminate investment in necessary infrastructure. In a fascinating comparison between current circumstances and the investment conditions in the railway age, Barry Eichengreen makes this point eloquently:

“For low-income countries, infrastructure investments have the most alluring benefits but also the most prohibitive costs. Where transport, communication, and power generation are least adequate, their provision can do the most to boost productivity and stimulate growth. ... But where income and productivity are depressed by the inadequate provision of infrastructure, the financial resources needed to underwrite infrastructure investments are the most difficult to mobilize.”⁸

For policy-makers and practitioners alike, the challenge is how African countries are to escape this trap. The rest of this paper explores this challenge. Section 2 depicts the barriers to infrastructure investment in Africa, and the role of the state in overcoming these barriers, taking into account scenarios where private entities are involved. Section 3 discusses the options for state involvement, and Section 4 sets out a number of specific policy considerations.

⁷ Estache and Pinglo 2004

⁸ Barry Eichengreen, 1994 p.1



2. Barriers to infrastructure investment in Africa

The absolute value of the African infrastructure shortfall is large. The Commission for Africa Report estimates the financial requirements for infrastructure in Africa to be around \$20 billion.⁹ Clearly, a great deal of investment is still needed in order to bring Africa's infrastructure to a level consistent with achieving the Millennium Development Goals. However, the challenge is not lack of funds for new infrastructure projects, quite the opposite in fact. Africa's wealthiest countries are keen to invest, western donors are supplying capital and there is an increasing number of private and foreign government-backed African infrastructure funds being set up in the US and Europe. Major new investors from emerging economies such as China, India, Malaysia and South Korea are investing significantly in Africa. Furthermore, greater regional political and economic stability in recent years, combined with the commodity price boom and substantial debt relief efforts by developed countries, have created an environment more conducive to investment. Why then are these positive developments having a limited impact on sustained infrastructure improvements in Africa?

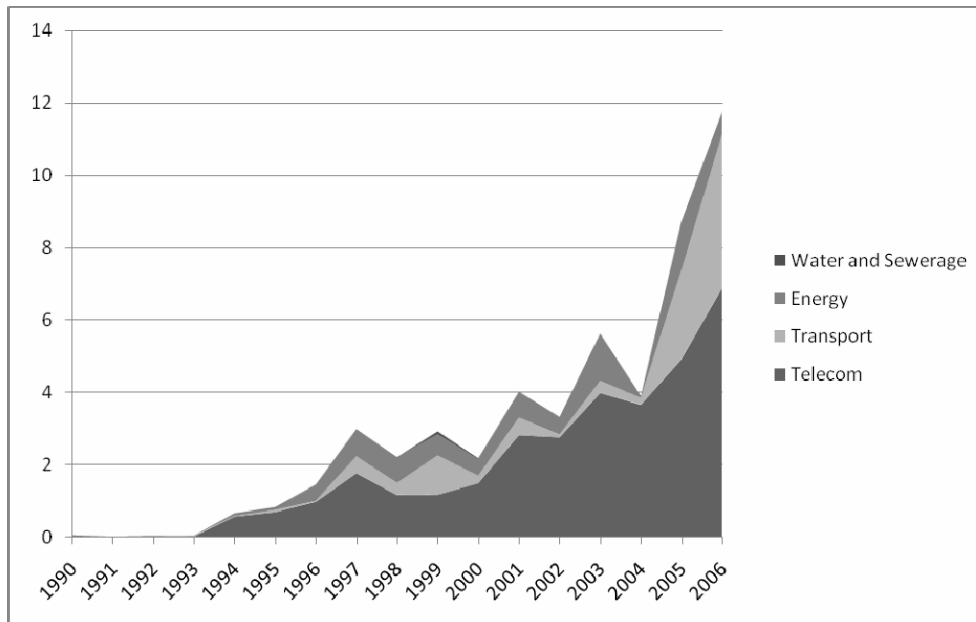
2.1. Private-sector interest is uneven across infrastructure needs

It is fair to say that the private-sector record is mixed. Private money available for infrastructure investment is not necessarily addressing the specific economic and social needs of African countries. There has been a general lack of investment in sectors where the returns are likely to be below commercial levels, and in those which are potentially politically sensitive. Disproportionately large investments are taking place in sectors with greater commercial potential. For example, the share of water and sewage services in African investment stands at around only 1%, whereas telecommunications, where substantial profits are being realised, receives by far the largest share. This sector accounted for almost 65% of all infrastructure investments with private participation between 1990 and 2006. Energy, a key infrastructure challenge for the region, received only 15%, while transport, which was for most of the period insignificant, has had a late surge which has taken it to 20%. Recent years are likely to show a rise in infrastructure investments where the extraction of primary resources is the focus.

In 2004, 47 out of 48 Sub-Saharan countries had infrastructure projects with private participation, but only 4 had projects in all 4 infrastructure areas¹⁰. Ultimately, these results confirm that private sector infrastructure provision will typically result in under-investment in sectors which are socially beneficial, but not commercially rewarding.

⁹ African Development Bank Ministerial Round-Table 2006

¹⁰ Public-Private Infrastructure Facility, 2006



Graph 1: Sub-Sahara Africa – Investment in Infrastructure Projects with Private Participation, USD billions, 1990-2006

Source: World Bank PPI Projects Database

In addition, there are blockages and bottlenecks which prevent available funds from being directed to areas where they could have the most impact. According to Keith Palmer, chairman of the Emerging Africa Infrastructure Fund, there is “a *lack of well-structured, creditworthy opportunities*”. Often the risks and uncertainties associated with infrastructure projects are simply too great for donors and investors to feel comfortable with. It is to these problems that we now turn.

There are perhaps, four key factors explaining the perennial under-investment in African infrastructure, and why the private sector on its own cannot be expected to fully redress the situation. The factors are:

- Positive externalities not reflected in the revenue calculations of private-sector project developers;
- Domestic capital markets that are under-developed relative to the size and duration of the funding required for large-scale infrastructure;
- High risks and short investment horizons in African investment settings; and
- Cost of capital.

2.2. Factor 1: externalities not captured by project developers

Many infrastructure projects take place in industries that are characterised by positive social externalities. The definition of an externality is a benefit (or a cost) derived from an investment, which the



original investor cannot recover. This holds true for many infrastructure investments. For example, a project providing clean water to a specific community will have added health and safety benefits (thus also decreasing expenditure on these items). It may also increase productivity as members of the community will spend less time fetching and attempting to clean water, leaving more time to work and earn an income. Investors would only benefit from the actual fee paid by customers for the water. As a private investor cannot take the social benefits into account when calculating the returns on the investment, it will tend to under-invest in these schemes. The state, on the other hand, must consider the total gain to society, and is much more likely to place a 'true' value on a project which is economically and socially beneficial.

2.3. Factor 2: thin domestic capital markets cannot deal with scale and duration of investment

Most infrastructure projects are of considerable size and scope, requiring large capital investment which may only be recouped over long time periods. In many of the countries most in need of investment, domestic capital markets are, however, dramatically underdeveloped, with thin and near-horizon capital markets, matched by a paucity of domestic institutional investors with the right time horizon. It is often of little use to access international capital markets, as most infrastructure projects have revenues denominated in local currency, and therefore are most bankable when debt is also denominated in local currency. There is therefore often a need for the state – often considered a risk-free borrower in local currency – to facilitate the funding of infrastructure projects in one form or another.

2.4. Factor 3: High risks associated with infrastructure investment in the region¹¹

Private sector investors typically use some form of discounted cash flow methodology to evaluate whether or not to undertake investments. The expected future costs and benefits of a project are discounted to establish their present value, and the project would then only be considered if the net present value is positive. The higher the discount rate used, the less future cash flows are worth in the present. In an environment with very high discount rates, investors will only undertake projects which yield very high returns, very quickly.

Investors interested in funding infrastructure projects in many African countries have to reconcile the wish for a quick payback with the long-term nature of many large infrastructure projects. Anything which increases the investment uncertainty of operating in the local market, increases the country risk premium, and the discount rate used to

¹¹ This section draws mainly from Eichengreen 1994.

evaluate projects. Such uncertainties include concerns about economic growth, political stability, exchange rate fluctuations, and policy and regulatory uncertainty. These uncertainties are accentuated when a country's policy and business environment is opaque and characterised by a large degree of discretionary decision-making.

The state is in a strong position to 'set the playing field' for large infrastructure investments. Many infrastructure-heavy investments are in natural monopoly industries,¹² or in industries which require enabling regulatory interventions.¹³ Careful lawmaking is needed in order to assure the investor that regulatory issues will not scupper the deal, but will indeed, facilitate the sustainability of the project.

Where the state is unable to sufficiently mitigate country risk for private investors, it may be more appropriate for the state to make the investments directly, and manage the associated risks itself.

2.5. Factor 4: Cost of capital and risk management

The state can generally borrow funds at a lower rate than the private sector can. Given the high risk often associated with revenue streams of large infrastructure investments, lender institutions charge commensurate premiums. If the state is able to appropriately manage project risks, it can secure less expensive financing and decrease overall costs. Depending on the institutional routes that the state chooses to use for this purpose, it has the option of borrowing against its future revenues, or, in the case of state-owned enterprises, leveraging a well-managed company balance sheet to raise the required capital.

2.6. A role for the state

The large increase in private participation in infrastructure provision in developing countries has opened new opportunities and options for African countries. But the private sector alone will not meet Africa's infrastructure needs. Given externalities that signal long term economic and social value above short term financial returns, there is generally an inability to obtain domestic currency funding of the right scale and maturity. Further, given that this is what is often a high-risk environment, the public sector needs to play a leading role in ensuring that the right conditions are set for investment, and that the investment occurs. In the next section, we consider a variety of ways in which the state can exercise this role.

¹² In a natural monopoly, the marginal cost of rolling out services is very low, but the initial investment cost is very high. As a result, average costs will fall over the full range of production, and the most efficient industry outcome is a monopoly supplier.

¹³ For example, in order to lay the wires and pipes that supply telecoms, electricity, petroleum products and water services to customers, firms in these industries will need 'rights of way' to access private and communal land.

3. OPTIONS FOR STATE PARTICIPATION

The following six roles are typically required in the delivery of infrastructure:

- Project development;
- funding;
- engineering, procurement and construction;
- ownership of the asset;
- management of the infrastructure and operation of the service; and
- regulation of natural monopolies where they exist.

To this list must be added a seventh role which is apparent from the discussion in the section above:

- risk mitigation.

Each country, with respect to each infrastructure type and project, needs to decide on the combination of actors and roles, public and private, that will result in the optimal outcome for society. We have argued above that in African settings, the state has an indispensable role to play in creating the conditions that will attract private capital and management. In certain settings however, the role of the state and state-owned enterprises goes beyond this, into that of taking on investment risk and itself managing the mitigation of this risk.

Of course a reality in many African countries is that state capacity – regulatory, transactional and managerial – is severely limited. The capacity of a government to perform the various roles cited above, and how that compares to available private-sector capacity, are therefore important considerations in choosing an approach.

Structural alternatives. At least the following four structural alternatives are typically considered:¹⁴ Pure state control or ownership (function of a state department); SOEs; PPPs; and pure private sector control or ownership.

These investment options are generally seen as a continuum. Private sector involvement tends to increase as the barriers discussed in the previous section are reduced. Apart from the operational efficiencies usually associated with private sector investment, the sheer size of the investment funding gap in Africa means that the public sector is unlikely

¹⁴ These options related to investment in infrastructure. A PPP in this setting would thus mean that both the private and public sector provides funding for the project. The state can make this investment through supporting infrastructure, concessionary finance, or even direct subsidies in the form of output-based aid.



to be able to fund all required investment. The state should thus endeavour to create conditions that are conducive to it moving down this continuum in order to engage more and more private sector funding into infrastructure.

Even with relatively benign conditions in place, and a vibrant and well-capitalised private sector in place to take advantage of these conditions, there will still be a role for the state in infrastructure investment. Infrastructure with public good characteristics and large positive externalities, for example, will always be undersupplied by the private market. Apart from subsidising these services, the state may decide to finance the supply of these services directly. This is likely to happen in situations where the state subsidy, combined with the transaction costs of providing these subsidies (monitoring, evaluation and disbursement cost, for example) is so near the total cost of providing the service that a strong argument for private sector provision cannot be made. Under these conditions, the important question is whether the state should provide the services directly (i.e. via a state department) or through a SOE.

State owned enterprises. Theoretically, the argument for SOE investment is strongest when there are efficiency gains to be realised by applying private sector principles to the provision of certain services. The rationale is to reduce bureaucratic constraints, ensure sustainability through private sector-type measurements, encourage long-term time horizons, while allowing the state to set the overall strategic direction towards meeting policy goals. Arguably, the independence of SOEs also insulates them against undue political influences and reduces the likelihood of a political business cycle¹⁵ in infrastructure investment. This allows more efficient planning of investments since unnecessary spikes do not need to be accommodated. Activities that require ongoing and long-term investment and maintenance, as opposed to relatively once-off investments, are therefore better suited to SOE provision than provision by state departments.

Apart from providing entities with greater freedom in their day-to-day operation (i.e. by allowing them to sidestep onerous public sector processes), SOEs also have the added advantage of being able to reinvest retained earnings. Unspent portions of government department budgets usually revert back to the government treasury, to be reallocated amongst all the competing functions of government. While this will theoretically lead to the most efficient allocation of resources based on the marginal return principle and giving to the priority of each competing use of funds, for the government sector as a whole, this is not

¹⁵ Larger than warranted spending is sometimes incurred before elections to win favour with the electorate.

always conducive to long-term investment planning. Infrastructure services that require staggered investments, project-linked debt service, or large planned maintenance outlays over a long investment horizon, are thus better suited to SOE than general government provision¹⁶.

Given that the state is normally the sole shareholder in an SOE, its entire profit could theoretically be available for reinvestment¹⁷ as retained earnings. In theory, a SOE could thus build up a pool of investible funds, unlike a comparable private sector firm whose shareholders would demand dividends.

The experience of Transnet. At Transnet, for example, we are using the SOE structure to both maximise efficiencies in freight transportation and provide large-scale investment in a manner that is efficient for the economy. While Transnet is, as set out above, a SOE, it is incorporated as a public company under the company laws of South Africa. Like private sector companies, it is a corporate tax payer. It is audited by independent auditors and its financial report is prepared in accordance with International Financial Reporting Standards ("IFRS"). The turnaround of this company has placed it in a position to be accorded a standalone credit rating by international ratings agencies. The fact that Transnet can raise finance in the capital markets without any recourse to, or reliance on sovereign guarantees, confirms that 100% ownership by the state does not mean that SOEs are incapable of operating on the strength of their balance sheets.

Transnet is in the unique position of being the owner and operator of South Africa's integrated bulk commercial freight rail, port and pipeline infrastructure. Transnet is now pursuing a growth strategy that targets the development of key corridors that link logistics supply chains between the coastal ports and the industrial heartland in the interior of the country. Through an assessment of capacity needs, and the careful analysis of forecast demand, per commodity per corridor, we have committed to an R82 billion (approximately \$10 billion) investment programme in ports infrastructure, port terminal operations, freight rail and petroleum pipelines over the next five years.

On the back of the assets we own and the operations we control, we have been able to sustain a consistent growth in volumes transported over the last five years, and are projecting considerable growth in the next period.

This is testimony to the power of the SOE approach, and to the value of fully retaining earnings from operations for reinvestment in the country's

¹⁶ It must be noted, however, that this result only holds if the enterprise is run efficiently and generates a net inflow of funds.

¹⁷ In practice, however, many SOEs do pay dividends to the state.



strategic infrastructure. It needs to be added that this requires that Transnet is run on very strict company targets which are agreed annually between our Board and our Shareholder Minister, the Minister of Public Enterprises. It also requires that the company operates with the highest standards of corporate governance and compliance with company laws, manage risks and invest in human capital for the long-run.

Government roles in private investment. Where a government has elected to invite private investment, the state has a range of options as to how it fulfils its pivotal role in facilitating this investment. It may choose to play a 'purely' facilitative role, ensuring that an enabling regulatory environment is in place to lower country risk to the private investor. Where the state couples this role with some form of 'licencing', particularly for mining or resource extraction, there are increasing calls for the state to use this regulatory power to leverage additional social investments from the commercial investor. PPPs continue to offer a route for private sector capital and risk management in public infrastructure, where the private party is in a better position than the state to manage certain risks. PPP projects are nevertheless complex, requiring careful preparation by government, so that state negotiators in PPP agreements are able to ensure affordable, value-for-money outcomes for the state. This requires specific skills, insight by officials into private sector behaviours, and appropriate regulatory controls. These are not always in place. PPPs nevertheless cover a range of options for state involvement in the risk-sharing continuum: from co-funding, to various mitigation and incentive measures, to specific off-take agreements. What is important to highlight is that virtually every role that government plays in privately-funded projects implies some form of assistance. Governments therefore need to be cautious and considered in these structures, because they bear real costs for the state, whether these costs are overt or not. Government officials also need to understand the constraints of private investors in these projects, what risks they can carry, and how they price those risks. Specialised PPP units may be a part of the institutional design that governments need in order to tap effectively into available private sector capital and skills for appropriate investments.

4. **Conclusion: Some policy considerations**

It is clear from the foregoing discussion that African governments have an important role to play in facilitating two broad sets of goals related to investment in infrastructure. The first is to improve and build capacity in relevant state departments and state-owned enterprises to take on key infrastructure investment tasks themselves, while the second is to proactively address the variety of circumstances hindering private sector involvement.

As with most policy decisions it is difficult to provide a framework which will cater for all situations. Government action will always be country- and situation-specific, but it remains important to consider general recommendations, such as investing in the right kinds of skills for the roles that have been chosen for the state. There are specific skills needed to run a self-sustaining state-owned enterprise; there are others required for designing and negotiating PPPs within government departments; there are still others needed to ensure that the regulatory environment significantly lowers country risk and encourages private investment.

In addressing the barriers to private investment in infrastructure, urgent attention needs to be given to policies enhancing the general investment climate in the country. Addressing local capital market inefficiencies is also of utmost importance if greater private sector involvement is to be forthcoming.

Finally, while multilateral organisations have a key role to play in providing policy advice, finance and technical assistance to African countries, it is imperative that this assistance empowers our countries to make their own choices. Conditionalities that constrain choices effectively emasculate governments, limiting what is otherwise, a wide range of available institutional and financing arrangements.

We thank you for the opportunity to contribute to the Africa Emerging Markets Forum's engagement on such critical issues for our continent.

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