



**The “African growth support” initiative, multi-stakeholder study group**  
Third meeting minute

**Date:** 23<sup>rd</sup> May, 2008 (18:30 – 20:50)

**Place:** GRIPS Room 4A

**Participants:** 13 people with background in government, aid implementation agencies, research institutes, and 6 people from the GDF secretariat participated.

### **I. Introduction**

In line with the Japanese government stated policy of making infrastructure development in Africa one of the priorities of the TICAD IV (the Government of Japan has committed to provide yen loans for infrastructure development up to US\$ 4 billion in the next 5 years), the third “African growth support” meeting focused on how to include infrastructure development into the economic growth support matrix.

The secretariat introduced the meeting with a presentation covering various, recent trends in international support for infrastructure development (ref. presentation material, in Japanese). This was followed by two presentations from participants. The first presentation dealt with how to boost economic growth through infrastructure development, including provision of grants and yen loans (ref. presentation material, in Japanese). The second presentation touched upon providing technical support for infrastructure development including promoting regional integration through projects such as One-Stop Border Post, regional electricity grid development, and so on (ref. presentation material, in Japanese).

### **II. Discussions**

In the ensuing discussions, participants explored several options and alternatives available to Japan that should be considered in order for infrastructure development to have an impact on economic growth of recipient countries. The most hotly discussed options were (i) the use of private sector driven mega-projects as a nucleus upon which infrastructure development could be linked to economic growth; and (ii) the need (or not) to support industrial strategy development and implementation through a continuous policy dialogue process.

#### *1. Private sector projects led growth support*

- Participants were of the opinion that, unlike Asia, Africa has a low population density, which often translates into low infrastructure efficiency. Therefore, using private sector projects as a nucleus makes good sense, since under such conditions (viable project on the ground) developed infrastructure will be effectively used. Past experiences have shown that, successful private sector driven investments have led to economic rebirth of whole towns, cities, as well as in logistics expansion, and so on.

- Participants wondered whether the Asian model where infrastructure development through massive ODA (grants and yen loans) played a catalyst role to promote and attract private investment would be applicable in the same way to Africa. The example of MOZAL in Mozambique was quoted to support the argument that a private sector focused mega-project strategy could be the way to go in Africa. This argument stipulates that, it should be the government policy to let the private sector identify local viable commercial projects (this is what they are good at), with good economic impact – create linkages between the mega-project and the local industry or with local Small and Medium Scale Enterprises (SMEs) – to the local economy that should justify provision of ODA for infrastructure development.
- In light of the low infrastructure efficiency in Africa, (often resulting from low population density), it might be practical to take phased approach and target specific region(s) for the development of critical infrastructure such as ports, airports, special economic zones, and so on – that improve enterprises competitiveness.
- Participants also noted that, recent positive developments on the African continent – better than usual good economic growth figures in many countries – as well as a peak of interest in Africa from the private sector in Japan presented a window of opportunity that should be seized to do something and evaluate results within a short-term time span (~five years).
- As far as project initiation, feasibility and implementation were concerned, participants concurred that while the DBSA's (development bank of Southern Africa) achievements and results would provide a very useful reference for assessing projects, the government of Japan should consider strengthening its relations with the DBSA to enable it to play its role as an engine for development in various SADC countries.

## *2. Industrial strategy formulation through continuous policy dialogue*

- Whereas in Asia, continuous policy dialogue was effective in devising country economic growth strategy (as in the case of Vietnam), participants questioned whether the same would be possible in Africa, considering its limited institutional as well as human resource capabilities.
- As a counter argument to the “*private sector projects led growth support*” approach, participants conferred that, while the significance, importance of resource based projects is recognized, instead of solely promoting mega-projects related to resource extraction (with a negative exploitation image), that have often brought little backward or forward linkages to the local industry, more consideration should rather be given to recipient countries needs – expressed by their national governments (through policy dialogue) – to strengthen industries with the best potential.
- Participants noted there should be no contradiction to have private sector led mega-projects on-going simultaneously with policy dialogue as it can be thought that policy dialogue will progress much more smoothly if backed by existence of

private sector led projects. Hence it will not be appropriate to think that policy dialogue is unnecessary if ODA is used simultaneously to support a mega-project.

- To support the need for policy dialogue, participants described the case study of a vocational training program in Uganda where, instead of producing the personnel needed to fit existing companies' needs, vocational training (at the time) was positioned as part of higher education without due consideration to linkage with industry needs and requirements. In Asia however, vocational training was successful because it was linked to industrial development strategy of the country. Therefore, policy dialogue to link government policy to support economic growth in Africa is necessary. Participants agreed that though private sector led mega-projects are welcome, the reality on the ground is that, most of Ugandan private sector activities consist of repair and reconditioning of Japanese finished products. Therefore, it would be useful if Japanese companies could link with such local businesses at the level of staff training without further consideration for investment in hardware and manufacturing.

#### *Case of El Salvador*

Through a continuous policy dialogue with the national government of El Salvador, it was decided Japan's development assistance priorities would concentrate on development of the Eastern region. In this perspective, Japan has made development of the *La Union* port the focus of its development assistance activities in the Eastern region, combining infrastructure development with technical cooperation and maintenance capabilities. However, in order to avoid this key infrastructure facility becoming an instrument to solely promote export of monoculture products, Japan has been simultaneously supporting the capacity building for manufacturing and trade promotion – including SMEs such as those exporting small exotic products intended for niche markets targeting a sizeable immigrant community in the United States – in the region.

In addition, recognizing the importance to base investment decisions on reliable and actionable information – necessary to achieve the elusive self-discovery in El Salvador – the Japanese Government funded the compilation of a digital map that would enable agricultural land surveys, population census, as well as other essential information such as maps, key statistics, and so on to be updated (by using the counterpart fund of Japan's non-project grant aid).

#### *Partnership with third party development partners*

As a development assistance partner, Japan alone cannot achieve accumulation of industrial clusters, although it can play the pivotal role of an anchor. Cooperation with other development partners' enterprises is therefore necessary. In this perspective, Japan has been working with other partners such in Malaysia and India to support economic development and policy dialogue in countries in Africa. For instance, Japan has worked with a Malaysian investment promotion specialist dispatching him to Zambia to promote investment from Asia to Zambia. Although such cooperation with third party countries is more on a small-scale

than would a Japanese enterprise, participants felt, Malaysia and Indian companies may be more suitable to African conditions, in certain sectors.

### **III. Conclusion**

It transpired from the third African growth support discussions that, while support for infrastructure development for economic growth was necessary, it was not by itself sufficient. In the case of Africa, participants recognized the need to ensure higher infrastructure efficiency either through linkage creation with private sector led projects or through a continuous process of policy dialogue between Japan and the recipient country – including technical cooperation, linkage to the local economy to boost economic activities.

Further discussions on this important issue of supporting infrastructure development were scheduled to continue in the next meeting that would also discuss the result of the TICAD IV (to be held on May 28-30).