

Roads in the Marketplace

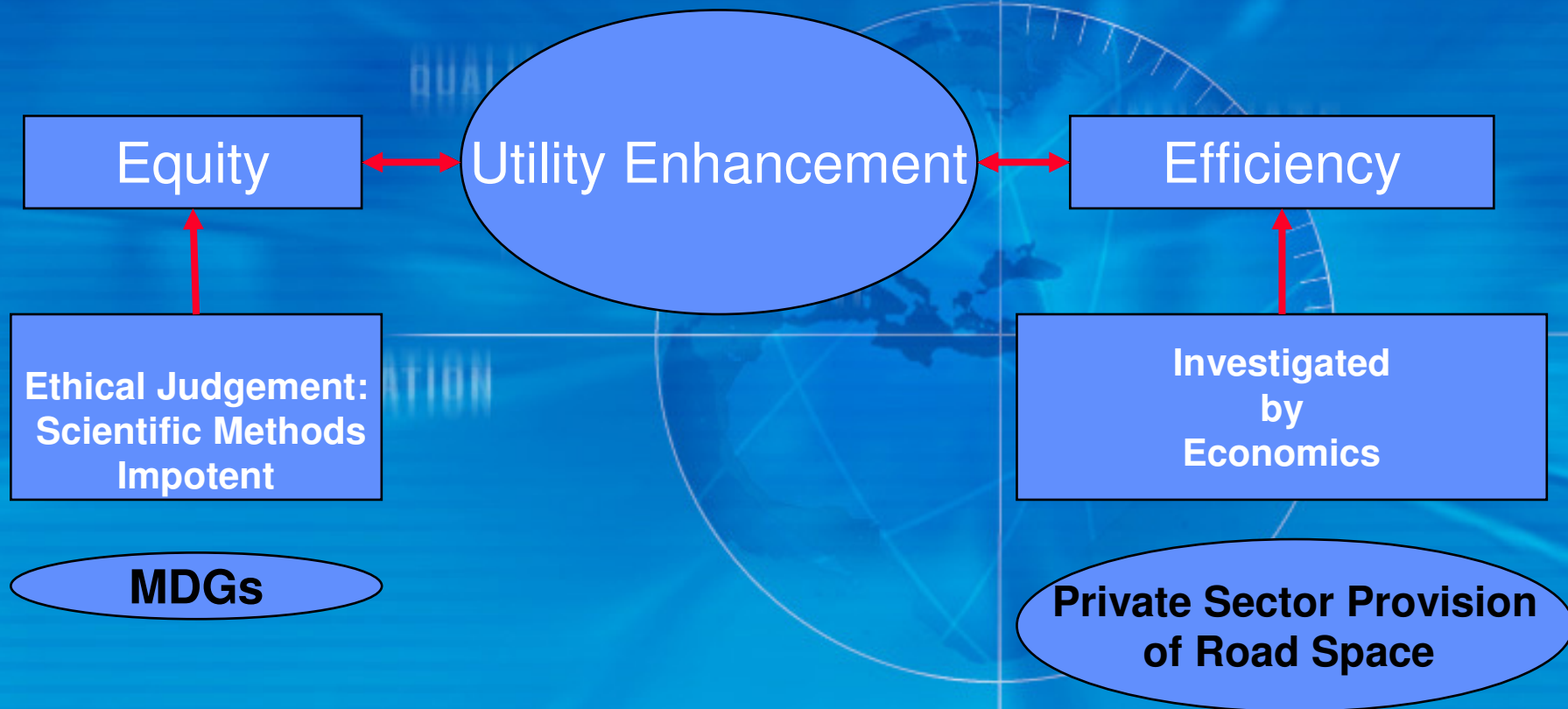
A Search for Sustainable Growth Engines for SSA

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Conceptual Framework Equity & Efficiency



Roads and MDGs

"We will have time to reach the Millennium Development Goals – worldwide and in most, or even all, individual countries – **but only if we break with business as usual.** We cannot win overnight. Success will require sustained action across the entire decade between now and the deadline. It **takes time** to train the teachers, nurses and engineers; to build the roads, schools and hospitals; to grow the small and large businesses able to create the jobs and income needed. So **we must start now.** And we must more than double global development assistance over the next few years. Nothing less will help to achieve the Goals."

[Kofi Annan, 2000]

Roads and MDGs

Goal One: Reduce by half the proportion of people living on less than a dollar a day in 1990 by 2015.

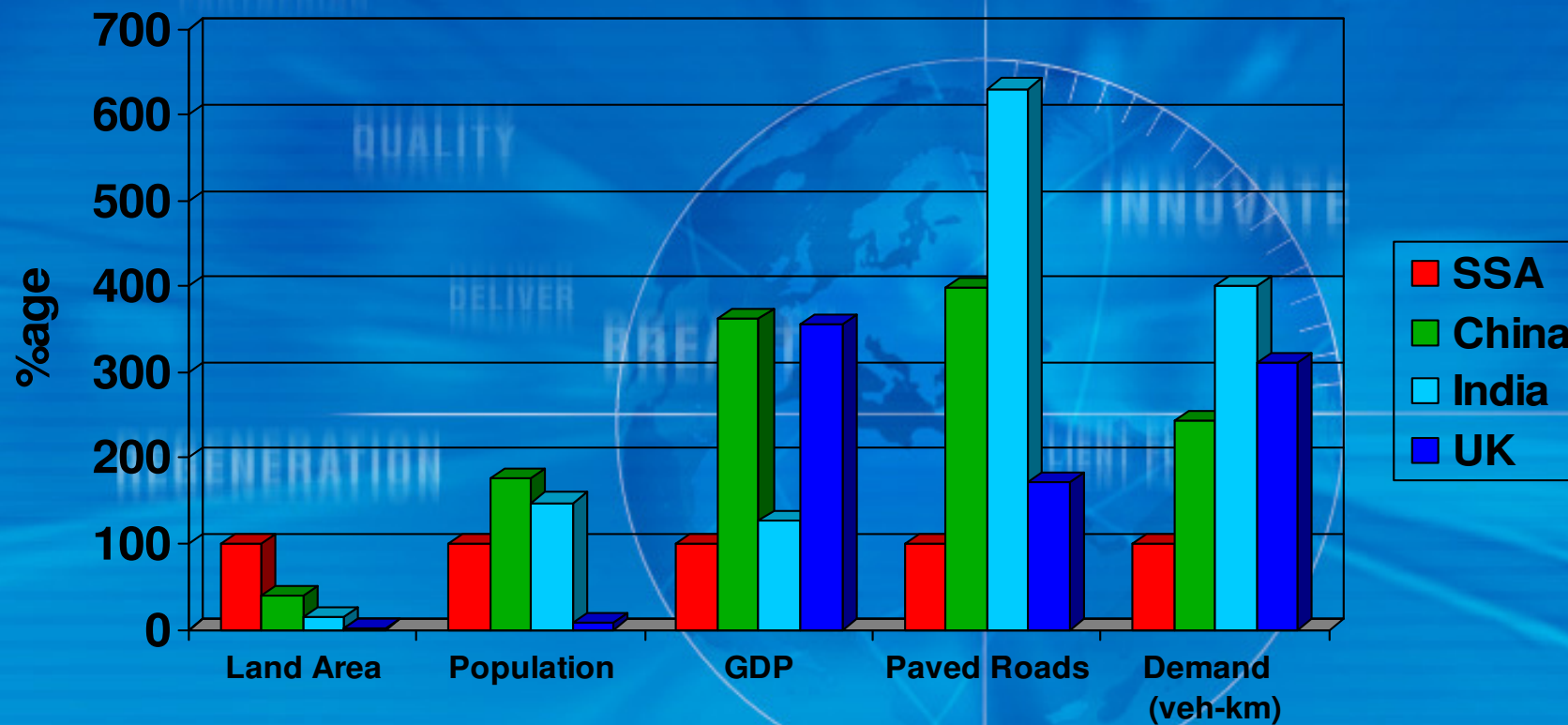
Roads are not explicitly mentioned but are the spokes to the hub [Goal One].

State of the Network

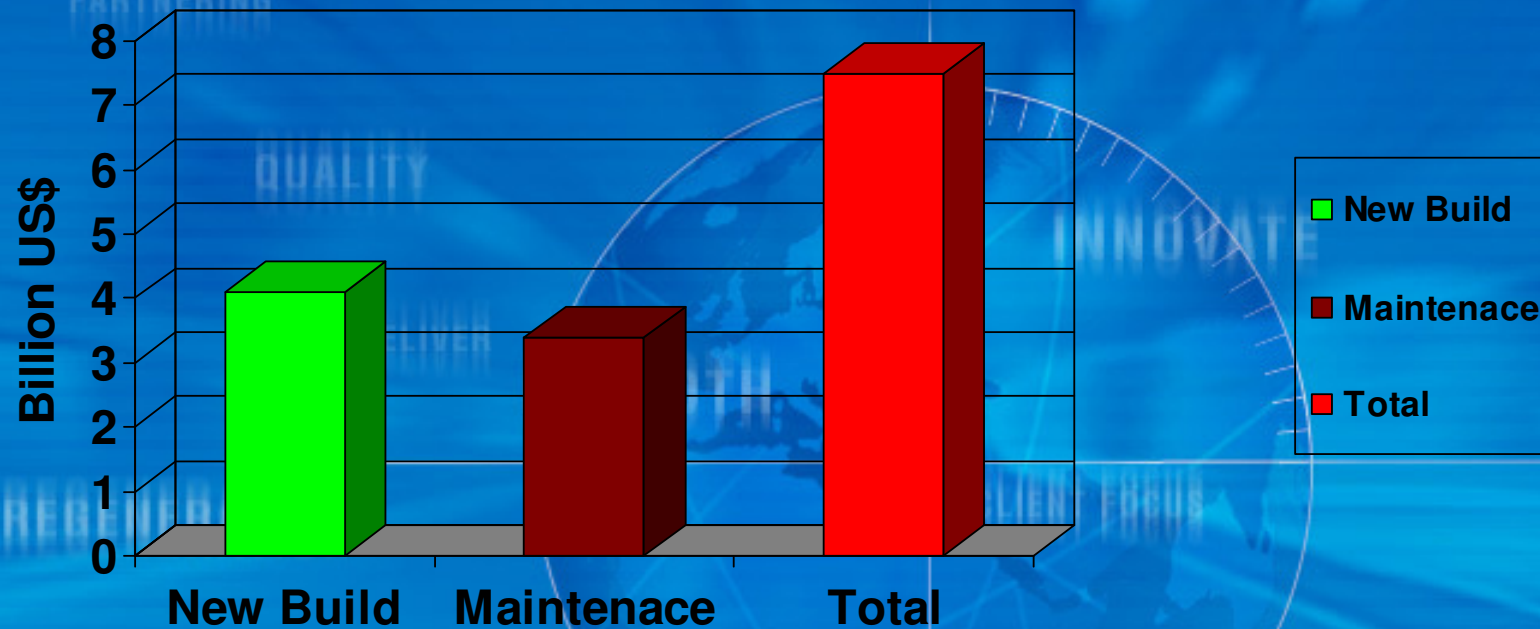
- 1.5 million km of classified roads
- Less than one sixth paved
- Less than one fifth passable in all weather.

State of the Network

A Comparative Picture



State of the Network Investment Gap



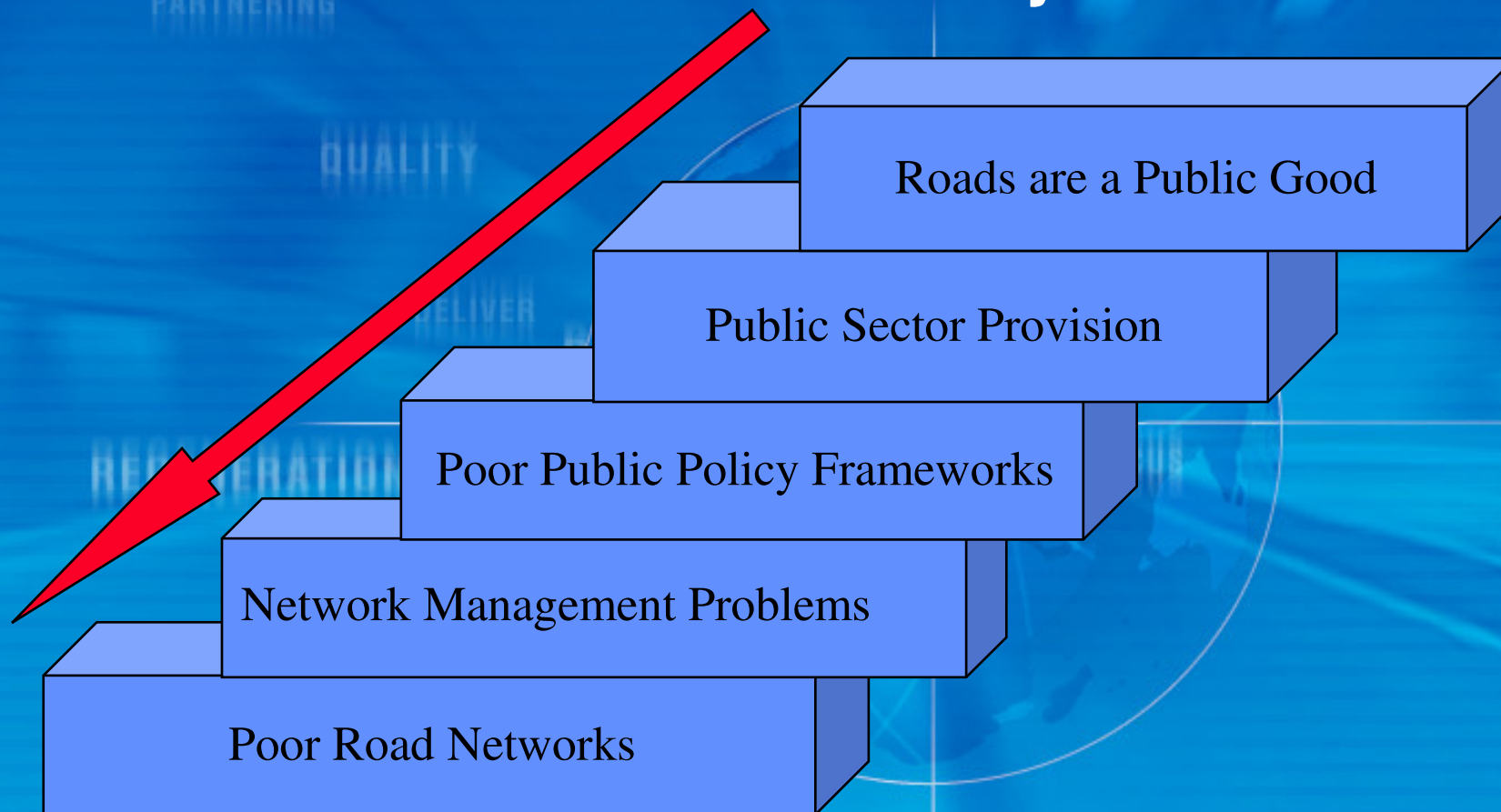
Annual Investment Needs

Source: World Bank Research (Fay et al., 2003)

Annual requirement: 1.5-2.0% of GDP over at least 5yrs.

Explaining the Gap

A Cascade of Inefficiency



Explaining the Gap

The Public Good Delusion

Roads are a public good that should be financed and managed in a similar way to national defence, for instance.

The Arguments:

- Roads are non-rival and non-excludable;
- The existence of externalities dictates public provision.

The delusion is global, not just a SSA phenomenon; the effects are, however, most pronounced in SSA.

Explaining the Gap

Countering the Public Good Arguments

Non-Rivalry Argument: Level of Service decreases with consumption both in spatial & structural terms – most obvious on high volume roads.

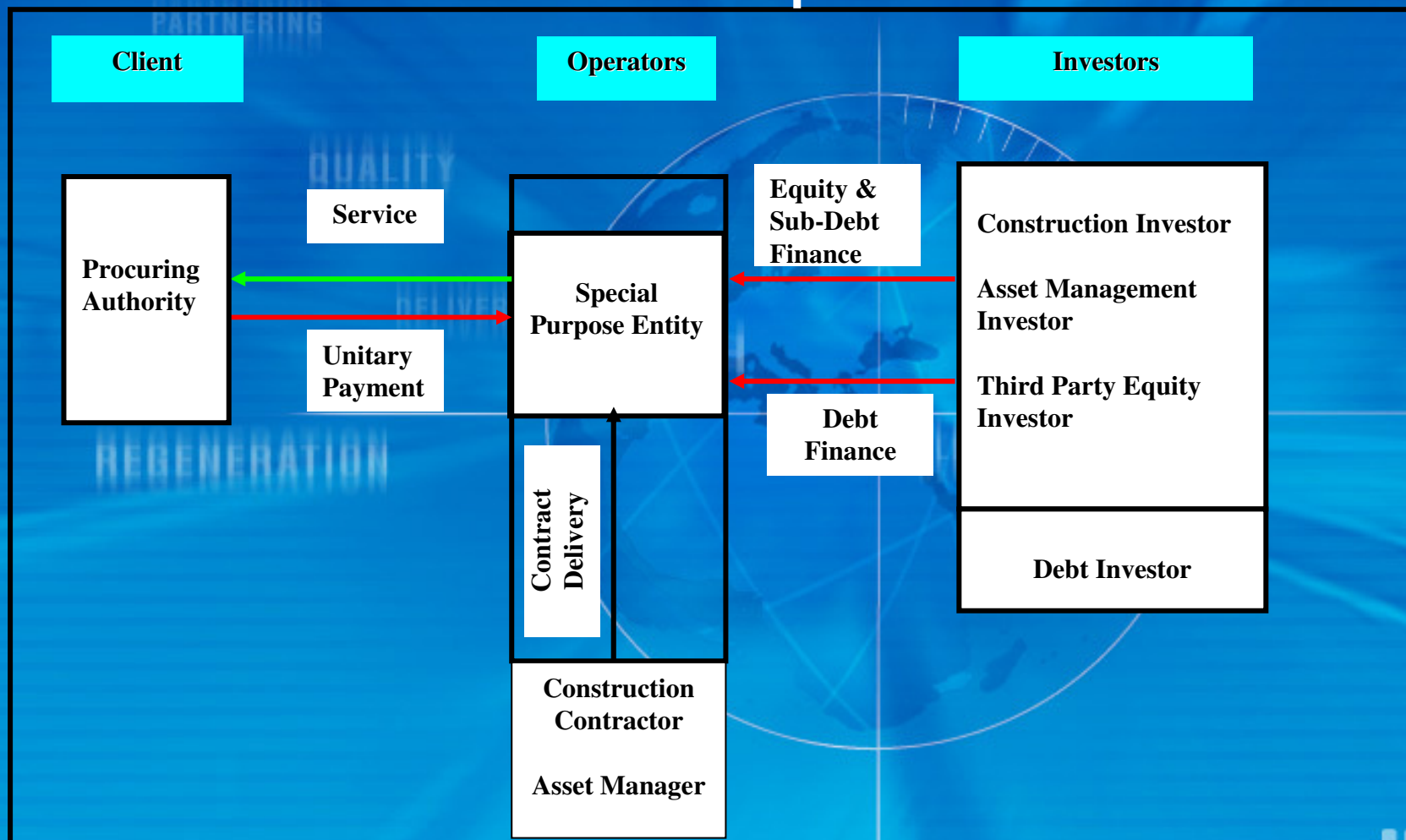
Non-Excludability Argument: Negated by technology; electronic toll collection (ETC) is a vivid example.

Internalisation of externalities not hampered by private provision.

The public good perception is largely a post-War phenomenon.

Closing the Investment Gap

Private Finance Option



Closing the Investment Gap

Private Finance Option

How has SSA performed?

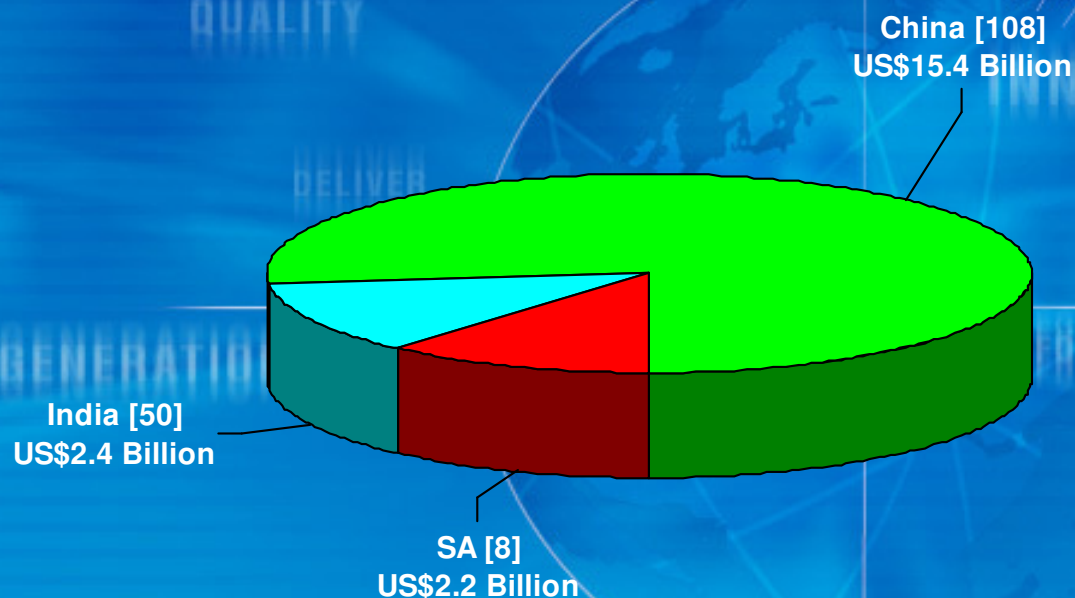
- SSA has hardly captured private finance for road management
- The N4 Toll, SA, (1994) was the first private toll road
- Private toll roads mooted in Nairobi, Dakar & Lagos
- Rail sector done much better
- Nearly 20 rail concessions across SSA.

Closing the Investment Gap

Private Finance Option

How does SSA compare with other regions?

Road Projects with Private Finance Element



Note: SSA outside SA nil

Source: WB PPI Database

Closing the Investment Gap

Private Finance Option

Why has SSA performed so poorly?

Equity & Debt Markets

- Young but growing
- 22 stock exchanges
- Market capitalisation typically less than US\$50 billion
- Dismal performance partly attributed to aid inflow and inefficient social security institutions.

Closing the Investment Gap

Private Finance Option

Equity and Debt Markets

What is the way forward?

- Aggregation of stock exchanges – under consideration
- Social security reform
- Government policies sympathetic to the free market concept.

Concluding Remarks

1. Utility enhancement must address equity and efficiency;
2. Applied science can inform the efficiency aspect but not equity;
3. To improve efficiency in road provision, private finance and expertise are vital;
4. Private sector participation has been hampered – at a philosophical level - by the notion that roads are a public good; it is a delusion that must be dispelled;
5. Poor equity and debt markets are major hurdles in capturing private finance;
6. Government initiatives and pro-action by the private sector are required in overcoming these hurdles.

**A decent provision for the poor is the true test of
civilisation.**

[Samuel Johnson]

Thank You.

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