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MEETING OF TECHNICAL EXPERTS
OF OAU, ECA, UNIDO and ADB

ON

THE INDUSTRIALIZATION OF AFRICA

Vienna, Austria
3 To 4 November 1994

NEW MECHANISMS FOR THE MOBILIZATION OF FINANCIAL RESOURCES FOR INDUSTRIAL DEVELOPMENT OF AFRICA

FINAL REPORT

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November 1994

CONTENTS

		Page
	PREFACE	- i -
	SUMMARY	- ii -
I	INTRODUCTION	1
	1.1. Review of IDDA	1
	1.2. Programme for IDDA II	2
	1.3. UNIDO Ten Point Programme	3
II	OVERVIEW/BACKGROUND	3
III	THE NEW ECONOMIC ENVIRONMENT	5
	3.1. Multinational Investments	6
	3.2. China Investments	7
	3.3. Russia Investment	8
	3.4. India Growth/Investment	8
	3.5. Vietnam Growth/Investment	9
	3.6. Mideast Growth/Investment	9
	3.7. European Union Expansion/Investment	10
	3.8. European Union - Asia Trade Expansion	10
	3.9. IMF/Financial Aid for Developing Countries	11
IV	IMPACT ON AFRICA	12
	Conclusions	16
V	PROPOSED AFRICA RESPONSE	17
VI	CONCLUSIONS/RECOMMENDATIONS	18
PRIVATE SECTOR DEVELOPMENT		20
RECOMMENDATION		20

PREFACE

THE ASSIGNMENT

The overall purpose of the assignment was to advise and assist the Secretariat in assessing past, present and future programmes of UNIDO in Africa with a view to advancing recommendations on new measures to be taken by the Organization in enhancing its contribution, in concert with the OAU, ECA and ADB, to the industrialization of Africa within the context of current global economic developments, the five substantive priorities of the Organization, the programme for the second IDDA and the UNIDO Support Strategies and Programme for Africa.

More precisely, however, the task was to recommend, based on analysis, appropriate policy measures and new institutional mechanisms to be adopted by UNIDO in enhancing its contribution to the industrialization of Africa, relating, in particular, to new approaches, mechanisms and operational modalities on the mobilization of investment and technical assistance rescurces for industry in Africa.

A brief document was to be prepared, based on relevant issues for discussion at a meeting being convened by the UNIDO Director-General with the Heads of OAU, ECA and ADB.

The precursor to the present document was an expanded outline, designated as working paper Nr. 6, which was presented for examination and discussion by a meeting of technical experts of OAU, ECA, ADB and UNIDO on the industrialization of Africa which was convened in Vienna, Austria, November 3rd and 4th, 1994.

SUMMARY

At the invitation of UNIDO a meeting of technical experts, including UNIDO partners OAU, ECA, ADB and outside consultants, was convened in Vienna, Austria, November 3rd-4th, 1994. The purpose of the meeting was to examine various key issues in preparation for a conference of the chief executives of the four organizations. This forthcoming meeting is intended to take up these matters in the framework of IDDA II.

Declining African economic growth in the face of world recession and chronic adverse conditions was reviewed. Similarly, the efforts at economic restructuring to foster improved conditions for investment were examined. The World Bank has reported that improven economic growth has followed major restructuring efforts. Economic decline was reported to have followed poor or absent restructuring efforts.

The reformist mood has been widespread and, at times, exhibited itself in quite rapid policy and legislative changes. For instance, between 1982 and 1987, about one half of all African countries either introduced or made adjustments to their investment codes or guidelines in order to attract more FDI. The end of the 1980s and the start of the 1990s also saw many other countries among the other half introduce new investment laws or armed the old ones. In addition, countries with a previous reputation of hostility to FDI, such as Ethiopia, Guinea and Mozambique, introduced new legislation offering a wide range of guarantees and opportunities for foreign investors. But even countries that have traditionally been regarded as being more open to FDI, such as Kenya and Zimbabwe, went out of their way to revise their regulatory frameworks to be more attractive.

Dramatic and wideranging changes in political and economic-social relationship have created a new world economic and investment environment. Such changes as economic expansion and growth in Eastern Asia, Latin America and elsewhere; new and intense focus of public and private investment in China, Russia and SE Asia; creation and expansion of new trade groups - particularly in North America, European and Asia-Pacific regions, have created a climate of expanding world trade and increased investment in the developing countries. Unfortunately, none of these changes bodes particularly well for Africa. On the contrary, and despite evidence of some modest growth in the region, most of the implications of the new economic environment signal further marginalization of Africa.

It is proposed that Africa take a number of steps including the adoption of new mechanisms and initiatives to galvanize world attention in its favour. These efforts would impact upon creation of new pools of financial resources, enhance some existing programmes and accelerate private sector

development. Several specific recommendations are made for changes on both the macro and micro levels including convening of a global economic summit on Africa, creation of additional special drawing rights for Africa by IMF and improved, more efficient use of donor assistance.

I INTRODUCTION

To put the working group and heads of institutions, meetings - their goals and purposes - into context one must take into account the experiences of the First and Second goals of the Industrial Development Decade (s) for Africa (IDDA I + II) their ambitions and results. The information given below is drawn mainly from the programme of IDDA II aimed at

1) Self-sustained development through industrialisation (National Programmes), and

2) Self-reliance through industrialisation (subregional and regional programmes).

1.1. Review of IDDA

From a report prepared in 1988, the Conference of African Ministers of Industry, meeting in Harare, Zimbabwe, in May 1989, drew the following conclusions:

- The approach of the first IDDA, while forcefully reaffirming the objectives of the LPA, was over-optimistic and underestimated the economic aspects of the major industrial investments to be made and resource availability.

- Although the concept of the first IDDA was valid, its success was undermined by the unfavourable circumstances in which it was implemented. In addition to the adverse internal factors seriously affecting the majority of African countries, the world recession, the decline in commodity prices, the rise in the cost of imported products and the reduction of external aid had a devastating effect on their economies.

At the end of the first decade, therefore, Africa faced a debt burden which had risen 19-fold since 1970. The poor performance of sub-Saharan Africa in particular, with its population of 450 million, was reflected in its 1987 GDP of US $ 135 billion, equal to that of Belgium which had a population of only 10 million.

In an effort to remedy that situation and avert the threat of a serious crisis in Africa the following measures were taken:

- adoption of the Declaration of Africa's Priority Programme for Economic Recovery (APPER) by African Heads of State and Government, which placed particular emphasis on agricultural development and debt reduction;

- adoption of the United Nations Programme of Action for African Economic Recovery and Development (UNPAAER) by

the United Nations General Assembly, which endorsed APPER;

- adoption of the Structural Adjustment Programmes (SAP) and policy reforms proposed by the World Bank and the International Monetary Fund (IMF) for a number of African States, which were not entirely consistent with the recommendations of the Lagos Plan of Action and the strategy of the first IDDA.

The national Governments endorsed the view that industrialization held the key to socio-economic advancement, and the majority of them, having unreservedly supported the goals of the LPA and IDDA, adopted national planning as an instrument of the collective and integrated development of Africa.

With very few exceptions, the guidelines for the Decade were disregarded, particularly those concerning the establishment of coordinating committees in each country, the preparation of investment portfolios for priority industries and the deployment of resources specifically for country projects.

The experts' report, which provided guidance for the 2nd Decade and identified rehabilitation as one of the key areas for IDDA II, revealed other weaknesses in the African economy which the first Decade had had to face. These were:

- low capacity utilization, low productivity and inadequate input-output ratios of industrial assets;
- the poor performance of public sector enterprises and its consequences, because of their predominant role in the economies if the countries concerned;
- inadequate domestic savings, absence of capital markets and lack of indigenous entrepreneurs;
- the slow development of the necessary skills;
- the very poor physical and institutional infrastructure;
- the need to develop regional cooperation and to set up joint industrial ventures and common markets;
- the need to base the financing of plan and programmes on realistic estimates of available capital investment resources.

1.2. Programme for IDDA II

The programme for IDDA II is action - oriented and is intended to comprehensively promote :

- Consolidation Programmes (notably the rehabilitation and regeneration of existing programmes);
- Industrial expansion (focusing on key sectors such as metallurgical, chemicals, engineering and metalworking etc.);
- Promotion of small- and medium-sized enterprises and entrepreneurial development; and

- support services (including physical and institutional infrastructure, Finance and Human Resources Development for industrialization).

1.3. UNIDO Ten Point Programme

To further focus its efforts and in view of its limited financial and staff resources, UNIDO adopted the following strategic programme:

i) Development of appropriate policies and strategies for industrialization;
ii) Development of increased regional industrial cooperation;
iii) Expanded programme for entrepreneurial training and development;
iv) Comprehensive programme for development of small and medium industries;
v) Development of sustainable institutional capability for industrial services and support;
vi) New technological applications in industrial sectors and branches;
vii) Interrelationship between environmental, ecological and energy needs and industrial development;
viii) Advanced management training for local entrepreneurs;
ix) Expansion of investment promotion activities;
x) Increased dissemination of industrial and business information.

It is within this context that the present paper was prepared.

II OVERVIEW/BACKGROUND

The 45 countries of Sub-Saharan Africa have witnessed overwhelming changes since the 1960s when most became independent. Political, economic, and especially population growth changes have been phenomenal. Population has doubled to 500 million, life expectancy has increased from 39 to 49 years; child mortality has decreased by 35 percent. Primary school enrolment increased, according to the Development Fund for Africa (DFA), by more than seven percent per year during the past two decades. Adult literacy has increased from 9 to 42 percent.

Unfortunately, this rate of social progress has not been matched by economic growth. The "formal sector" economies in most countries, with few exceptions, reportedly have grown at a rate of only 1.6 percent per capita each year. In the region as a

whole, average per capita income growth rates were lower in the 1980s than they had been in the 1970s. The 1980s witnessed further economic deterioration with declining agricultural output and food production. Domestic and foreign investment decreased. Prices on many African exports fell while the prices of imports rose sharply. Industrial growth stopped while Africa's share of world trade dropped 50 percent during the same period. After 1980, many private financial institutions closed their offices in Africa due to lack of business or because of financial losses. The region has also been sorely tried by drought and famine.

Against this dismal background, many African countries began to restructure their economies and change public policies to halt the decline. With the assistance of the international donor community, many countries moved to counter disinvestment, lagging production and declining living standards. Reforms undertaken included basic and often drastic policy changes to liberalize markets, encourage private sector (PS) development and promote entrepreneurial initiatives.

A recent World Bank study[1] on public policy reform in Africa finds that improved policies are key to renewer economic growth.

While growth rates remain low, policy reforms - especially improved macroeconomic, trade and agricultural policies - have begun to yield results in some countries. However, reform must go much further for the continent to achieve growth rates needed to rapidly reduce poverty, the report says. It found that countries that have improved their policies most are growing fastest. Those whose policies deteriorated have suffered declines in growth. "Countries that have come the furthest in implementing good policies - particularly good macroeconomic policies - have enjoyed a resurgence of growth".

In countries where policies deteriorated, the already very low levels of per capita growth slumped further. In most such cases, per capital Gross Domestic Product (GDP) has actually declined, according to the report. A decline in per capita GDP indicated that poverty has worsened.

Of the 26 countries that the study ranks by macroeconomic policy performance, six - Ghana, Tanzania, The Gambia, Burkina Faso, Nigeria, and Zimbabwe - showed a significant improvement in policies. This group also had the largest improvement in per capita GDP growth.

Nine countries showed a smaller improvement in policies. This group also improved per capita GDP growth, but to a lesser extent. The 11 countries that suffered a deterioration in macroeconomic policies had the poorest growth record. Among these

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[1] "Adjustment in Africa : Reforms, Results and the Road ahead"

are Côte d'Ivoire, Cameroon, Congo, Mozambique, Sierra Leone, and Zambia. Three countries in the study were not ranked by macroeconomic policies due to lack of data.

III THE NEW ECONOMIC ENVIRONMENT

Recent international political and socio-economic developments have profoundly changed the world financial and economic environment. Some of the changes are so far reaching as to defy analysis of long term impact. New and unanticipated alliances have been forged; international trading has developed new and unprecedented boundaries; some economic barriers have been shifted or erased; former international competitors are now partners. Global investment is in a period of unprecedented expansion. Investors are seeking opportunities in a strikingly aggressive manner.

Including these watershed developments are the following on the political level:

- dissolution of the Soviet Union;
- democratization and economic expansion of Eastern European countries;
- political changes in Southern Africa;
- new global and regional trade agreements; (GATT, NAFTA, ECA, etc).

In the economic and financial sphere the following are particularly noteworthy:

- privatization within G-7 [2] and Eastern European nations;
- strong economic expansion and growth in :
  . China,
  . South East Asia,
  . Latin America;
- shift in focus on G-7 public and private sector investment to :
  . Russian Federation,
  . China,
  . Eastern Europe,
  . SE Asia;
- European Union rapprochement policies to integrate six Eastern European countries[3] into EU's single market;

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[2]Britain, Canada, France, Germany, Italy, Japan, USA

[3]Poland, Hungary, Rumania, Bulgaria, Czech and Slovak Republics

- organization for Economic Cooperation and Development (OECD) policies to strengthen ties with SE Asia and Latin America and OECD plans for early acceptance of Eastern European members;
- IMF (G-7) policies to extend special credits (Special Drawing Rights) (SDR) to Eastern Europe while limiting SDR's to other developing (Third World) countries;
- proposed Russian economic integration with former Republics of the USSR[4];
- conduct of the recent first North Africa - Middle East economic conference attended by some 60 Nations and its agreement to establish a new Middle East Region development bank to be capitalized at $ 10 billion, and
- establishment of an Asia-Pacific free trade zone by the year 2020 by the 18 Nation Asia-Pacific economic cooperation forum.

It is clear that this is a startlingly new economic and financial environment, enormously different from any known previously. For our purposes here we need to focus on its implications and effects on African industrialization.

Highlights from some recent public reports (september - october 1994):

3.1. Multinational Investments.

According to a massive new study of multinationals by United Nations researchers[5] multinationals are leading the globalization of trade and finance that is now reshaping business and labour markets around the world, there has been a dramatic shift in such foreign investment flowing to the dynamic economies of Asia and latin America from the United States and other industrial nations.

Investment flows to the developing world doubled from 1991 to 1993 to $ 80 billion, as multinationals based in the United States, Japan and Europe expanded their manufacturing and commercial linkages there. A surge of investment in China led the way. This shift toward the developing world is a break from the 1980s, when foreign direct investment flows moved predominantly between developed nations.

Wile the United States was on the receiving end of $ 33 billion in foreign investment last year, outflows from U.S.

[4]Notably Ukraine, Belarus, Moldavia

[5]World Investment Report prepared by the United Nations Conference on Trade and Development (UNCTAD).

multinationals hit a record $ 50 billion, with one-fourth of that going to the developing world.

Foreign investment by U.S. companies in Asia grew by 18 percent annually in 1990/92, three times the growth rate for investments in Europe. U.S. investment in Latin America was twice the rate in Europe.

This pattern reveals a profound change in long-term strategies by multinationals, according to the study.

At the front of this wave are the largest 100 multinationals, which control about one-third of the world's direct foreign investment, including Chrysler Corp., Toyota Motor Corp., Daimler-Benz AG, Matsushita Electric Industrial Co., Nestle SA, General Electric Co.

While the sources of this investment are concentrated among a relative handful of companies, so are the recipients. The bulk of the increased foreign investment is flowing to 15 of the fastest-growing economies, with only scraps left for the poor performers in Eastern Europe and Africa.

3.2. China Investments

Foreign investorment continued to pour into China in the first nine months of the year, totalling $ 22,72 billion for a rise of 49 percent over the same period last year, the official China Daily reported.

China is on course to top last year's foreign investment intake of $ 26 billion, second only in size to the $ 32 billion that flowed into the United States.

In September, foreign firms pumped $ 2,2 billion of new money into Chine, down from an average of $ 2,56 billion over the previous eight months. 50 multinational corporations have gotten approval to set up holding companies since the 1980s, half of them in the past two years.

These holding companies are seen as a major conduit of new investment in the future. For instance, the German electronics iant Siemens AG announced, on Friday that it planned to invest $ 1 billion in China by the turn of the century.

In another bid to improve its global competitiveness, the United States has streamlined its export loan practices to match other big exporting nations in hopes of landing lucrative overseas contracts for American companies.

The strategy is one of several effected by President Bill Clinton aimed at creating jobs in the United States through enhances U.S. exports.

Nowhere is the rush to gain those job creating contracts more apparent than in China, where the head of the Export-Import Bank of the United States is currently on tour, touting his agency's ability to compete with financing packages offered by the Japanese and Europeans.

The United States does not want to be left flat-footed, as it has in the past on some infrastructure and construction contracts in Asia.

In effect, China is the magnet for a fierce global competition for exports, and the United States must expand its loan programs in China to stay abreast, analysts say. He wants the United States to "get in on the ground floor in establishing good relations as major changes occur in China", he said. "We have no limits on the amounts that we will lend to China".

Last year, he said, the bank backed $ 1.3 billion un U.S. exports to China, making it the largest single recipient in Asia.

3.3. Russia Investment

In the last few months, since Russia completed its first round of privatization, money has been pouring into the country from foreign companies and investment funds that had previously been nervous about Russia's political and economic transition. The Ministry of Privatization recently estimated that foreign investment had quadrupled since the beginning of the year, to $ 600 million a month.

Only last week Russia had reached a long-awaited agreement with foreign banks to reschedule $ 26 billion of commercial debts.

3.4. India Growth/Investment

Today, despite poverty, financial scandals and political violence, India's growth is accelerating, and it is attracting money from abroad. U.S. companies invested more in India in 1992 and 1993 alone than they had in the previous 40 years. Ford, which now sells no cars in India, last week announced a joint venture with Mahindra & Mahindra and will begin manufacturing soon.

India is now the third-largest economy in Asia and the 12th in the world. But more important is its potential for further growth - with its 900 million people, 150 million of them middle-class and well educated. Some 25 million Indians own stocks, and despite the stifling bureaucracy entrepreneurship has deep roots.

3.5. Vietnam Growth/Investment

Some 65 American companies already have offices in Vietnam. American investment has risen rapidly, although the total, at $ 160 million, is still modest. Trade is slowly picking up. Hanoi is hoping for much more.

In bustling northern towns or Mekong Delta farmlands, Vietnamese say it is their "turn" to join the East Asian economic miracle. Hanoi hopes to double its GNP in this decade, helped by an estimated $ 50 billion in foreign and domestic investment.

The 2 million overseas Vietnamese - in Europe, North America and Australia - provide a pool of capital and skills for their former homeland. Vietnam's economy is booming. Growth probably will top 8.5 percent this year. Inflation, once-rampant, is under 10 percent. Previously a rice importer, Vietnam is now a major exporter. Production of rubber, coffee and seafood is rising. Total exports are forecast to increase 25 percent this year.

3.6. Mideast Growth/Investment

After the epochal business summit meeting just concluded in Casablanca, a different policy imperative has begun to reassert itself among Governments in the Middle East and North Africa: making money.

The event itself was the substance by virtue of getting together businessmen from more than 1,000 companies and officials from more than 60 countries, and by virtue of the ease with which they were talking to each other.

Put simply, between now and the year 2000, many billions of dollars in aid are likely to flow to the region from the European Union, the United Sates and multilateral institutions.

Algerian civil war, notwithstanding - the greatest threat to economic growth in the region may no longer be war but the ability and will of Governments to carry out the kind of reform programs that have worked in regions such as Latin America and parts of Eastern Europe.

Some truly ambitious aid proposals:

- *In December, leaders of EU member nations will discuss a plan to more than double aid to the region, to about $ 7 billion over the next five years, and to pursue an expanded free-trade zone that would bridge the Mediterranean.*

- *Caio Koch-Weser, the World Bank's vice president for the region, said Wednesday, that his institution "stands ready to double" its lending to the Middle East and North Africa, to $ 3 billion a year. The World Bank has*

already taken the lead in coordinating $ 2.4 billion of donations for the West Bank and the Gaza Strip.

- *Aid from Washington to the region, including debt forgiveness, is likely to rise over the next few years. Excluding military assistance, U.S. aid this year to Israel is $ 1.8 billion and to Egypt $ 800 million.*

The prospect of as much as $ 30 billion of Government and multilateral aid flowing to the region between now and the year 2000, meanwhile, raises a host of questions.

The amount of aid pales, however, when compared with the estimated $ 150 billion to $ 200 billion of private sector assets that nationals from the region now hold in international money markets. Obviously, not all that money is going to return to the region, but convincing growth policies over the next few years could lure back a substantial portion.

3.7. European Union Expansion/Investment

European Union foreign Ministers agreed Tuesday on a broad strategy for extending the bloc's frontiers into Eastern Europe.

Eastern countries were invited to take part regularly in EU ministerial and summit meetings and in commissioning a blueprint for bringing the East into the Union's single market.

The European Commission proposed an economic and security pact Wednesday with countries of the Middle East and North Africa to stem the threat of political instability and mass migration.

The plan, which would include the world's largest free trade zone, says population growth, a yawning wealth gap and the threat of Islamic fundamentalism make the southern Mediterranean countries in 1995 to agree on a framework for cooperation.

A free-trade area involving the Union, its prospective members in Eastern Europe and the Mediterranean would contain as many as 40 countries and up to 800 million people, more than double the size of the North American Free Trade Area of the United States, Canada and Mexico.

3.8. European Union - Asia Trade Expansion

A pressure increases for new measures to liberalize trade in Asia and the Pacific, countries in the region are divided over how to structure a free-trade arrangement in relation to Europe.

Most want any lowering of tariff and nontariff barriers to be on a nondiscriminatory basis so that the benefits would be available to all nations, not just members of APEC, the Asia-Pacific Economic Cooperation forum.

However, some APEC countries - including the United States, Australia, Singapore and South Korea - want access to a giant Pacific free-trade area to be made conditional, at least for European countries, officials and analysts said.

Such a move would force the European Union to make equivalent cuts in import barriers if it wanted free access for its exports to fast-growing APEC economies that already account for 50 percent of global production and 40 percent of the world's trade.

3.9. IMF/Financial Aid for Developing Countries

Madrid - a bitter dispute over financial aid for developing countries broke into the open Sunday, threatening to damage the career of the official who heads the International Monetary Fund and dealing a political setback to France.

The United States and most other Group of Seven industrial countries were furious Sunday with Michel Camdessus, the IMF chief, whom they accused of trying to force them to approve billions of dollars more financial aid for developing countries than they were willing to accept.

Both U.S. and European officials complained that Mr. Camdessus, a civil servant, had become a partisan campaigner on behalf of developing countries, which they said was not supposed to be the role of the Managing Director of a multilateral institution.

The controversy developed after the G-7 rejected as unwarranted and inflationary Mr. Camdessus' proposal to create more than $ 50 billion worth of Special Drawing Rights. The SDR is an artificial IMF reserve currency that central banks can cash in for dollars and other currencies.

This was followed by more than eight hours of heated argument inside the IMF's decision-making committee of 24 Ministers, who represent the organization's 179 member nations.

Late Sunday night, a group of developing countries blocked any SDR allocation at all rather than accept the G-7's final offer, a U.S.-British compromise that would have allowed the IMF to create $ 23.4 billion worth of SDRs.

The developing countries, emboldened by Mr. Camdessus' strong support for them and his opposition to the G-7 offer, also held hostage the extension of special IMF credits for Eastern Europe.

Decisions on both the SDR and Eastern Europe credits were effectively postponed until next year, although a minor technical change was agreed to that would allow a slightly enhanced borrowing facility for some countries.

Except for France, other F-7 Governments had agreed that with the growth of global capital markets the developing countries no longer needed to rely on a big expansion of the IMF's currency, which in any case has never lived up to its expectations as an international reserve.

Until Saturday night, France had steadfastly backed Mr. Camdessus, arguing that the Third World needed the jumbo credits. But Edmond Alphandéry, the French Finance Minister, was left isolated during a G-7 meeting on Saturday and agreed only reluctantly to join other G-7 Governments in supporting the U.S.-British compromise.

The controversy has decisively poisoned the atmosphere at the annual IMF-World Bank meetings being held in Madrid this week, and several officials said it raised questions about Mr. Camdessus' effectiveness at the IMF and his future relations with the world's richest industrial nations.

In his defense, Mr. Camdessus said late Sunday: "I am possibly too immodest, but I am the Managing Director of the IMF. It is my duty to launch by proposals".

IV IMPACT ON AFRICA

Because of prevailing economic/financial circumstances, investment in Africa has slowed considerably and can be expected to diminish further in the future. This decline in investment is occurring despite the restructuring which has occurred in many African countries leading to increased economic growth. These contrary developments are occurring at a time when increased investment is needed to sustain any economic growth in Africa (one recent UN study found signs of some growth in some 40 out of 45 Sub-Saharan countries).

It is abundantly clear that competition for investment funds is intense at present and can only become more acute over time.

The impact on Africa is given below in detail largely drawn from the UNCTAD study on investment (1994)[6].

According to the UNCTAD study, despite the widespread liberalization of foreign direct investment (FDI) policies, FDI flows did not respond impressively. Although the total value of FDI flows into Africa nearly doubled from an annual average of $ 1.7 billion during 1981-1985, to an average of almost $ 3 billion during 1986-1990, that increase did not give rise to much optimism concerning prospects for FDI in that region, not only because these investments were concentrated in few countries, but

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[6]Ibid

also because they were quite modest when compared to FDI flows to other regions of the developing world: average annual FDI flows into Africa as a proportion of all inflows in developing countries declined between these two periods from 13 percent to 11 percent. In addition, during the early 1990s, flows into many African countries stagnated, while those to other developing countries continued to increase. As a result, Africa's share declined further to 6 percent by 1992, thus underlining the marginalization of the continent in relation to FDI, apart from its marginalization in relati-n to international trade.

Investment flows into Africa have been concentrated in - and therefore largely determined by - flows to the oil-exporting countries. These alone accounted for over fours-fifths of flows into Africa during the first half of the 1980s, At the beginning of the 1990s, their share declined, but remained around 70 percent of flows into that region. Within the group of oil-exporting countries, inflows are concentrated in Egypt and Nigeria, which together absorbed between 36 percent (in 1991) and 84 percent (in 1981) of all flows into Africa, or between 52 percent (in 1991) to 89 percent (in 1989) of those to the oil-exporting countries. The underlying trend is a decline in the importance of these two countries (based on annual average flows), from 65 percent in the first half of the 1980s to 40 percent during 1991-1992. That decline reflected a reduction of flows into Egypt in the aftermath of the Gulf War by more than a half between the above-mentioned periods, and a recovery of flows to Angola, Libyan Arab Jamahiriya and Tunisia during the early 1990s. However, not all - and in some cases not even the majority - of FDI in these countries is undertaken in the petroleum industry. While investment flows to Angola in 1991 exceeded $ 600 million and went mostly to petroleum exploration and mining (Economic Commission for Africa, 1993a, p.22) the majority of those to Nigeria went to manufacturing (annually between 52 and 63 percent of the number of approved projects during 1989-1991) (UNCTAD, Ad Hoc Working Group on Investment and Financial Flows, 1994, p. 39).

Investment flows into Africa as a whole are still so small in size that they are easily subject to year-to-year fluctuations in response to changes in flows to few countries. The peak that FDI flows to Africa reached in 1989 - nearly $ 5 billion, or 18 percent of total flows to developing countries, would wrongly suggest that Africa took part in the worldwide FDI boom during the second half of the 1980s. Around 90 percent of the $ 2.1. billion increase in Africa's FDI inflows in 1989 were concentrated in two countries, Nigeria and Liberia; flows to them registered historic highs in 1989, not repeated after that year.

Investment flows into Africa have been weak compared to other developing countries because Africa as a whole does not compare favourably as regards the location-specific advantages that it offers. In addition, a number of factors that favoured an increase of FDI to other developing countries, such as privatization programmes and debt equity soaps, play only a limited role in Africa.

Foreign-direct-investment flows into Africa, 1981-1992 (Billions of dollars and percentage)

Region/country	1981-1985	1986-1990	1991	1992
	Annual average			
Africa	1.7	2.8	2.7	3.0
Africa's share in (percent):				
All countries	3.4	1.8	1.7	1.9
Developing countries	12.9	11.4	7.0	5.9
Oil-exporting countries	1.4	2.1	1.8	2.2
Egypt	0.7	1.1	0.3	0.5
Nigeria	0.4	0.7	0.7	0.9
Other countries	0.3	0.8	0.9	0.9
Share in Africa's total (percent):				
Oil-exporting countries	82.3	72.7	67.8	71.0
Egypt	40.6	37.7	9.3	15.1
Nigeria	23.6	25.5	26.3	29.5
Other countries	17.7	27.3	32.2	29.0

A number of basic factors influence the investment climate in Africa for foreign as well as domestic investors:

- Continuing civil conflicts, political crises and natural disasters (especially drought) are obviously not conducive to investment. The group of countries affected by these circumstances is quite large. At least five countries remain mired in conflicts: Angola, Liberia, Rwanda, Somalia and Sudan. Another group of countries is emerging from prolonged periods of conflict: Chad, Eritrea, Ethiopia, Mozambique and Uganda. Countries recently affected by drought include Algeria, Libyan Arab Jamahiriya, Morocco, Tunisia and Zimbabwe. Last but not least, strikes and protests against unpaid wages and stipends or against economic policies were organized in 1992 in about a dozen countries (Economic Commission for Africa, 1993; United Nations, 1993, pp.41-45). Most of the countries afflicted by wars as well as social or political conflict have received virtually no new FDI or have experienced prolonged periods os disinvestment. Notable exceptions include Angola which was able to attract quite considerable FDI inflows during 1991-1992.

- Domestic markets are typically relatively small. Most economies in sub-Saharan Africa have an average GDP of $ 3,5 billion (or $ 340 per capita) while North African economies have an average GDP of $ 25 billion (or $ 1,120 per capita) (Economic Commission for Africa, 1993, United Nations, 1993, pp.41-45). Attempts to address this problem through regional integration schemes have either collapsed or proved ineffective in terms of affecting intraregional trade and creating larger economic areas.

- Growth rates are substantially lower compared to other developing countries and even declining (e.g., in 1991, 1.9 percent ; in 1992, 2.1 percent; and in 1993, 0.1 percent) table 11.12). The lack of dynamism prolongs the problem of the small size of domestic markets.

- Poor, and in many cases deteriorating, physical infrastructure, especially in telecommunication and transportation, and the lack of capital to improve it, act as a disincentive to FDI. Added to that are often inadequate institutional and financial infrastructures, such as banking and financial institutions.

- The high level of indebtedness continues to make the debt of many African countries difficult to manage. The debt problem is aggravated by balance-of-payments difficulties caused in particular by the sharp decline of commodity prices. Therefore, a number of African countries suffer chronically from foreign exchange shortages. This makes it very difficult to guarantee that FDI income and profits can be repatriated - a key aspect of a favourable investment climate.

- Slow progress in a number of countries in introducing market- and private sector-oriented economic reforms undertaken within the framework of structural adjustment programmes hinder FDI.

- Lack of or low level of skills and general technological capabilities, combined with relatively high production costs inhibit FDI. By the mid-1980s, costs of production in sub-Saharan Africa were frequently as much as twice as high as those in low-income countries in Asia. For example, the cost of rail transport was 2.8 times higher, and wages of unskilled workers in the construction industry 1.4 times higher in sub-Saharan Africa than those of low-income countries in Asia. Since productivity levels in Africa were generally lower than in low-income Asian countries, high production costs further weakened the attractiveness of Africa as an investment location. In the early 1990s, however, many African countries regained their attractiveness in this respect after a series of devaluations of their countries.

In terms of attracting relatively significant and/or growing amounts of FDI, Botswana, Côte d'Ivoire, Morocco, Namibia, Swaziland and Zambia fared particularly well during the 1980s and early 1990s. A number of countries on the list of countries with increasing flows (Ghana, Senegal, Swaziland and Tunisia) experienced a serious decline during the mid-1980s (leading to negative flows for Senegal and Swaziland). For them, the fast growth of inflows at the end of the 1980s and the beginning of 1990s is merely a revival of the lost dynamism of flows from the beginning of the 1980s. A case in point is Ghana where FDI was strongly curtailed from $ 16 million annually

during 1980-1982 to $ 2-5 million in the mid-1980s, likely in response to an investment climate that was perceived as negative, but subsequently revived as the country undertook efforts to improve it.

While oil and other natural resources have been a major factor in attracting FDI to a few of these countries (e.g. Angola, Namibia and recently Equatorial Guinea), many others - in addition to having the fundamental factors right - have been able to use specific locational and other advantages to boost their attractiveness. For example, Lesotho and Swaziland benefited particularly from their special status as members of a common monetary area, with potential as a base for exporting both to the region (as members of the Preferential Trade Area)and the European Union (as signatories to the Lomé Convention). Mauritius has particularly benefited from FDI by firms based in Hong Kong seeking to export to Europe and elsewhere. Capitalizing on its success, the island is seeking foreign investors in banking and finance, with a view to the Seychelles benefited from very large investments in the tourism industry. Morocco has been trying to make the most of its economic achievements, cheap labour and closeness to Europe by establishing a low-cost manufacturing base for exports to the European Union. Kenya - among the top ten in the growth list during the 1980s - derived significant benefit from a high level of re-investment of corporate earnings at a time when foreign exchange controls were a constraint African countries with similar characteristics - of a country that, over the years, has been successful in using FDI for the development of its natural resources and its transformation from a low-income country into a middle-income one (UNCTAD-DTCI, 1993,). These country-specific factors most likely have been more important in attracting FDI - especially during the 1980 - than fiscal and legislative reforms, since, of these countries, only two (Lesotho and Mauritius) had introduced specific incentive regimes by 1989.

The success of these countries demonstrates that it is wrong to assume that Africa as a whole is an inhospitable FDI location. Rather, differentiating analyses are required to determine the specific locational advantages that individual countries have and that can become the basis for a mutually beneficial relationship between TNC's willing to explore investment opportunities and Governments prepared to do whatever is in their power to create a favourable investment climate. At the same time, external assistance, particularly offered development assistance, will remain crucial to help create the basis for self-sustained growth and an FDI-friendly environment (UNCTAD, 1993).

Conclusions

Foreign-direct-investment flows into developing countries grew rapidly in the 1990s, but these flows remain unevenly distributed among developing regions and countries. The fastest growth in these flows in the 1990s occurred in China. Other Asian

countries with rapidly growing economies and a well-trained, relatively low-paid labour force have been the main recipients of investment flows. Countries with improved macroeconomic performances and privatization schemes under way, allowing foreign investors' participation, accounted for much of the growth of FDI into Latin America. Most African countries, in particular the least developed countries in that region, with low growth rates, small markets, unstable economic or political conditions, unresolved debt overhangs, few economically viable public enterprises to privatize and lacking a skilled, even if low-paid, workforce, have seen their FDI flows, already at low levels, decline or stagnate.

V PROPOSED AFRICA RESPONSE

The overall drop in both public sector and private investment and donor assistance projects in sub-Saharan Africa is rendered even more acute by developments in the new environment chronicled above. The increased investment of public and private funds in Europe, the CIS, China, SE Asia and Latin America, added to new trading alliances and investment patterns around the world, lead to the indisputable fact that Africa has become marginal to World Investors.

This climate calls for a dynamic response by Africa, its institutions and partners on both the macro and micro levels. Well designed and tightly targeted dynamic actions are required to achieve the goal of sustainable economic development through industrialization. UNIDO's and its partner's roles as catalysts for industrial development will be intensified as they take the lead in launching and implementing new initiatives and new mechanisms. These might include :

- convening of a global economic summit conference on Africa;
- establishment of a WB/IMF brokered global development fund for Africa similar to the one created (and currently in abeyance) for Russia;
- strengthening of the ADB revolving Africa venture capital fund which can make loans, based on private sector criteria to enterprises;
- survey current and planned donor development assistance investments (bilateral and multilateral) in Africa with a view to eliminating duplication and increasing efficiency by targeting priority needs and better coordinating donor input;
- conduct study of needs and justification for IMF special drawing rights (SDR's) for Africa including LDC's, to allow African institutions, including UNIDO and its partners to become advocates of such an initiative.
- establish an Africa industrial policy forum with a global

private sector membership to recommend policy developments/changes in public policy to bolster/encourage Africa industrial development.

Practical steps for the implementation of these initiatives are indicated below.

VI CONCLUSIONS/RECOMMENDATIONS

At this critical time for Africa's economic future application of vigorous coordinated actions is required. All planning and activities must have a single focus: revitalization of activities aimed at African economic growth. The following specific and programmatic recommendations are intended to galvanize attention and return Africa industrialization to the forefront of the economic agenda.

1. (a) Need addressed: Overall improvement of effectivenes of Africa institutional activities and pro- gramme at the host country level.

   (b) Conclusion: That institutional input into strategic planning of industrial development at the host country level would be greatly enhanced, as would the implementation of programmes and initiatives, if institutional counterparts were among the central pillars of government and government decision making.

   (c) Recommendation: That in future, UNIDO as well as UNIDO partners, OAU, ADB liaise directly with the Ministries of Finance and Planning as well as the Ministry of Industry in member states.

   (d) Action: Recommendation be ratified by institutional instances as appropriate.

2. (a) Need addressed: To combat the economic and financial marginalization of Africa.

   (b) Conclusion: There have been an unprecedented number of international political and socio-economic developments that have radically and profoundly changed the world economic and financial environment. Nearly all of these developments bypass or ignore Africa and threaten its development and future.

   (c) Recommendation: Undertake a series of dynamic measures to counter this trend including the convening of a global economic summit on Africa.

(d) Action: Institutions (UNIDO, OAU, ADB) prepare an action plan to promote the economic summit on multiple levels including Heads of State (with African and other Heads of State); Finance and Planning Ministers; key participants such as USA, Russia, EU, UN, major world private sector business banking and investment representatives.

3. (a) Need addressed: Growing need for investment funds in Africa.

(b) Conclusion: Creation of new pools of financial resources available to African countries for development projects is urgently needed in view of intense global competition for investment funds and the new international investment environment.

(c) Recommendation: That the International Monetary Fund establish and allocate Special Drawing Rights (SDRs) for African countries, including LDCs.

(d) Action: After a feasibility study (and TOR) African Heads of State and African Institutions present requests for special SDRs to IMF and other international financial institutions.

4. (a) Need addressed: Growing need for investment funds in Africa.

(b) Conclusion: Same as above.

(c) Recommendation: That OAU, ECA, ADB and UNIDO promote and support the establishment of a World Bank/IMF Brokered Global Development Fund for Africa similar to the one created for Russia (currently in abeyance pending establishment of greater Russian economic/political stability).

(d) Action: Terms of Reference (TOR) be immediately prepared (through commission to appropriate support organism or consultants) for presentation to Global Economic Summit, specially convened donor conference (as in case of Russia) and/or other instance.

5. (a) Need addressed: Growing need for investment funds in Africa.

(b) Conclusion: Same as above.

(c) Recommendation: That the ADB revolving Africa venture capital fund be strengthened and capital increased.

(d) Action: TOR be commissioned from ADB (and/or other appropriate support source) for subsequent submission by UNIDO and partners to donor conference or other competent instances.

6. (a) Need addressed: Improved efficiency of planning and application of donor assistance funds.

(b) Conclusion: Donor assistance could become more efficient, duplication and overlaps eliminated, and application to priority areas of African development and industrialization better assured.

(c) Recommendation: A programmed analysis of current and planned donor assistance inputs to Africa be undertaken as soon as possible.

(d) Action: TOR be prepared by UNIDO and study carried out by UNIDO (perhaps in cooperation with UNDP and other donors) and distributed to African Planning and Finance Ministries as well as donor community.

PRIVATE SECTOR DEVELOPMENT

RECOMMENDATION

1. (a) Need addressed: Greater private sector involvement in African industrialization and industrial development.

(b) Conclusion: An African industrial policy advisory group with a global private sector membership, would monitor and keep itself informed about economic and business development as the effect Africa. The group could recommend new initiatives and changes in public policy to bolster and promote Africa industrial development. Private industry members and business would contribute the skills and funds to operate the organization and conduct its various activities (possible model: the World Telecommunication Policy Forum recently established by the UN Telecommunications Union).

(c) Action: The UNIDO, SME and Private Sector Development (PSD) units take responsibility for developing TOR and implementing the establishment of the forum.

2. (a) Need addressed: Same as above.

(b) Conclusion: There is a widespread perception that there are few prime investment opportunities in Africa.

To correct this misperception, investment opportunities and successful investment case histories need to be publicized widely. This would be carried out through:

(i) existing organs (e.g. multi-media and international publications);

(ii) private sector institutional exchanges (e.g. trade missions, symposia, trade fairs); and

(iii) the granting of prizes/awards or other forms of recognition of successful industrial development.

3. (a) Need addressed: Same as above.

(b) Conclusion: PSD would be spurred if institutions (UNIDO and partners) would play a more dynamic and 'hands on' role. One process would be a continuum beginning with identification of business opportunities, including related feasibility studies, etc., and continuing through financial resources mobilization. This process entails linking elements of PSD with investment promotion through the maintenance of ongoing and widespread contacts with private sector institutions and potential investors.

(c) Recommendation: UNIDO and partners develop a programme of closer 'hands on' support and involvement with PSD processes and private sector institutions.

(d) Action: Same as above.