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Industrialisation and Trade in Sub-Saharan Africa (SSA) : Prospects and Policy Issues for International Industrial Co-operation

Industrial Co-operation - ACP/SSA and EC - An Agenda

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(Draft Report submitted to UNIDO 6/3/88)

Contents

Chapter 1

Introduction - Aims and Scope of the Study

The primary aim of the study is to identify the major issues in Industrial Co-operation as between ACP members of SSA, (ACP/SSA), and the EC which provide a preliminary indication and analysis of possible items on the agenda for Industrial Co-operation in the coming negotiations on the Fourth ACP-EEC Convention.

The study is based on a one month consultancy during which interviews were held with staff of UNCTAD and GATT (2 days), and ACP, CDI and EC Secretariats (2 days), and one week using the data base at UNIDO.

Annex 1 shows the list of officers interviewed, and the main sources of data. The study is based on a synthesis of existing research on the interlinkages of trade, aid, finance and industrialisation in ACP/SSA.

The relationship between the EC and the SSA/ACP has a long history going back to part 4 of the Treaty of Rome in 1957. With the independence of many African States in the sixties new links were established between the EC and 18 African States in the first Yaounde Convention (1965-69), followed for a further five years in the second Yaounde Convention. With the enlargement of the European Community in 1973 the scope of Community development policy was expanded to include former British overseas countries and territories. This led to the first Lome Convention in 1975, covering the

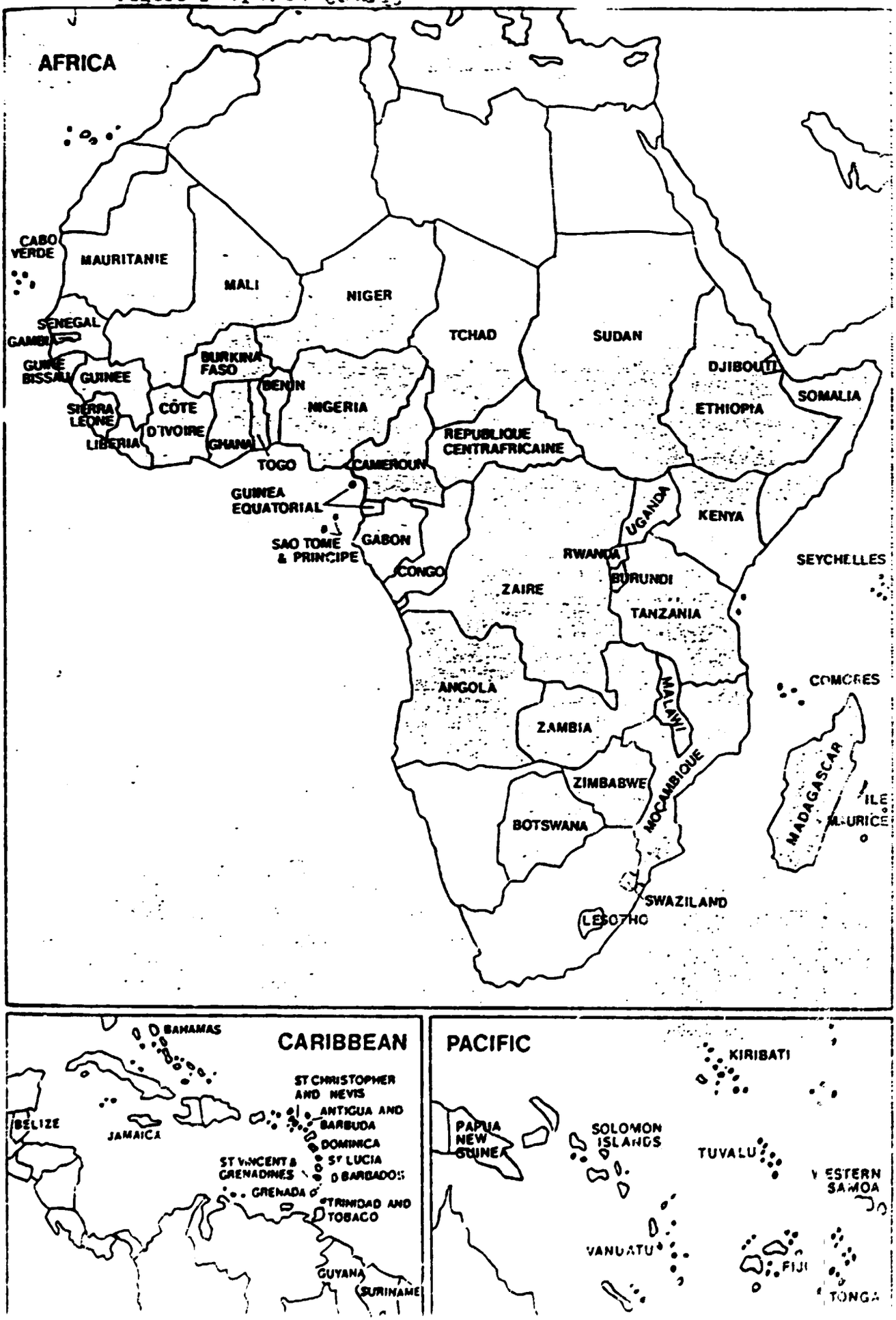
period from April 1976, to December 1980, which was continued up to 28th February 1985 in the second Lome Convention. The Third Lome Convention was signed in December 1984, but only came into operation in May 1986. It has effect up to the end of February 1990. The negotiations between the EC and ACP on their indicative programmes continued into 1987. The practical result of this schedule means that little experience of the impact of Lome 3 is as yet available. The time-frame for the study is therefore primarily based on the experience of Lome 1 and 2.

Annex 2 shows the list of ACP States. The group of 66 ACP States is more than one-third of the states represented in the UN organisation. It is a highly diverse entity geographically , demographically, and in terms of per capita income. It is dominated by Africa. Alongside the continent of Africa and the States of the Indian Ocean (45 countries), there are 13 Caribbean and 8 Pacific States, (see figure 1). In terms of population some 391 million out of a total ACP population of 401 million inhabit black Africa. In the Conventions no distinction is made between the three main geographical components of the ACP.

In discussion with the ACP Secretariat Secretary-General, the negotiations timetable tentatively suggested was:

- a needs assessment exercise giving a portfolio of Studies on various issues, including industry, finance, and trade, to be drawn up by the end of January 1988,
- substantive studies to be available by July 1988,
- the ACP-EEC Council of Ministers meets in May in Mauritius

Figure 1 The ACP Countries



- studies to be transmitted to capitals for consideration of Ministers in negotiations officially due to start in September 1988.

Chapter 2

Industrial Co-operation in the ACP-EEC Convention - The 'Letter' of the Convention.

The Community and the ACP States in the Third Convention acknowledged that:

> "Industrialisation is a driving force in bringing about a balanced and diversified economic and social development and creating conditions conducive to the attainment of the ACP States' collective self reliance...."
>
> (Article 60)

The aims of industrial development set out in Title III of the Convention include:

- providing them with a framework for strengthening their development efforts,
- increasing their share of world trade,
- the modernisation of their societies,
- to create jobs,
- to facilitate the transfer of technology, and its adaption to conditions in the ACP States and their specific needs,
- to foster complementarity of the different branches of industry and between industry and the rural sector in order to make full use of that sectors potential,
- to promote new relations of dynamic complementarity in the industrial field between the community and the ACP States

Part 2 of Lome 3

Annex 3 reproduces Title 3 on Industrial Development in full.

The institutional instruments to achieve these aims of industrial development are also detailed in Title III, and include:

- financial and technical co-operation under the European Development Fund (EDF),
- a Committee on Industrial Co-operation, supervised by the Committee of Ambassadors - Current Chairperson is Mr Nsingo, Ambassador for Zambia,
- the European Investment Bank (EIB),
- the CDI.

Article 215 states - Upon receipt of the programmable financial allocation from the EC Commission each ACP State shall draw up and submit to the Community a draft indicative programme, on the basis of, and consistent with, its development objectives and priorities, containing :

- the priority development objectives at national and regional level of the ACP State concerned;
- the focal sector or sectors for which Community financial support is considered the most appropriate;
- the most appropriate measures and operations for attainment of the objectives in each of the sectors referred to in the second indent or, where such operations are not sufficiently well-defined, the broad outlines of the programmes to support the country's adopted policies in such sectors;

- specific national projects and programmes designed to achieve the development objectives may also be included where they have been clearly identified, especially those which constitute a follow-up to operations already undertaken;

- any proposals for regional projects and programmes.

Article 215 of Lome III places support for a sectoral policy at the centre of the programming process: supporting a sectoral policy will involve therefore a set of measures and resources being placed by the Community at the ACP State's disposal in order to contribute towards the implementation of this policy, which that State has worked out and which it is applying.

For this approach to succeed, the bulk of the Community financial resources placed at each State's disposal must, in the first instance, be focused on a limited number of sectors, or even a single sector. Without such concentration, there is a danger that Community operations would be thinly spread over a large number of highly diversified objectives and that they would have little chance of securing maximum economic impact. Concentration on focal sectors is therefore the basic principle in Article 215.

Secondly, this approach means that, on the basis of exchanges of views between representatives of the ACP State and the Commission, the measures and operations most likely to ensure the attainment of the objectives which the ACP State has set itself for the sector concerned have to be specified - or at least their broad lines have to be established,

irrespective of whether the measures have to be taken by the ACP State itself or on the responsibility of the Community.

Lastly, it presupposes effective co-ordination between the Commission and the main providers of funds (including, obviously, the Member States) in order to ensure that operations in the focal sectors receiving Community aid are coordinated and complement each other.

It is laid down in the Convention that certain individual operations may be identified, in addition to the focal sectors, in the case of the continuation of projects which were begun under the preceding Convention and which are clearly deserving of priority.

Support for sectoral policies involves a far more demanding approach that in the past, and this has meant a change in the programming process.

Unlike earlier Conventions, the key stage of the process is no longer the programming mission, during which exchanges of view had to be held within a limited period with the ACP States on the development objectives and priorities, and the indicative programme established.

The programming mission is now preceded by a preparatory stage of vital importance. Thus, a few weeks after the signing of the third Convention, the Commission notified each ACP Head of State of the amount of the programmable envelope for which his country would be eligible.

This notification reflects the contractual nature of the relations between the Community and the ACP States: the amount of aid is known at the outset, and this assures stable and

predictable relations, and no extraneous considerations interfere.

With this notification as starting point, and on the basis of an analysis of the social and economic situation in each State conducted by the Commission in conjunction with the main providers of funds, exchanges of views commence between the Commission delegate in each ACP State and the representatives of the State concerned in order:

- to ensure that the Community is aware of the development objectives and priorities of the State concerned;
- to identify the focal sector or sectors for Community aid;
- to seek the most appropriate ways and means of attaining the objectives set.

It is not until this preparatory work has been completed that the programming mission, led by the Commission, and with the participation of the European Investment Bank, goes to each ACP State.

The indicative programme of Community aid is then drawn up with the national authorities; it sets out the sectors chosen, and within this framework, the indicative guidelines for Community aid; it identifies the most appropriate ways and means of implementing them, and determines the operations to be conducted outside the context of support for sectoral policies.

While the compilation of the indicative programme thus marks the end of a process the EEC recognises that it is neither possible nor advisable for this document to fix, once and for all, all the conditions, measures and operations to be applied

by the State and the Community in order to attain the objectives set. Programming would be sufficiently flexible to enable the action taken to be constantly adjusted in line with the objectives. Thus the onus is on the ACP state to determine priorities according to the letter of the Convention.

The strategies to achieve these aims of industrial development include:

- the establishment and expansion of all types of viable enterprise which have been identified by the ACP states as important in terms of their development objectives;
- special emphasis on the restoration, upgrading, reorganisation or restructuring of existing industrial capacities which are viable but temporarily out of action or performing badly and also on the maintenance of plant and equipment and of enterprises and, for this purpose, industrial co-operation shall be focussed on assistance for the start-up or rehabilitation of such enterprises and on the relevant forms of training at all levels.

Particular attention shall be paid to

- industries for the domestic processing of ACP raw materials;
- agro-industries;
- integral industries capable of creating links between the different sectors of the economy;

- industries which have a favourable effect on employment, the trade balance and regional integration.

Community financing shall take the form, as a matter of priority, of loans from the Bank on its own resources and of risk capital, these being the specific financing methods for industrial enterprises.

(see Article 65)

- special attention to the specific needs and problems of the least-developed, landlocked and island states notably in the following areas:
  - processing of raw materials;
  - development, transfer and adaption of technology;
  - development and financing of schemes in favour of small and medium-sized industrial enterprises;
  - development of industrial infrastructure and energy and mining resources;
  - adequate training in the scientific and technical areas.

The Centre for the Development of Industry shall pay special attention to the specific problems that arise as regards promotion of industrialization activities of the least-developed, landlocked and island ACP States.

At the request of one or more least-developed ACP States the Centre shall grant special assistance for identifying on the spot, examining, assessing, preparing, promoting and assisting in the implementation of industrial projects in the ACP State concerned.

- the Community shall contribute in a spirit of mutual interest to the development of ACP-EEC and intra-ACP co-operation between enterprises by information and industrial promotion activities.
- the Community shall contribute to the establishment and development of small and medium-sized enterprises in the artisanal, commercial, service and industries sectors... (see Articles 67 and 206)
- assistance in the field of industrial training at all levels,
- the Contracting Parties recognise the importance of private investment for the promotion of their development co-operation and acknowledge in this respect the need to take such steps as would promote such investment...(Title 4 Article 240 and Article 20)
- projects or programmes may be financed by grant, or by special loan, or by risk capital, or by loans from the Bank from its own resources, or jointly by two or more of these means of financing ...(Article 197)
- with a view to aiding the implementation of operations of general interest to the economy of the ACP States, the Community may contribute to the formation of risk capital ...(Article 199)
- the financial resources of the Community may be applied at the request of the ACP States, to co-financing... (Article 200)
- regional co-operation including inter-regional production and marketing enterprises ...(Article 113)

An assessment of the provisions for Industrial Co-operation in the Convention indicates that an impressive framework of aims, instruments, and strategies already exists in the 'letter' of the Convention. There does not appear to be the need for a wholesale renegotiation of Title 3 Part 2 of Lome 3. Apart from marginal amendments and some additions to keep pace with recent events, for example the evolution of the dialogue on structural adjustment, and, albeit important, shifts of emphasis, for example towards private enterprise, it is difficult to foresee the need for any major new initiatives in the 'letter' of the Convention for industrial co-operation. The issue may be seen as one primarily of a political commitment to the implementation of the spirit of the Convention, both by the ACP, and their EC partners.

Chapter 2

Industrial Co-operation in the ACP/EEC Convention

The Practice of the Convention for SSA/ACP

The Recent Economic Record of SSA

Despite a slight upturn in growth, the economic condition of sub-Saharan Africa remains critical. The debt and export earnings situation has deteriorated further.

Real GDP growth for sub-Saharan Africa as a whole in 1986 is estimated at less than 1%, following five years in which GDP contracted by an average of 1% a year. However, the regional average conceals wide variations; oil-exporting countries continued to experience negative real growth in 1986, but middle-income energy-importing countries and low-income countries recorded 3.3% and 4.7% GDP growth respectively, in line with or exceeding population growth. In the case of the poorest African countries the decline in real per capita output which set in the mid-seventies appears to have been temporarily halted in 1986, largely because of the recovery of harvests following the catastrophic drought of 1984-85. However, within the poorest group the most heavily indebted countries suffered a further decline in per capita output. Economic indicators showing a detailed breakdown of SSA/ACP by country and region are shown in Table 1. There are significant regional differences. For example the average annual GDP per capita growth is lower for Western as compared with Eastern Africa, and their debt burden higher. However

Table 1 **ACP States : Economic Indicators**

	Total population 1984 (M)	Average annual population growth (%) 1974-84	Total Land Area (M ha)	Total Arable Land 1983 (M ha)	Total net ODA (000) $ 1984	Cereal Imports /GNP 1984 (%)	GNP per capita 1984 ($)	Average annual GDP per capita growth (%)** 1974-84	Total External Public Debt 1984 $ Billions	Debt Service/ Exports % 1983
Southern Africa										
Botswana	1.0	4.3	60.0	1.3	92	2.0	914	6.4	0.5	2.9[3]
Lesotho	1.5	2.5	3.0	0.3	92	3.0	526	1.7	0.3	n.a.
Malaw	6.8	3.0	11.8	2.3	159	0.4	209	1.3[4]	0.9	28.1
Swazi	0.7	3.4	1.7	0.1	30	1.0	805	0.0[4]	0.3	4.9[3]
Zambia	6.5	3.3	75.3	5.2	237	1.3	467	-2.9	0.1	17.5
Zimbabwe	8.2	3.4	39.1	2.7	292	1.0	739	-0.8	0.3	25.4
Total : Southern Africa	24.7	3.3*	190.9	11.9	902	1.6*	610*	1.0*	2.4	15.8*
Western Africa Sahel										
Burkina Faso	6.5	1.8	27.4	2.6	178	2.0	159	0.2	0.7	28.6
Cape Verde	0.3	1.7	0.4	0.1	59	7.8	315	n.a.	0.2	200.0[1]
Chad	4.9	2.2	128.4	3.2	115	3.9[3]	80[3]	n.a.	0.2	0.5
Gambia	0.7	3.3	1.1	0.2	54	7.0	259	-1.4	0.3	15.5[1]
Mali	7.3	2.5	124.0	2.0	309	9.2	144	0.8	1.4	12.9
Mauritania	1.7	2.2	103.0	0.2	109	7.1	452	-1.2	1.6	14.4[1]
Niger	6.3	3.0	126.7	3.6	155	0.9	191	-0.7	1.0	27.9
Senegal	6.4	2.8	19.6	5.2	307	4.8	382	0.0	0.1	12.8
Total Sahel	34.1	2.4*	530.6	17.1	1 286	5.3*	247.6*	-0.4	5.5	39.1*
Coastal										
Benin	3.9	2.9	11.3	1.8	77	1.2	271	2.3	0.9	30.6
Ghana	13.4	3.3	23.9	2.8	221	1.6	354	-4.3	1.5	19.5
Guinea	5.9	2.0	24.6	1.6	89	2.8	304	0.8	0.3	16.0[1]
Guinea Bissau	0.9	3.8	3.6	0.3	53	8.0	185	n.a.	1.6	15.3
Ivory Coast	9.9	4.5	32.2	4.0	128	1.9	611	-0.7	5.5	38.3
Liberia	2.1	3.3	11.1	0.4	133	4.2	468	-3.4	1.0	9.4[1]
Nigeria	96.8	2.9	92.4	30.4	33	0.8	766	-3.8	16.9	22.4
Togo	2.9	2.8	5.7	1.4	106	3.2	251	-1.5	0.8	19.8
Sierra Leone	3.7	2.1	7.2	1.8	44	1.3	305	-0.5	0.5	10.9[1]
Total Coastal	139.5	3.1*	212.0	44.5	884	2.8*	390*	-1.3*	29.0	20.2*
Total Western Africa	173.6	2.8*	742.0	61.5	2 170	4.1*	319*	-0.9*	34.5	29.7*
Eastern Africa										
Burundi	4.6	2.3	2.8	1.3	127	0.5	220	0.8	0.6	17.5
Comores	0.4[2]	n.a.	0.2	0.1	34	6.6[3]	340[3]	n.a.	0.2	4.4[3]
Djibouti	0.4	5.9	2.2	0.001	59	3.3[3]	1 050[3]	n.a.	0.2	12.6
Ethiopia	42.0	2.7	122.2	13.9	363	2.0	114	-0.6	2.2	20.2
Kenya	19.7	4.1	58.3	2.3	380	2.1	301	-0.4	3.9	31.3
Madagascar	9.7	2.6	58.7	3.0	163	1.6	268	-2.6	2.1	25.9
Mauritius	1.0	1.3	0.2	0.1	32	3.6	1 096	2.0	0.5	20.1
Rwanda	5.9	3.4	2.6	1.0	159	0.5	274	1.9	0.5	4.3
Seychelles	0.1	1.0	0.03	0.01	15	1.5[2]	2 429[2]	n.a.	0.1	13.4
Somalia	5.2	2.8	63.8	1.0	334	6.1	260	-1.6	1.6	16.6
Sudan	21.5	3.2	250.6	12.4[2]	500	1.4	343	1.5	6.2	14.4[1]
Tanzania	21.5	3.4	94.5	5.2	541	0.2	208	-1.8[4]	0.1	15.4
Uganda	14.3	2.9	23.6	6.3	165	0.1	230	-3.4	0.1	21.6
Total Eastern Africa	146.3	3.0*	679.7	46.6	2 872	2.3*	528*	-0.4*	18.3	16.7*

Table 1 (cont'd)

	Total population 1984 (M)	Average annual population growth (%) 1974-84	Total Land Area (M ha)	Total Arable Land 1983 (M ha)	Total net ODA (000) $ 1984	Cereal Imports /GNP 1984 (%)	GNP per capita 1984 ($)	Average annual GDP per capita growth (%)** 1974-84	Total External Public Debt 1984 $ Billions	Debt Service/ Exports % 1983
Central Africa										
Cameroon	9.9	3.1	47.5	7.0	177	0.3	810	3.8	2.4	25.0[1]
Central African Republic	2.5	2.4	62.3	1.9	112	1.0	270	-1.8	0.3	15.9
Congo	1.8	3.2	34.2	0.7	85	1.1	1 122	4.8	1.8	19.8
Equatorial Guinea	0.4	1.7	2.8	0.2	15	n.a.	n.a.	n.d	0.1	12.3
Gabon	0.8	1.5	26.8	0.5	73	0.4	3 479	-5.7	1.0	14.2
Sao Tome & Principe	0.1	2.4	0.1	0.03	11	5.5	333	n.a.	n.a.	n.a.
Zaire	30.6	2.6	234.5	6.5	316	1.3	138	-3.6	4.5	9.1
Total Central Africa	46.1	2.4*	408.2	16.8	789	1.6*	1 025*	-0.5*	10.1	16.0*
Caribbean										
Antigua & Barbuda	0.1	1.2	0.04	0.01	n.a.	1.4	834	2.3	n.a.	n.a.
Bahamas	0.2	2.0	1.4	0.01	1[2]	0.5	4 256	n.a.	0.1	2.3
Barbados	0.3	0.4	0.04	0.03	6	1.3	4 342	1.6	0.4	6.7
Belize	0.2	1.9	2.2	0.1	14	0.8	1 147	1.2	0.1	2.5
Dominica	0.1	1.2	0.1	0.02	n.a.	3.0	1 078	2.3	n.a.	n.a.
Grenada	0.1	-1.0	0.03	0.01	7[2]	2.2	882	2.8	0.04	19.0
Guyana	0.8	0.6	21.5	0.5	0.7	10.0	578	-3.0	0.8	34.0
Jamaica	2.3	1.3	1.0	0.3	166	5.5	1 084	-2.4	2.9	36.7
St Christopher & Nevis	0.1	0.5	0.04	0.01	n.a.	2.2	1 390	4.8		n.a.
St Lucia	0.1	1.5	0.1	0.02	n.a.	2.5	1 130	2.9	n.a.	n.a.
St Vincent & the Grenadines	0.1	1.2	0.03	0.02	n.a.	5.0	900	3.5	0.03	3.5
Suriname	0.4	0.1	16.3	0.06	5	0.6	3 523	n.a.	n.a.	n.a.
Trinidad & Tobago	1.2	0.9	0.5	0.15	5	0.9	7 138	n.a.	1.1	9.5
Total Caribbean	6.0	0.9*	43.3	1.2	204.7	2.6*	2 252*	1.6*	5.5	14.3*
Pacific										
Fidji	0.7	1.8	1.8	0.23	31	1.6	1 844	0.5	0.3	20.1[1]
Kiribati	0.1	1.6	0.9	0.03	12	5.2	458	n.a.	n.a.	n.a.
Papua New Guinea	3.3	2.1	46.2	0.37	316	1.7	763	-2.0	1.2	14.9
Solomon Islands	0.3	3.5	2.8	0.05	18	1.0[2]	640[2]	n.a.	0.1	0.1
Western Samoa	0.2	0.8	0.3	0.12	16	n.a.	n.a.	n.a.	0.1	19.0
Tonga	0.1[2]	1.8	0.1	0.05	15	2.6[2]	780[2]	n.a.	n.a.	n.a.
Tuvalu	0.01	n.a.	0.002	n.a.	5	n.a.	n.a.	n.a.	n.a.	n.a.
Vanuatu	0.1	2.9	1.4	0.1	24	n.a.	n.a.	n.a.	0.01	1.3
Total Pacific	4.8	2.1*	53.5	1.0	437	2.4*	897*	-0.8*	1.71	11.1*
Total ACP	401.6	2.5*	2 118.2	139.1	7 375	2.7*	853*	-0.1*	72.5	19.0*

Source : Cronos Databank

[1] 1984
[2] 1983
[3] 1982
[4] 1974-1983 average
* average
n.a. = not available
** Calculated using constant prices

Comparative statistics : European 12 Average annual population growth rate 1974-84 : 0%
Source : European economy 1985
GNP per capita average : $U.S. 7 711
1983. Source : World Bank

the overall long term record is dismal. In the period 1974 to 1984 almost half the countries in the SSA/ACP group suffered negative average annual GDP per capita growth.

Though sub-Saharan African countries managed to increase their exports in volume terms, the steep decline of commodity prices hit export earnings hard in 1986. The value of total Community imports from the African ACP countries fell from 29 billion ECU in 1985 to 18 billion ECU in 1986, despite volume growth of 1.5%.

This deterioration in the terms of trade wiped out the expected benefits of increased production, and resulted in a decline in per capita consumption in many countries.

The fall in export earnings had an immediate impact on the debt-servicing capacity and imports capacity of sub-Saharan African economies. Despite debt relief measures taken by a number of lenders since the UN special session in June 1986 and numerous rescheduling operations, external indebtedness has continued to increase in Africa, and for many countries the debt servicing burden has grown much heavier.

The total external debt of sub-Saharan Africa, estimated at $90 billion at the end of 1985, is now probably in excess of $100 billion. The aggregate ex ante debt servicing coefficient for sub-Saharan Africa was 42% in 1986, with an average of nearer 60% for the 22 countries classified as debt-distressed.

The structure of African debt, regarded as comparatively favourable at the beginning of the decade, has been altered

by rescheduling, confirmation agreements and adjustment loans and is now increasingly rigid, partly because of the growing preponderance of debt to multilateral financial institutions.

As a result of the fall in the purchasing power of exports and the increasing demands made on foreign currency earnings by debt servicing requirements, the import capacity of sub-Saharan Africa again declined in 1986 from $28.5 billion to under $27 billion. In the most heavily indebted countries, per capita imports fell by almost 7% per year in real terms from 1980 to 1985 and are now lower than they were in 1970.

The shortage of imported goods is felt in industry and other productive sectors, hitting capacity utilization rates; it also has an immediate social impact, in that it disrupts essential collective services; and it jeopardizes basic infrastructure maintenance. Most sub-Saharan African countries are caught up in a vicious circle of debt, foreign currency shortage and recession. It is to this challenge that Lome 4 must respond.

The Record of Industry in SSA/ACP and Lome

There is a general concensus that industrialisation in the ACP States is negligible, and that its structure is incomplete, unbalanced and vulnerable. There are however successes in some countries or sub-sectors but overall a comparison of the record of industry performance in SSA/ACP with the objectives set out in the Lome Convention presents a dismal picture.

1. Self-Reliance

If the Title 3 objective of 'providing them with a framework for strengthening their development efforts' is defined as achieving self-reliance, this has not been achieved. Manufacturing in SSA/ACP has become increasingly import-based.

UNIDO has compiled data for over 40 African countries for the time periods 1972-1974 and 1979-1981 on the share of domestic production and imports in apparent consumption (defined as domestic production plus imports less exports) for over 100 commodities. The main features are summarized in table which, however, is incomplete, primarily because it excludes all products in category 38 of the International Standard Industrial Classification of All Economic Activities (category 17 of the Standard International Trade Classification), i.e. metal products, machinery and transport equipment. As shown above, domestic production in precisely these branches grew significantly during the period 1973-1981 in some countries; however, since an overwhelmingly large proportion of this production

is of an assembly character, its import content is likely to be high and broadly in line with trends portrayed in table 2.

Table 2 presents a truly alarming picture of the extent of Africa's import dependence as far as manufacturing industry is concerned. Although these figures refer to national imports, it is clear that an overwhelmingly large proportion of these imports are obtained from outside Africa. Exports of manufactures from African countries are very small - representing less than one per cent of world manufactures' export. Food manufacturing and textiles are the only branches in which the import to apparent consumption ratio is below 25 per cent for the majority of countries for which data are available. Soap is the only chemical product within this category. Two other chemical products (liquified petroleum gas and distillate fuels) have import to apparent consumption ratios below 50 per cent for the majority of African countries. Motor gasoline in the period 1979-1981 may also be regarded as a borderline case. Eighteen of the 41 countries for which data are available had ratios above 50 per cent.

Of all the items, 54 per cent had import to apparent consumption ratios approaching 100 per cent for all or almost all African countries. For another 28 items (12 per cent of the total), the majority of African countries had import ratios approaching 100 per cent. These two categories included virtually the whole range of intermediate industrial inputs (including most chemicals, all mineral processed products and even wood, pulp and paper) necessary for the development of an integrated industrial structure.

Another feature of African industrial sectors revealed in table 2 is the surprisingly small change that took place in import ratios between the periods 1972-1974 and 1979-1981. Out of the 43 commodities included in category 1 (i.e. with import ratios approaching 100 per cent in almost all countries), as many as 38 remained within it in both time periods. Three products (wood pulp sulphate, non-cellulosic staple and lubricating oil) moved down one category and had import ratios approaching 100 per cent in the majority of African countries. Two products (glycerine and unwrought lead) moved up to category 1. By 1981, all African countries had an import ratio of 100 per cent in these commodities.

The picture at the other end of the list is more complex. Five of the 13 commodities included in the lowest category (with import ratios below 25 per cent for the majority of countries) have moved; but only three (cheese, raw sugar and refined sugar) have moved in the "right" direction and achieved a lowering of their import to apparent consumption ratios vis-a-vis the period 1972-1981. Movement in the intermediate categories is also limited. Seven products (malt, motor gasoline, distillate fuel, raw sugar, liquid petroleum gas, cheese and refined sugar) out of a total of 23 moved i the "right" direction. The overall impression, therefore, must be that the pace of import substitution and domestic integration of production somewhat slackened during the 1970's and remained largely confined to the petroleum-based products. No progress whatsoever has been made in terms of the major categories of industrial intermediates or in the production of fertilizers.

In all fertilizer categories, the majority of the African countries continued to have import to apparent consumption ratios of approximately 100 per cent during the 1970's.

The key issue is that Africa is rich in both agricultural and mineral resources. Africa has vast potential for the development of manganese, phosphates, iron ore, bauxite, tin, copper and diamond-based industries, yet exploration and product development in these branches is virtually at a standstill. The region continues to import an increasing proportion of processed mineral intermediate products, and the ample potential for increased utilization of intra-industry linkages remains unexploited (See Industry and Development, No. 17, 1986).

There are no indications of any recent improvement in self-reliance of the ACP/SSA. The weight of ACP/African industry set against world industry is negligible - $15,000 million, or less than 0.5% of world manufacturing in terms of value for total ACP, which is proportionately less than the rest of the developing world, and growth is also lower than in other regions. Evidence for the increasing dependence of Nigerian manufacturing on imports can be gleaned from statistics on the structure of trade. During the period 1973-81 the value of raw material imports for industrial processing rose by 820% (in current prices) compared to an increase of only 735% for capital goods imports (UNIDO, 1985)

It is estimated that about 60% of total raw materials consumed in manufacturing are currently imported. One estimate is that over two thirds of the cost of industrial raw materials used in 1983 had to be paid for in foreign exchange.

Table 1 Summary of data on import content of apparent consumption in selected commodities in 40 African countries

Commodities in which ratio a/ approaches 100 per cent in all or almost all countries	Commodities in which ratio a/ approaches 100 per cent in most countries	Commodities in which ratio a/ is not below 75 per cent in most countries	Commodities in which ratio a/ is not below 50 per cent in most countries	Commodities in which ratio a/ is not below 25 per cent in most countries	Commodities in which ratio a/ is below 25 per cent in most countries
Wood pulp b/ c/	Tinned fish b/ c/	Raw sugar b/	Butter b/ c/	Cheese b/	Cheese c/
Pulp from other fibres b/ c/	Malt b/	Malt c/	Distillate fuel c/	Vegetable oil c/	Margarine b/ c/
Wood pulp sulphate b/	Wood pulp sulphate c/	Cotton yarn c/	Liquefied petroleum gas b/	Flour b/ c/	Vegetable oil b/
Newsprint b/ c/	Other printing paper b/ c/	Motor gasoline c/	Cement b/ c/	Refined sugar b/	Raw sugar c/
Methanol b/ c/	Kraft paper b/ c/	Total: 4 entries d/	Total: 6 entries d/	Footwear c/	Refined sugar c/
Glycerine c/	Machine-made paper b/ c/			Particle board b/ c/	Animal feed b/ c/
Chlorine b/ c/	Glycerine b/			Liquefied petroleum gas c/	Beer b/ c/
Zinc oxide b/ c/	Sulphuric acid b/ c/			Cement b/ c/	Soft drinks b/ c/
Titanium oxides b/ c/	Nitrogenous fertilizers b/ c/			Total: 11 entries d/	Cigarettes b/ c/
Lead oxides b/ c/	Phosphate fertilizers b/ c/				Cotton yarn b/
Ammonia b/ c/	Insecticides etc. b/ c/				Cotton fabric b/ c/
Caustic soda b/ c/	Non-cellulosic staple c/				Footwear b/
Soda ash b/ c/	Motor gasoline b/				Soap b/ c/
Hydrogen peroxide b/ c/	Kerosene b/ c/				Total: 20 entries d/
Calcium carbide b/ c/	Distillate fuel b/				
Dyestuffs b/ c/	Lubricating oil c/				
Vegetable tanning extracts b/ c/	Pig iron b/				
Activated carbon b/ c/	Wire rods c/				
Potassic fertilizers b/ c/	Unwrought lead b/				
Synthetic rubber b/ c/	Total: 28 entries d/				
Non-cellulosic staple b/					
Regenerated cellulose b/ c/					
Lubricating oil b/					
Angles, shapes etc. b/ c/					
Heavy iron plates b/ c/					
Medium-weight plates b/ c/					
Plates and sheets b/ c/					
Tin plate b/ c/					
Railway track material b/ c/					
Plain wire b/ c/					
Tubes b/ c/					
Welded tubes b/ c/					
Copper bars etc. b/ c/					
Copper tubes b/ c/					
Unwrought aluminium b/ c/					
Aluminium rods b/ c/					
Aluminium plates b/ c/					
Aluminium tubes b/ c/					
Unwrought lead c/					
Unwrought zinc b/ c/					
Zinc plates b/ c/					
Unwrought tin b/ c/					
Tin plates b/ c/					
Total: 81 entries d/					

Source: "Africa in figures" (UNIDO/IS.517, 6 February 1985), table 7.

a/ Import to apparent consumption ratio.
b/ During the period 1972-1974.
c/ During the period 1979-1981.
d/ Each commodity is counted twice: once for the period 1972-1974 and once for the period 1979-1981.

2. Shares of World Trade

An analysis of manufactured exports from ACP and Africa to all industrialised countries clearly shows a decline in their relative shares. Both categories are only approximate measures of the ACP African states experience. The 'Africa' category includes north Africa non-signatory ACP states. The ACP category is a better indicator of the ACP Africa/EC experience since over the period analysed the ACP African states accounted for over 90% of the ACP aggregate figure of the Community's imports of manufactured goods.

During the 1970's and the 1980's the value of trade in manufactured goods between the industrialised countries and the developing countries increased substantially. Developing countries accounted for 19.3% (144.6 billion ECU) of industrialised country imports of manufactures in 1984 compared to a share in this market of less than 11% (10.3 billion ECU) in 1970 and 16.3% (57.3 billion ECU) in 1980. This rising importance of developing countries is reflected in the AAGR recorded in the period of 18.7% for 1970-1980, 26% for 1980-1984, and 20.8% for 1970-1984 as a whole. But the major source of this growth was the US market. In contrast to the USA, the European Community declined in relative importance as an importer of manufactured prod' s from developing countries between 1970 and 1984. In 1970 the Community was the largest importer of manufacturing goods from developing countries within the industrialised countries absorbing 43.8% of this trade. By 1980 this share had fallen to just under 40%, and by 1984 it

stood at only 24.7% of the total AAGR in value of imports of manufactured products by the Community between 1980 and 1984 in all cases fell below those experienced between 1970 and 1980, and significantly lower than those experienced by the USA.

Table 3 Share of manufactures in imports of all products from developing countries (%)

Partners	All Industrialised			Reporters USA			EUR 10			Japan		
	1970	1980	1984	1970	1980	1984	1970	1980	1984	1970	1980	1984
Developing Countries	22.4	19.5	33.6	34.3	27.2	51.1	20.1	19.8	25.5	13.5	9.3	13.6
MCDC 15	36.3	48.1	57.8	52.9	57.8	70.4	31.9	56.9	55.9	15.1	20.5	24.3
Mid Income	14.9	5.7	8.7	13.3	4.6	11.0	16.6	8.0	9.5	12.0	2.7	4.3
LLDC	9.8	30.5	29.3	11.1	37.7	45.6	5.1	31.4	26.4	15.4	5.8	5.9
ACP	28.7	11.2	12.9	14.2	5.4	11.2	30.6	14.2	12.2	54.0	28.7	30.3
Medit Agr	27.2	24.0	30.4	68.2	14.6	34.2	21.8	27.2	28.5	27.7	26.6	31.9
Others	20.4	20.3	36.4	36.0	33.1	56.1	16.3	19.7	28.3	9.3	8.6	13.1
Africa	23.2	13.3	18.0	23.6	6.2	17.9	20.9	17.0	17.3	48.9	27.6	35.5
L.A.	17.3	21.1	28.3	18.4	22.3	34.1	20.1	21.4	18.5	11.1	23.5	24.4
Asia	25.5	21.4	41.6	58.4	43.2	71.0	19.0	21.1	36.8	8.9	7.4	11.8

Source EUROSTAT

As indicated by Table 3 , there is clear evidence that a long term decline in market share for Community imports of ACP African states manufactured goods had set in by the mid - 1970's, continuing to the mid-eighties. By contrast the declining trend in shares to the US and Japanese markets reversed from 1980 to 1984. Almost certainly the economic climate within the Community, especially between 1980 and 1982, contributed substantially to the disappointing experience of the ACP states as suppliers of manufactured products. The period 1980-1984 saw lower average annual growth rates for imported manufactured

products across the board when set alongside average performance for the period 1970-1980. However this should not be allowed to hide the fact that rates of growth of imported manufactured products from the AFRICAN ACP states for all of the period 1970-1984 have always been lower than those achieved by any of the other groupings. Almost certainly these data reflect to some degree the supply side problems in the production of manufactured goods.

An analysis of manufactured trade data, (See table 4,5), shows that while exports and imports between Africa and Europe 10 have risen in value the expected increase in trade shares has not been achieved. The Import Value Index of manufactured goods (1980 = 100) from Africa to Europe 10 rose from 31 to 99 in 1981 and 154 in 1984. The export Value Index of manufactured goods (1980 =100) from Europe 10 to Africa rose from 22 in 1970 to 126 in 1981 and remained at 126 in 1984.

The share of extra-Europe 10 imports of manufactured goods from Africa fell from 7.7% in 1970 to 5.5% in 1980, and to 5.3% in 1984. Africa's share of Europe 10 import trade from all developing countries fell sharply from 45% in 1970 to 28% in 1980 and 27.5% in 1984, due primarily to the emergence of Asia as a major exporter to Europe 10. In 1970 the value of Europe 10 imports of manufactured goods from Asia was three-quarters that from Africa, but by 1984 was more than double in value the imports from Africa.

The share of Extra-Europe 10 exports of manufactured goods to Africa increased from 14.8% in 1970 to 19.1% in 1981 and

fell to 14.1% in 1984. Africas share of Europe 10 export trade in manufactured goods to all developing countries fell from 45.7% in 1970 to 44.3% in 1980 and 38.6% in 1984. As in the case of imports, it is Europes exports to Asia which has been the major factor in pushing down Africas share.

The USA as a market for Africa's exports of manufactured goods has grown faster than the Europe 10, but this is from a low base, and in total is only a third of the absolute size of the EC market. Similarly US exports of manufactured goods to Africa have increased faster than those of the Europe 10, but again from a low base, and in totals is only some 16% of the EC exports.

Japan as a market for Africa's exports of manufactured goods doubled in value over the period 1970 to 1984, but from a low base and remains less than 10% of the size of the Europe 10 market. Japans exports of manufactured products to Africa grew fast to 1981 but then fell back, and by 1984 were about 16% of the EC exports.

Thus Europe 10 is the most important market and source of manufactured goods for Africa. However the Africa-EC trade patterns in manufactured products have changed in the opposite direction to what might have been anticipated from the objectives of Lome. The relative importance of the EC as a market ~~of~~ for Africas manufactured exports and source for manufactured imports has declined.

Intra-regional trade in SSA has remained disappointingly low, only accounting for about 5% of exports in 1983.

The trade concessions for industrial goods are particularly liberal under Lome, granting free access to all ACP industrial

products as defined in EC customs regulations. However the EC has the potential to impede nascent exports in violation of the spirit of Lome using two principal instruments:

a) The impositions of voluntary export restaints (VER's), whereby the ACP State concerned agrees to limit expor s through self-restraint on the threat of having formal barriers imposed;

b) Over-restrictive rules of origin that require ACP states to supply an unrealistically large proportion of the final value of a product before it can benefit from the preferences.

It is argued that the rules of origin are unreasonably tight, and that the EC is slow to grant preferences to new ACP exports that are eligible within the spirit, but not the letter of Lome, and that VER's have been imposed. It is counter-argued that controls through VER's have been infrequent, and have been applied more sympathetically than they are to the ACP/SSA principal developing world competitors.

Table 4 Imports of Manufactured Products From Africa and ACP (SITC 5+6+7+8) M.ECU

Partner	1970	1977	1978	1979	1980	1981	1982	1983	1984
ACP to Europe 10									
Value	1452.8	1669.3	1698.0	2048.5	2672.9	2547.3	2481.1	2709.3	2963.8
Index (1980=100)	54.35	62.45	63.53	76.64	100.00	95.30	92.82	101.36	110.88
% of Extra-EUR 10	5.49	2.29	2.06	2.10	2.31	2.03	1.80	1.78	1.61
% of All Cl 2	32.32	12.32	11.23	10.74	11.73	10.53	9.34	9.10	8.30
Africa to Europe 10									
Value	2034.6	3983.8	4439.4	5285.5	6405.4	6375.4	7234.8	8333.3	9841.6
Index (1980=100)	31.76	62.19	69.31	82.52	100.00	99.53	112.95	130.10	153.64
% of Extra-EUR 10	7.68	5.46	5.39	5.42	5.53	5.08	5.26	5.48	5.34
% of All Cl 2	45.27	29.41	29.37	27.71	28.12	26.35	27.24	27.99	27.54
ACP to USA									
Value	184.7	591.4	605.5	685.9	732.4	890.8	878.1	1019.1	1533.7
Index (1980=100)	25.21	80.75	82.67	93.65	100.00	121.63	119.90	139.14	209.40
% of WORLD	0.71	0.86	0.72	0.80	0.78	0.67	0.57	0.54	0.52
% of All Cl 2	5.12	3.91	3.17	3.35	3.22	2.64	2.22	1.89	1.87
Africa to USA									
Value	254.5	1047.8	1133.0	1202.8	1373.0	1887.5	2001.4	2146.1	3339.7
Index (1980=100)	18.54	76.32	82.52	87.61	100.00	137.48	145.77	156.31	243.25
% of WORLD	0.98	1.52	1.35	1.40	1.47	1.41	1.30	1.13	1.13
% of All Cl 2	7.05	6.92	5.93	5.87	6.03	5.59	5.05	3.99	4.08

Table 4 cont'd

ACP to Japan	1970	1977	1978	1979	1980	1981	1982	1983	1984
Value	347.0	246.8	226.3	361.0	417.6	438.9	352.5	309.2	539.6
Index (1980=100)	83.11	59.10	54.20	86.46	100.00	105.11	84.42	74.05	129.22
% of WORLD	6.16	1.93	1.45	1.85	1.94	1.58	1.15	0.87	1.15
% of All Cl 2	34.89	7.36	5.41	6.50	7.59	6.01	4.41	3.53	4.26

Africa to Japan									
Value	377.1	332.8	373.3	503.0	573.3	627.5	526.6	514.9	778.2
Index(1980=100)	65.78	58.04	65.11	87.73	100.00	109.45	91.84	89.82	135.73
% of WORLD	6.69	2.60	2.39	2.58	2.67	2.25	1.71	1.45	1.65
% of All Cl 2	37.91	9.92	8.92	9.05	10.42	8.60	6.59	5.87	6.14

Source : Eurostat

Note : Class 2 - all developing countries

Table 5 Exports of Manufactured Products to Africa and ACP (SITC 5+6+7+8), M.ECU

Partner	1970	1977	1978	1979	1980	1981	1982	1983	1984
Europe 10 to ACP									
Value	3068.3	10700.1	10580.0	9098.6	12126.9	14405.8	14478.3	12096.1	12566.7
Index(1980=100)	25.30	88.23	87.24	75.03	100.00	118.79	119.39	99.75	103.63
% of Extra-EUR10	6.54	7.80	7.27	5.82	6.87	6.83	6.35	4.99	4.42
% of All Cl2	20.19	18.76	17.30	14.54	16.85	15.31	14.47	12.34	12.03
Europe 10 to Africa									
Value	6952.0	25931.7	26132.8	27248.0	31914.4	41209.9	38508.2	37855.2	40290.1
Index (1980=100)	21.78	81.25	81.88	85.38	100.00	125.99	120.66	118.61	126.24
% OF Extra-EUR10	14.83	18.89	17.96	17.42	18.09	19.08	16.88	15.62	14.76
% of All Cl 2	45.74	45.46	42.74	43.54	44.35	42.74	38.49	38.61	38.56
USA to ACP									
Value	831.4	1957.0	1791.8	1655.7	2205.4	3288.4	3431.9	2878.3	3000.0
Index(1980=100)	37.70	88.74	81.25	75.07	100.00	149.11	155.61	130.51	136.03
% of WORLD	2.83	2.78	2.42	1.97	2.17	2.38	2.41	1.95	1.65
% of All Cl 2	9.55	7.48	6.44	5.18	5.49	5.88	6.01	5.60	4.92
USA to Africa									
Value	1057.4	3345.1	3171.3	3356.5	4012.4	5968.9	5999.3	5489.6	6083.0
Index(1980=100)	26.35	83.37	79.04	83.65	100.00	148.76	149.52	136.82	151.60
% of WORLD	3.60	4.75	4.28	3.99	3.94	4.33	4.21	3.72	3.34
% of All Cl 2	12.15	12.79	11.40	10.49	9.99	10.68	10.51	10.68	9.98

Table 5 continued

Partner	1970	1977	1978	1979	1980	1981	1982	1983	1984
Japan to ACP									
Value	1065.9	4026.4	2970.6	2062.9	3119.6	4760.0	3676.1	2707.1	3341.2
Index(1980=100)	34.17	127.07	95.22	66.13	100.00	152.58	117.84	86.78	107.10
% of WORLD	5.88	5.92	4.04	2.90	3.56	3.64	2.70	1.72	1.60
% of All Cl 2	14.94	12.96	8.86	6.49	7.93	8.20	6.09	4.19	4.42
Japan to Africa									
value	1176.8	5381.0	4339.2	3266.7	4683.1	7429.1	5912.0	5745.5	6471.2
Index(1980=100)	25.13	114.90	92.66	69.76	100.00	158.64	126.24	122.69	138.18
% of WORLD	6.50	7.92	5.90	4.59	5.35	5.68	4.34	3.64	3.10
% of All Cl 2	16.49	17.32	12.95	10.28	11.90	12.80	9.80	8.89	8.56

Source Comtrade

Note : Class 2 - old developing countries

3. Modernisation of their societies

A recent study undertaken for the EC, ( ) concludes:

" The structure of ACP industry is incomplete, unbalanced and vulnerable.

(a) Industrialization has principaly taken the form of import substitution (a dozen or so activities, virtually the same in each country. E.g. beer-making, manufacture of soft drinks, cotton textiles, paints and varnishes, confectionery, cigarettes, footwear, flour-milling, canning, cement manufacture, bottle-making, plastic articles, etc.) and a certain amount of treatment of raw materials for export.

(b) Two-thirds of the activities are light industries producing consumer goods, catering primarily for the need of a relatively high-income priviledged minority. There is a virtual absence of intermediate industries or industries producing capital goods. By and large in all the countries, with the exception of Mauritius, which had no real choice, there has been no removal of industry to areas where manpower is cheap and efficient.

(c) There has been practically no integration (upstream downstream or between sectors) to create growth. There have therefore been no multiplier or induced effects (except, to a certain extent, in cotton and textiles). A real industriai fabric does not exist; one finds, rather, the chance co-existence of various productions units-islands of modernity, geographically concentrated either in the capital or a sea port, within an economic desert.

(d) These are high-cost industries for a whole number of inter-related reasons (inadequate infrastructure, high staffing costs, size which is excessive from an economic point of view or insufficient from a technical angle, absence of industrial environment, under-utilization of capacity, imposed minimum wages) and also because incentives to reduce costs have been systematically blunted by various types of protectionist policy. Most undertakings are not competitive internationally, some (assembly industries, for example) consume more foreign exchange than they save and many are unprofitable, at present at least.

The development contribution of this limited industrialization with no real bases has therefore been very small, little added value, no contribution in terms of foreign exchange, few jobs created, meagre (and very unequal)

> income distribution, exacerbation of the backwardness of the rural economy and of the existing insecure food situation, negative effect on overall competitiveness scarcely any induced effects, foreign debts and strains on the budget, and increased external dependence. The net result is, therefore, very unsatisfactory."

One hopeful and positive impact of Lome may be its stimulus to the emergence of new products and hence modernisation. This significant activity at the margins is concealed by analysis of aggregates only. Trade in new manufactured exports is generally small in absolute value terms, but analysis at the 6 digit NIMEXE level a significant number of African/ACP countries experienced a rapid increase in a wide range of new products, this trend has continued into the 1980's despite the difficult overall economic circumstances.

The Stevens and Weston ( ) analysis of trade data from 1975 to 1980 revealed eleven countries that had increased exports of manufactured, processed agricultural and temperate agricultural goods over the period at a rate faster than the IMF index of non-oil developing country export unit values. Some 75 product categories (at the six digit level) were involved, roughly evenly split between agricultural and industrial products.

McQueen and Read ( ) have extended the analysis to include 1984 trade data. Their conclusion is that the pattern of diversification has continued. By 1984 the ACP had begun to record new exports in 128 categories. Particularly strong increases were found, both in the value of exports and in the number of ACP countries involved, for textiles, clothing, leather and leather goods, meat, fish and food preparations.

A notable feature of both analyses is that the ACP states involved in new exports include not only the middle income members of the group but also some low income countries. The list includes Ethiopia (twelve new products), Mali (seven products), Zaire (seven products), Tanzania (eleven products), Benin (six products), and Central African Republic (four products). Just over halfthe sixty six country group has been able to diversify into at least four new manufactured, processed agricultural or temperate agricultural goods. More advanced countries showed even greater gains - Mauritius (thirty two products), Ivory Coast (twenty seven products), Kenya (nineteen products), Senegal (seventeen products) and Cameroon(fourteen products).

There seems to be clear evidence in the case of Mauritius that the Lome Convention played a part in the development of new exports. A significant inward movement of capital and expertise occured from Hong Kong in the mid 1970's which seems to have been attracted by the prospect of preferential access to the European market. This formed a symbiotic relationship with indigenous and other foreign capital and contributed to the initial stimulus to the development of exports. Since then the rate of growth of new exports has slowed and Mauritius has been subject to some non-tariff restrictions, although the restrictions have been imposed more flexibly on Mauritius than on non-ACP suppliers.

In the case of the Ivory Coast the Lome Convention appears to have had a much smaller impact. The Ivory Coast already enjoyed similar preferences in the EC6, especially France,

which remained its most important market for new exports, so there was little change in the before and after Lome situation.

To Create Employment

The share of labour force in Industry in SSA increased only slightly from 8% to 9% between 1965 and 1985, (World Development Report, 1987). Using UNIDO data the average number employed in manufacturing in ACP/SSA rose by 28% between 1975 and 1980, but then stagnated to 1985. Some key sectors did show a consistent expansion of employment opportunities and consumer goods industries, for example food manufacturing, beverages and tobacco appear to be the largest employers. However other sectors, including non-traditional sectors such as plastics and metal products experienced declines, (See Table 6)

Unfortunately the statistics on manufacturing employment provide a very partial picture because they are restricted to the formal sector. Yet the informal sector in SSA is very extensive, very labour intensive, and appears to include a substantial amount of manufacturing activity. The exclusion of the informal sector also limits the utility of output data but, because enterprises tend to be very small, this is not so serious as the distortion to employment figures. The scale of the problem can be guaged by comparing a 1983 estimate by the World Bank that the informal and formal manufacturing sectors together accounted for about 10% of employment in Nigeria with employment shares of 14% for the formal and perhaps 40% for the informal sectors, ( ).

The Lome provisions do not seem to have had any significant impact on employment creation in either the formal or informal manufacturing sectors.

Table 6 ACP/SSA Manufacturing Sector Employment - average number employed, ('000).

Sector	1975	1980	1985
Manufacturing	939	1,210	1,202
Food Manufacturing	182	207	234
Beverages	45	63	70
Tobacco	23	27	34
Textiles	181	215	208
Wearing Apparel	43	47	50
Industrial Chemicals	13	20	19
Rubber Products	22	25	16
Plastic Products	10	40	21
Iron and Steel	18	19	32
Metal Products (excluding machinery)	68	90	79
Transport Equipment	44	64	64

Source: UNIDO

There is also evidence that some ACP/SSA countries have experienced sharp falls in manufacturing employment, for example in Kenya the number employed in manufacturing fell from 4.6 million in 1975, to 3.4 in 1980, to 2.9 million in 1985.

To generate and distribute income

In at least seven African countries the manufacturing sector is still almost non-existent; it accounts for less than 5 per cent of monetised gross domestic product. Its contribution to generating income has been negligible. Similarly twenty countries, with 12% of the population account for only 4% of MVA, again a negligible base to generate income.

The low overall level of industrialisation in SSA is shown by the share of manufacturing in GDP in 1965 and 1984 relative to other developing countries. Not only is the share of SSA countries well below the norm for the relevant income levels in both years, the middle income African countries, which should have taken the lead in structural transformation, suffered a decline in the share of manufacturing over the two decades. Much of this is caused by the poor performance of Nigeria, whose GDP dominates the middle income group, and which saw the share of manufacturing share decline from 7 per cent in 1965 to 4 per cent in 1984.

Table 7-A. Contribution of Manufacturing to GDP (%)

	1965	1984
Low income developing countries	14	15
Low income SSA countries	9	10
Lower middle income developing countries	15	17
Lower middle income SSA countries	9	7

Source : World Development Report, 1986, Table 3

In the period 1979 to 1984 some 27 African countries suffered negative growth rates of MVA per capita. Table 7-4. shows that all regions of the ACP/SSA suffered a contraction of their already weak manufacturing base, and hence income-generating capacity. In the case of Eastern and Southern Africa the decline in MVA per capita continued over the whole period from 1973 to 1984.

In comparison to other developing countries, several of the SSA countries have exhibited fairly robust performances. Some of the low income countries, like Burundi, Rwanda, Senegal, Malawi and Kenya, and middle income oil importers like Mauritania, Lesotho, and Botswana, have sustained rates of growth comparable to many countries in other regions. The comparison, however, is distorted by the very small bases with which many of the African countries start. Among the dozen more industrialized SSA countries (i.e. with MVA over $300 million in 1983), 5 show consistently positive growth rates, while 2 (Ghana and Zambia) show consistently negative rates. 5 countries in descending order, Gabon, Zimbabwe, Mauritius, Zambia and Cote d'Ivoire) have per capita MVA of over $100. The lead established by Gabon is explained by its petroleum resources (and associated processing), which makes it by far the richest country in SSA, with per capita 1984 income of $3,580. The others are longer established, non-oil based industrializers. Nigeria's large population drags down its figure to a fairly low level. Ghana, an early industrial leader, is even lower, a testimony to its long years of decline. Mauritius, with its dynamic export sector, has almost caught up with Zimbabwe, whose large base has been stagnant.

Table 7-1 GROWTH OF MANUFACTURING VALUE ADDED SELECTED PERIODS AND YEARS

Country or area	Total MVA Value (millions of dollars) At current prices					Growth rates (percentage) At constant 1980 prices		Per capita MVA Value (dollars) At current prices					Growth rates (percentage) At constant 1980 prices	
	1979	1980	1981	1982	1983	1973-79	1979-84	1979	1980	1981	1982	1983	1973-79	1979-84
Northern Africa	10083.6	12376.4	13033.7	14115.3	15935.1	7.5	7.3	95	114	116	122	134	4.6	4.2
Maghreb	6444.5	7644.3	7174.4	7186.1	7861.1	7.8	6.7	146	168	152	147	156	4.6	3.3
Central Africa	1515.5	1780.4	1630.0	1624.8	1670.3	1.8	4.2	25	28	25	25	25	-0.7	1.4
CEPGL	454.8	461.7	451.1	480.9	485.8	-0.5	3.3	13	12	12	12	12	-3.1	0.3
UDEAC	979.4	1218.4	1092.3	1068.3	1106.3	5.6	4.9	55	67	59	56	57	3.4	2.4
Western Africa ECOWAS	5882.6	7254.4	7002.0	6586.6	6935.0	8.0	1.0	43	51	48	44	44	4.8	-2.2
CEAO	1853.0	2194.7	1867.7	1737.1	1537.2	4.3	1.6	50	58	48	43	37	1.3	-1.3
MARTUN	176.3	193.7	196.9	231.0	252.6	4.1	-2.3	17	19	18	21	22	1.4	-5.1
Eastern and Southern Africa	4724.9	5707.2	6090.4	5665.8	5175.5	-0.5	-0.0	38	45	46	42	37	-3.4	-3.1
African LDC	2852.7	3202.8	3351.5	3043.4	3096.2	-1.8	0.8	20	22	22	20	19	-4.4	-2.1

Source : UNIDO

Estimates by UNIDO of wages and salaries in 1980 US$ paid to employees in manufacturing in ACP/SSA indicate a fall of 14% between 1975 and 1980, and an even steeper fall of 44% between 1980 and 1985. At a sub-sector level the decline was not uniform. For example real earnings of employees in textiles fell more rapidly in the final period, at 28%, than from 1980 to 1985, when the fall was 16%. In Iron and Steel real earnings rose by 6% in the first period but then fell by 21% between 1980 and 1985.

Experience with agriculture has shown how disasterous the effect on output and productivity a long term decline in real earnings can be. Contrary to the Lome objective of generating income, the manufacturing sector has experienced significant declines. Even so there is some evidence to show that wage levels are higher in manufacturing than in some other sectors, although the evidence should be treated with extreme caution. A study of Nigeria shows wages in manufacturing were about 12% higher than in the public sector, and about 17% higher than in construction (see Table 8). Furthermore there is also evidence that some SSA countries wage rates may be high when compared internationally, Nigerian production costs need to approach those of the successful emerging NICs if there is to be any chance of domestic manufacturing becoming viable without heavy protection.

The minimum wage in Thailand was equivalent to only about N35 per month at the end of 1979 using official exchange rates (compared to Nigeria's N 125). Moreover, while the average

manufacturing wage in Thailand tended to be only about 25 per cent above the minimum wage, in Nigeria workers with experience were able (at the time the calculation was made) to earn double the minimum wage with allowance and fringe benefits possibly adding another 60 per cent.

These high nominal rates of pay have not been matched by high productivity.

Table 8. A Comparison of Minimum Wages in the Public and Private Sector (N per year)

	1979			1984		
	Minimum Wage	Cash Benefits	Total	Minimum Wage	Cash Benefits	Total
Public Sector	846	428	1274	1500	428	1928
Private Sector	560	168	728	-	-	-
Manufacturing	-	-	-	1560	610	2170
Services	-	-	-	1500	440	1940
Construction	-	-	-	1500	360	1860
Public Sector as % of Private Sector	-	-	175	-	-	-
Manufacturing	-	-	-	-	-	8
Services	-	-	-	-	-	9
Construction	-	-	-	-	-	10

Note: Information has been obtained for the private sector from the Wages and Productivity Unit of the Federal Ministry of Employment, Labour and Productivity which carried out surveys in 1979 and 1984. For the latter year the survey data are available for specific sectors.

Source: Quoted in C.Stevens, 1988

To facilitate the transfer of technology....

Even more than with other objectives, it is difficult to measure the technical and skill aspects of industrial transformation. In a recent study an attempt has been made to capture these effects through an engineering intensity indicator, and a skill intensity indicator. The results are shown in Table 9 Engineering intensity was measured by the number of engineers employed per 1000 employees in each industry group. On the assumption that such engineering intensity reflected universal technical norms (this clearly has to be qualified when the level of processing and local design work differ among countries), it provides an indication of the technological demands of African industry (if not the ability of SSA countries to fulfill those demands). Skill intensity was measured, by relative wages and salaries in different US industries. From Table 9 the first four groups of industries (food, textiles, wood and paper) are both of low engineering and skill intensity by US measures. They are generally also local resource based and (with the exception of paper) usually of low capital and scale intensity; all the various indicators of comparative advantage come together to suggest that for countries with great scarcities of technological and other skills, these are the industries to be developed first, both for import-substitution and export promotion. They have lost their significance over time with industrial development. Some technical and skill upgrading is implied by this, but these data cannot of course show whether upgrading has been successfully achieved.

The chemical and petrochemical group turns out to be of

Table 9 Technical and Skill Measures of Industrial Transformation

	Low Income Africa		Low Income Asia		Middle Income Africa		Middle Income Asia		World	
	1973	1984	1973	1984	1973	1984	1973	1984	1973	1984
1. Food, beverages & tobacco	37.7	35.0	12.5	12.7	32.6	27.5	20.3	12.3	12.4	11.2
2. Textiles, apparel & leather	22.3	15.9	24.2	14.7	13.2	9.9	22.6	28.0	10.2	8.4
3. Wood and wood products	5.9	3.4	2.2	2.0	3.7	6.1	4.1	1.4	4.1	3.2
4. Paper and paper products	4.9	5.0	4.4	3.5	4.8	6.5	5.0	4.6	6.3	8.1
5. Chemicals, petroleum prods	11.7	28.5	14.5	19.7	16.2	14.2	18.9	14.4	14.0	17.7
6. Non-metallic mineral prods	4.1	2.8	4.7	4.9	4.5	5.3	4.2	2.2	5.3	4.7
7. Basic metals	2.9	1.5	9.5	17.0	11.8	5.2	5.0	4.9	8.7	8.1
8. Metal prod. machinery & equipment	9.8	7.5	24.8	22.8	12.5	21.7	18.3	29.9	37.1	38.9
9. Other manufactures	0.6	0.3	3.2	2.6	0.8	3.5	1.6	2.2	1.8	1.8
Total manufacturing	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Traditional industries (1-3)	65.9	54.3	38.9	29.4	49.5	43.5	47.0	41.7	26.7	22.8
Non-traditional indust. (4-9)	34.1	45.7	61.1	70.6	50.5	56.5	53.0	58.3	73.3	77.2
Consumer good indust (1,2,9)	60.6	51.2	39.9	30.0	46.6	40.9	44.5	42.5	24.4	21.4
Intermediate goods industries (3-7)	29.6	41.3	35.3	47.1	40.9	37.4	37.2	27.6	38.5	39.7
Capital goods industries (8)	9.8	7.5	24.8	22.8	12.5	21.7	18.3	29.9	37.1	38.9
Low engineering intensity (1-4)a/	70.8	59.3	43.3	32.9	54.3	50.0	52.0	46.3	33.0	28.9
Med. engineering intensity (5,6,7) b/	18.7	32.8	28.7	41.6	32.5	24.7	28.1	21.5	28.0	30.5
High engineering intensity (8,9)c/	10.4	7.8	28.0	25.4	13.3	25.2	19.9	32.1	38.9	40.7
Low skills intensity (1,2,3,4,9)	71.4	59.6	46.5	35.5	55.1	53.5	53.6	48.5	34.8	30.7
Medium skill intensity (6.8)	13.9	10.3	29.5	27.7	17.0	27.0	22.5	32.1	42.4	43.6
High skills intensity (5,7)	14.6	30.0	24.0	36.7	28.0	19.4	23.9	19.3	22.7	25.8

Notes

a. Engineers per 1000 employees of below 10 : food, beverages and tobacco; textiles and leather products; wood and paper products.

b. Engineers per 100 employees of 10-30: Chemical and petroleum products; non-metal minerals; basic metals.

c. Engineers per 100 employees of over 30: machinery and equipment; other manufactures.

Sources

1. K.Warsden (1987) Based on World Bank INDSP Data Base
2. US Department of Commerce, Statistical Abstract of the United States, 1982-83, Washington DC, 1986.
3. National Science Foundation, Scientists, Engineers and Technicians in the Private Industry : 1980

medium engineering intensity but of high skill intensity. The basic metals industry is similar. This suggests that these sectors require advanced operational/technical skills in the workforce rather than intensive engineering supervision. The non-metallic mineral group (cement, clay, glass, etc.) has medium requirements of both engineering and general skills, and so may be of greater appropriateness to African conditions. By 1984, low income SSA had pushed up its proportion of medium engineering intensive industries to levels exceeding middle income SSA and Asian countries, and even the world as a whole (though not so high as low income Asia). This may have been a desirable strategy if it took advantage of, and promoted, growing engineering and other industrial skills in the intermediate range. If not, however, it may have caused an overstretching of domestic capabilities and consequent insufficiency.

The metal products and machinery group is extremely diverse, encompassing a range of relatively simple to highly advanced technologies. On average, it comes out as being highly demanding of engineering skills but of medium level in general industrial skills - this, at least, is its profile in the US. In Africa, the level of technical and skill requirements in this industry is likely to be lower, since a large part of the industry is engaged in simple assembly, and much of local metalworking is at a primitive level. Nevertheless, the industry calls for a base of metalworking experience and a minimum of engineering skills which are scarce in the region. This may account for the fact that low income SSA countries have reduced their proportion of highly engineering intensive activities. Middle

income SSA has, by contrast, increased its proportion, but lags behind both low and middle income Asia.

The analysis of Table 9 suggests that African manufacturing has undergone structural "deepening" over time, and richer countries in the region do have proportionally larger producer goods sectors than poorer countries. This is broadly in line with patterns of industrial development elsewhere. However, much of this "deepening" is accounted for by petroleum-based chemcial industries. While this may not by itself denote an inefficient pattern of development, it does indicate that the industrial base is not as diverse as in other developing regions. In particular, there are important lags, especially in low income SSA, in the development of engineering industries, which are usually regarded as the heartland of industrial skill and technology acquisition.

To foster complementarity of the different branches of industry...

There is an increasing realisation of the crucial importance of effective linkages for successful industrialisation. Industry functions in a dense network of information technology, and other co-operative arrangements. The growth of linkage requires receptive capabilities by potential suppliers, and transmission capabilities by lead enterprises. An illustrative list, set out by Lall, shows how difficult the task of linkage creation can be:

> "Existing large-scale modern enterprises need several types of organizational and technological capabilities to establish successful linkages. For helping local small-scale (actual or potential) suppliers, firms need

> procurement departments which can locate and screen promising entrepreneurs. These departments must have technicians who can help subcontractors to choose appropriate equipment, to master the processing technology, to improve quality to the standards needed to constantly provide designs, drawing, blueprints, etc., on their changing requirements, and to negotiate prices which are fair to the supplier and competitive for the buyer. Linkages also have to be established with large-scale local suppliers. The technical departments of both firms have to exchange data on products, jointly solve technical problems and develop new designs for components and products. For establishing downstream linkages with industrial buyers, firms must have technically trained marketing staff. Capital goods manufacturers should be able to help customers install their equipment and train operators; more advanced ones should be able to set up complete turnkey plants utilizing their products as well as complimentary equipment from other firms. For selling technology horizontally (to similar producers), firms should be able to formalize technical knowledge into blueprints, patents, models, and so on, for sale to competitors. Their project departments should have turnkey capability to set up plants for other enterprises or their own affiliates."
>
> (Lall p.110)

Success in creating fully effective linkage-capabilities has been achieved only by the most advanced NIC's. SSA industry has to date failed to create significant linkage capabilities. Some success has been achieved with expanded technical education systems, on the job training, and promotion of SME, but generally progress has been uneven and slow. Few firms have the technical or organisational manpower to set up linkages with local suppliers of industrial inputs. Few firms are able to transfer their technology to other local large firms. The "missing-middle gap", caused by a vacuum of small-large scale industry linkages has been a serious barrier to industry growth. The primitive stage of mechanical, metal working and electrical skills is identified by Lall as especially harmful:

> "It has led to an over-dependence on imports for simple components and spares. It has also led to poor maintenance in much of industry since this draws mainly on mechanical engineerings skills. A distressingly large proportion of plants have no preventive maintenance programs, and repairs are undertaken only when equipment breaks down. The absence of good in-house workshop facilities in many African enterprises exacerbates such problems. Poor mechanical skills also cause machines to be poorly set, improperly aligned or run below achievable speeds, leading to poor quality and high costs. Even simple technical problems often require expensive foreign experts. Product ranges may remain static long after market demand patterns have changed, because of the lack of capability to adapt machines and design new products,"
>
> (Lall, p.102.)

Linkages between other institutions, as well as manufacturers themselves, for example consultancy groups, universities, research laboratories, industry associations etc, have also remained at a rudimentary stage in Africa. The various schemes set up to date have failed to link the small and large scale enterprises. Activities in the rural sector have not been integrated into a strategy for manufacturing growth, and dualism of the industrial structure and low productivity techniques have persisted.

<u>To promote new relations of dynamic complementarity in the industrial field</u>:

Any hope of sustained success for this objective must be based on an industrial sector with a good record of efficiency and productivity. Such measures are notoriously difficult for evaluating sector and country performance. The MVA per capita indicator for SSA is distorted since the adverse figures are primarily explained by large declines in import capacity and capacity utilisation. The use of Total Factor Productivity (TFP) is also dominated by capacity utilisation, and the record

varies accordingly. World Bank estimates of TFP for Zambia show a decline of 3.8% per annum during 1965 and 1980, and for Kenya a rise of 8.2% between 1976-79, and 4.8% during 1980-85.

Estimates by UNIDO of output per worker for manufacturing in the ACP/SSA as a whole show a decline by 18% during 1975-1979, and 15% during 1980-1985. Such a dismal productivity record is not a good basis for 'promoting new relations of dynamic complementarity in the industrial field.'

A study of Domestic Resource Cost (DRC) ratios for six countries is shown in Table 10 . It reveals large inter-country and inter-firm differences in the ratios. In general Zimbabwe has the most efficient manufacturing sector, followed by Kenya and then Tanzania. The ratios for Ethiopia indicate gross inefficiency and no improvement over time.

Table 10 Domestic Resource Cost in the Manufacturing Industry in Selected Countries

	Kenya	Zimbabwe	Ghana	Ethiopia		Cote d'Ivoire	Tanzania
	1985	1981	1983	1972	1983	1981	1984
Food, beverages & tobacco	0.8	0.88	<1	2	2-5	0.4-1.2	0.7-0.9
Textiles,apparel & leather	1.65	1.1-1.3	<1->5	5-6	4-6	2.1	3.9-00
Wood and wood products	1.58	1.3-1.8	<1->5	6	6	-	-
Chemicals	1.5 c/	0.94	<1->5	-	-	0.8-1.0	20.00-00
Petroleum & prod	-	-	-	-	-	-	-
Non-metallic mineral prods	6.29	0.98	<1->5	3	2	-	3.2
Basic metals & metal prods	5.48 b/	2.7-3.8	-	6	6	-	16.3
Non-electrical machinery	-	0.9-1.4	-	-	-	-	-
Electrical machinery	-	1.1-2.3	-	-	-	-	-
Transport equipment	3.49 a/	1.3	-	-	-	-	-
Other manufactures	-	-	-	-	-	-	-
All manufacturing industries	1.3	1.3	-	-	-	-	2.9

Notes
a/ includes electrical machinery
b/ includes non-electrical machinery
c/ includes petroleum products
d/ includes non-electrical machinery

Sources
1. World Bank, Zimbabwe: An industrial Sector Memorandum 1988 p.71
2. World Bank, Ghana: Industrial Policy, Performance and Recovery p.58,59
3. World Bank, Ethiopia: Industrial Sector Review Dec 1985, p.28,29.
4. World Bank Zimbabwe: Country Economic Memorandum Oct 1985 p.51
5. World Bank, Cote d'Ivoire: Country economic Memorandum March 1986. p.221.

How far the reality of industrial co-operation is from the objective of "promoting new relations of dynamic complementarity" is most vividly seen in recent survey results of selected sectors covering 343 enterprises in SSA (see Table 11,12). These revealed, : ( ):

- Only 69 units (20%) function satisfactorily, i.e. at over 70% of their capacity;
- 195 units (57%) are functioning unsatisfactorily, i.e. performing at well below a satisfactory production threshold;
- 79 units (23%) have ceased to function.

Table II Capacity Utilisation in the Operation of Industrial Units

Sector	No. units in the sample	Satisfactory operation	Under-production	Stand-still
Wood	33	12	18	3
Paper	16	2	6	8
Cement	43	6	27	10
Textiles (not making up)	47	2	33	12
AGRO-FOOD				
Sugar	32	5	19	8
Oils and fats	48	1	31	16
Cereals and poultry*	33	4	26	3
Food preserving (fish & fruit &veg)	33	5	16	12
Beer and lemonade	43	25	14	4
Milk*	15	7	5	3
TOTAL	343	69	195	79
	100%	20%	57%	23%

Source: report to EC by G.Egnell (June. 1985)

The analysis of utilisation in different sectors shows relatively good performance in the wood, dairy and, brewing lemonade making sectors, serious malfunction in the cement, sugar, milling and, above all, paper,oils and fats, canning and refining sectors, with a special place for the textile sector which is currently facing an acute economic crisis- that is the harsh diagnosis that emerges. The fact that the

sample selection is not undertaken on a random basis means that all conclusions must be heavily qualified, including any cross-country comparisons. those countries in the sample identified as having serious problems, primarily due to severe import restrictions, with virtual paralysis of the productive apparatus were Guinea, the CAR. Angola, Mozambique, Tanzania, Nigeria and Madagascar. Countries experiencing a relatively better performance were Cameroon, Gabon, Zimbabwe, Ivory Coast, and Mali.

The appalling state of much of African industry makes it very difficult to address the key issue of restructuring EC industry to achieve complementarity. If the EC is serious about implementing the objective of dynamic complementarity, then co-operation should consist in the EC's acceptance of abandoning some industries likely to compete with ACP/SSA - for example in textiles, sugar and coffee processing, forest industries, other light industries, and some basic metal industries. There is little evidence of this to date. But why should EC consumers pay for inefficient SSA/ACP manufacturing output? New forms of direct investment are required, for example Production-Sharing arrangements between EC and efficient SSA/ACP manufacturing units are required, and the EC needs to decide where SSA/ACP have a comparative advantage (such as in labour-intensive production), and assist them to expand in those areas.

Table 12 Breakdown of Units in the Sample by Country and by State of Operation

COUNTRY	N° of units listed[1]	N° of units in the sample	OPERATION	UNDER-PRODUCTION	STAND-STILL	COMMENTS
ANGOLA	18	13	-	6	-	Sample does not take account of brewing-lemonade making where capacity is generally under-utilized
BENIN	28	12	2	6	4	
CAMEROON	73	34	19	12	3	Brewing over-represented (11 out of 34 units all working well) & no data on oils and fats
CONGO	31	22	5	15	2	
IVORY COAST	99	44	10	28	6	Wood and oils & fats under-represented
GABON	33	15	8	7	-	Brewing over-represented (5 out of 15 units)
GUINEA	11	11	1	-	10	
MALI	15	12	3	8	1	
MOZAMBIQUE	44	21	-	20	1	Cereals-poultry over-represented
NIGERIA		( )	( )	80%	20%	Global information from the Manufacturers' Asso. of Nigeria - productive apparatus used to 30- 0% of capacity
CAR	16	11	1	4	6	
SENEGAL	47	30	4	23	3	
TANZANIA	24	13	1	11	1	Brewing, food-preserving, oils & fats and cereals not represented
TOGO	15	11	1	6	4	
ZAIRE	44	7	1	3	3	Reduced sample is not very significant
ZIMBABWE	29	15	4	10	1	Milk sector over-represented (4 units functioning well)
OTHER		70	7	36	27	
TOTAL		34	69	195	79	

Source: Report to EC by G. Egnell, (June, 1985).

Chapter 4

The Constraints to Industrial Co-operation under Lome

The experience of African industrialisation under Lome has been influenced by a complex and inter-dependent set of constraints. It is recognised that many ACP/SSA countries were subject to exogenous shocks largely outside their control. These included deteriorating terms of trade, oil crises, droughts, floods, influxes of refugees etc, and the impact of such shocks has contributed to the severe problems encountered in fostering 'industrial co-operation'. Nevertheless the response of individual country governments to such exogenous shocks, has played a major role. The constraints limiting the impact of Lome on Industrial Co-operation also include problems of a broader and longer term structural nature.

INSERT 51(b) *→

1. Stagnating Flow of Investible Resources to Industry

In no low income SSA/ACP country has significant local mobilisation of domestic resources for industrial development, either by the State or individual businessmen been achieved. The limited domestic financing capacity may be attributed to low per capita income, and low or negative growth rates, and high dependency ratios within families resulting in low savings ratios. In 1984 savings as a percentage of GNP for Asian low-income countries was 24.3%, but for SSA/ACP only 4.3%. The share of investment in GNP in 1984 for Asian low-income countries was 26.5% and for SSA/ACP only 11.8%. Large subsistence sectors and weak trading sectors further limit taxable capacity. Most of the SSA/ACP have tax/GDP ratios below 10%. Investing from

* 51(b)

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retained profits are by definition impossible with loss-making/ subsidised enterprises. External sources of investible resources are therefore essential for industrial development.

At first glance both Lome 1 and Lome 2 gave a prominent place to industrialisation in terms of funds allocated and technical co-operation efforts. A total of 424 million ECU was approved for EDF 4 and 755 million ECU for EDF 5, (see Figure 2), or 14.3% and 20.9% of approved aid respectively, and a growth rate of 78%. Unfortunately the definition of industrialisation used by the EC is broad, and the narrow definition of industrialisation to exclude Energy Related projects and Extractive industries indicates an increase from 236 million ECU's to 308 million ECU's, or an increase in share of total EDF 4 and 5 from 7.9% to 8.5%. A narrow definition of manufacturing industries (see Table 13) saw a steep decline in aid approval from 104 million ECU to 76 million ECU, or 24% and 10% of aid approved for industrialisation. As a share of total EDF 4 the allocation to this definition of Manufacturing Industries was a mere 3.5%, and of EDF 5 only 2.1%

Under Lome 1, the EIB's commitments, whether in the form of loans from own resources or risk capital operations, climbed steadily. As regards Lome II, the first year (1981) saw a notable increase in the Bank's commitments, mainly as a result of the "reserve" of projects built up during 1980. Between 1982 and 1984, the annual volume of loans from own resources dropped appreciably with the result that by the end of 1984 less than 60% of the 685 million ECU appropriation had been committed. The main reason for this was the worsening economic

Figure 2. Sectoral breakdown of approved aid, 4th and 5th EDFs (million ECU, including regional aid)

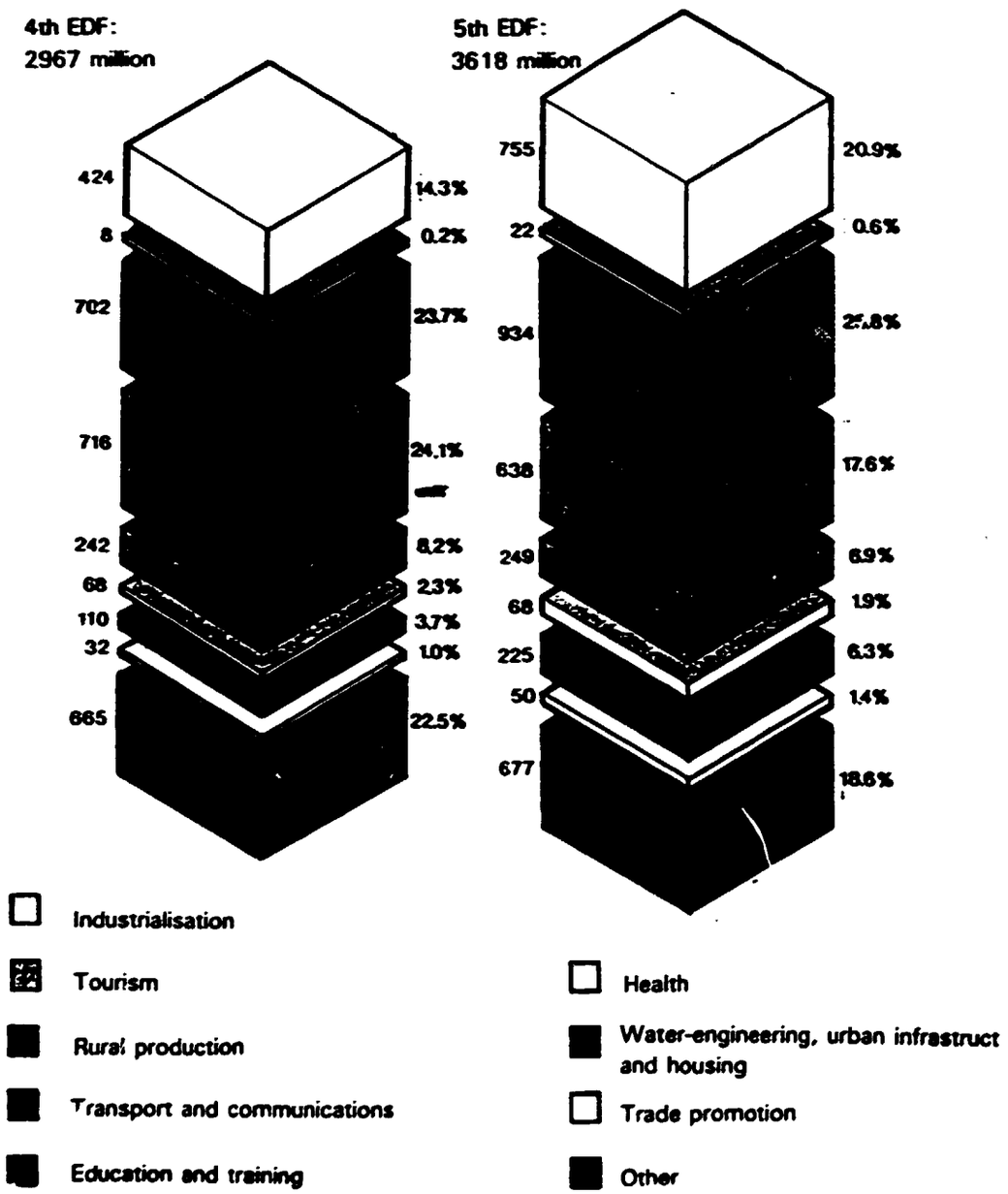


Table 13 Sub-sectoral breakdown of aid approved for industrialisation - 4th and 5th EDF

Subsector	4th EDF		5th EDF	
	Approved Aid (million ECU)	%	Approved Aid (million ECU)	%
General	41.6	9.8	151.6	20.0
Extractive industries	18.9	4.5	206.0	27.3
Metal manufacture	10.6	2.5	0.1	–
Chemical industries	11.5	2.7	12.7	1.7
Manufacturing industries	104.1	24.6	76.9	10.2
Agricultural and food manufacturing industries	12.9	3.0	54.2	7.2
Energy related projects	168.7	39.8	241.3	32.0
Infrastructure and industrial projects	6.8	1.6	10.0	1.3
Handicrafts/small scale industries	3.2	0.7	2.4	0.3
Integrated projects	45.7	10.8	–	–
TOTAL	424.0	100.0	755.2	100.0

Another source of investible resources for manufacturing under Lome comes from the E.I.B., (see Table 14)

Table 14 Annual commitments under Lome I and II of EIB financing.

Years	Loans from own resources		Risk capital operations		Total	
	Number	Million ECU	Number	Million ECU	Number	Million ECU
			Lomé I			
1976	5	41.5	7	20.2	12	61.7
1977	14	67.0	10	17.1	24	84.1
1978	12	90.9	15	25.3	27	116.2
1979	11	73.2	12	13.1	23	86.3
1980	18	117.4	17	20.5	35	137.9
1981-85	–	–	15	3.5	15	3.5
Total	60	390.0	76	99.7	136	489.7
			Lomé II			
1981	13	158.4	17	48.3	30	206.7
1982	14	119.2	21	35.3	35	154.5
1983	6	90.0	19	44.0	25	134.0
1984	8	79.1	24	80.8	32	159.9
1985	15	155.8	24	65.6	39	221.4
Total	56	602.5	105	274.0	161	876.5

situation in most of the ACP States, which were finding it increasingly difficult to set up and finance projects in productive sectors. In 1985, however, the level of commitments from the Bank's own resources rose sharply to nearly 156 million ECU, and about 88% of total funds had been committed by 31 December 1985. Adapting the broad EC definition of "industrialisation", of EIB total commitments under Lome 1 and 2 some 88% went to Industry, but excluding Energy and Extractive Industries the share falls to 42%

There is real concern that the EIB has as its main focus investment needs of Europe, and that SSA/ACP industrial development requirements are peripheral. For the period 1981-85 EIB commitments under Lome 2 amounted to only 3% of their total financing. The CDI with its small budget of 40 million ECU, is also severely handicapped by availability of investible resources.

The inadequacy of investible resources for SSA/ACP industrial development under Lome should be seen in the context of stagnation in the overall flow of external resources to SSA. Sub-Saharan Africa relies heavily on external resource flows. In 1983-84, net external financial resources from all sources, concessional and non-concessional, accounted for 7 per cent of Sub-Saharan African countries' GNP, more than twice the average for all developing countries of 3 per cent, and 2 per cent for Asia. For low-income Sub-Saharan African countries the share was 11 per cent. The bulk of African external resource flows consists of Official Development Assistance (ODA): about 70

per cent in 1983-84. During the 1970's and up to the early 1980's, external resource flows to Sub-Saharan Africa increased substantially, reflecting both higher priority accorded to Sub-Saharan Africa by official development agencies and a willingness of export credit agencies, banks and multilateral development lending institutions to increase their exposure in Sub-Saharan Africa. However, there has been a sharp decline in the net flow of non-concessional resources, and so a fall in total external resource receipts. In addition, there has been a sharp decline in the net use of IMF resources.

There are no fully consistent statistical series of non-concessional resource flows to Sub-Saharan Africa covering the period 1973-84. The main reasons include the absence of consistent statistics of bank lending until 1983, large unallocated amounts in several creditor sources and inadequate record-keeping by debtors. Beginning in 1983, however, considerable progress has been achieved with the introduction of the BIS-OECD survey of export credit and bank lending claims which strengthens the quality of the data on the corresponding flows. Table 15 shows the drastic decline in non-concessional flows to SSA. The reverse flow of export credit for the low income countries, and negative direct investment for all SSA must have especially hit industrial development.

A more detailed country analysis for direct investment is shown in Table 16 . In 1984 no less than 23 of the ACP/SSA countries experienced zero or negative direct investment.

Table 15 Composition of Total Net External Financial Flows To Sub-Saharan African Countries, 1982-1984

In current prices, $ million

	LICs			LMICs			Total[a]		
	1982	1983	1984	1982	1983	1984	1982	1983	1984
ODA	6 625	6 474	6 622	803	768	873	7 938	7 766	7 950
of which:									
DAC bilateral	3 824	3 734	3 921	547	593	676	4 860	4 804	5 025
DAC multilateral	1 895	1 909	2 232	191	143	162	2 105	2 098	2 431
OPEC financed	906	831	469	66	32	35	973	864	495
Non-concessional flows	2 018	349	979	4 254	2 950	1 369	6 469	3 520	2 467
of which:									
DAC export credits	397	-538	-645	1 158	1 363	727	1 580	921	128
Multilateral funds	203	279	193	379	391	559	610	684	759
Direct investment	499	79	-66	919	260	-241	1 524	418	-294
DAC and OPEC other official	695	595	1,182	486	195	261	1 248	787	1 753
Bilateral portfolio	224	-65	16	1 313	742	63	1 509	711	123
Total flows[b]	8 643	6 823	7 601	5 057	3 718	2 242	14 407	11 286	10 417
Memo item:									
IMF net flows	661	1 089	450	490	462	99	1 154	1 554	5 54

a) Including UMICs.
b) Excluding unallocated funds.

Source: DAC Chairmans Report, 1986.

Table 16 Direct Investment from DAC Countries to ACP/SSA States in ($m)

Country	1974	1976	1978	1980	1982	1984
Angola	6.7	1.2	1.9	37.4	115.8	42.5
Benin	-2.0	0.0	0.0	1.7	0.1	0.0
Botswana	0.1	3.0	3.6	0.0	1.9	0.6
Burkina Faso	-0.6	-0.1	0.1	-0.2	-0.2	-0.1
Burundi	0.2	0.1	0.9	4.6	0.9	1.2
Cameroon	2.6	4.3	-1.8	69.2	45.5	7.9
Cape Verde	./.	./.	./.	./.	./.	./.
Central African Republic	0.7	-0.1	1.1	4.7	1.1	-0.2
Chad	-0.1	0.3	0.7	0.0	-	-
Comoros	-	-	1.9	-	0.2	-
Congo	18.1	.2.4	0.0	-0.8	15.5	40.0
Djibouti	0.0	0.0	-	0.2	-0.1	0.2
Equatorial Guniea	-	-	0.0	-	0.5	2.2
Ethiopia	0.5	0.2	0.0	1.0	2.0	4.6
Gabon	12.6	6.8	9.1	24.5	102.6	13.1
Gambia	1.7	0.0	-	0.3	0.3	-
Ghana	14.3	-3.7	-2.6	3.4	2.0	4.6
Guinea	1.5	-0.7	0.6	0.6	-	0.7
Guinea Bissau	-	-	-	-	-	2.3
Cote d'Ivoire	1.2	29.7	5.5	12.1	58.0	-0.5
Kenya	23.4	33.8	57.0	24.1	12.3	0.2
Lesotho	-	-	0.0	-	-	-
Liberia	57.7	3.2	44.7	1.9	312.9	-22.8
Madagascar	6.8	-0.4	0.6	-0.8	-0.1	8.6
Malawai	6.7	5.3	-7.8	11.8	6.0	0.0
Mali	-0.1	0.0	0.2	-0.2	2.3	0.1
Mauritania	3.6	-28.8	-0.6	-3.2	-1.1	0.2
Mauritius	3.6	0.5	0.8	13.3	7.2	0.4
Mozambique	2.0	12.6	2.0	4.4	1.9	-3.2
Niger	1.5	31.4	19.9	-5.8	-2.1	1.5
Nigeria	-132.0	6.5	164.2	206.2	630.6	-252.1
Rwanda	0.0	0.1	-0.7	0.2	1.4	-0.2
Sao Tome and Principe	./.	./.	./.	./.	./.	./.
Senegal	1.1	1.3	-4.5	1.9	4.5	-1.7
Seychelles	1.7	3.7	2.5	-0.6	3.0	0.1
Sierra Leone	-	1.3	3.8	-0.7	-1.1	-
Somalia	-1.6	1.3	-0.1	0.0	55.8	20.3
Sudan	-1.2	5.8	6.0	8.9	16.8	2.6
Swaziland	-	2.0	0.3	9.4	0.1	
Tanzania	-2.1	6.6	6.1	4.6	17.3	-3.7
Uganda	0.0	2.1	2.0	4.0	2.0	-
Zaire	52.0	238.4	97.7	109.6	-2.4	-79.0
Zambia	14.3	28.3	25.9	36.8	62.4	-1.3
Zimbabwe	33.4	29.1	21.1	80.0	46.3	0.7

Source: OECD- Computer Extracts

./. = no figures available
0.0 = less than $1/2 M.

2. The Debt Service Constraint

The stagnation of external resource flows to industry has paradoxically, meant that the direct contribution of the sector to SSA/ACP's debt service problem does not appear to be significant. A recent study by UNIDO of the debt/industry problem,( ), shows that for only four countries does the "manufacturing debt" share exceed 20 per cent and in no instance does it go beyond 50 per cent. While classificatory adjustments might conceivably put the shares a little higher, the data certainly lend no support to the view that, for sub-Saharan Africa as a whole, industry has been a primary cause of the debt expansion: the sector has not been a heavier borrower than the others. In percentage terms, manufacturing industry ranks third among six sectors explicitly identified, with about one seventh of total debt. In only two countries, Benin and Nigeria, does manufacturing industry rank first among all sectors as a source of debt liability.

Table 17 Manufacturing sector's share of total debt, 1983 (Millions of dollars).

Country	Total debt a/ (1)	Manufacturing debt b/ (2)	(2) as a percentage of (10)
Benin	877.1	440.4	50
Botswana	383.6	-	-
Burkina Faso	653.7	22.2	3
Burundi	527.4	87.1	17
Cameroon	2,591.9	525.4	20
Cape Verde	112.1	.7	1

continued

Table 17 continued

Country	Total debt a/ (1)	Manufacturing debt b/ (2)	(2) as a percentage of (1)
Central African Republic	305.4	.1	0
Chad	243.4	28.5	12
Comoros	154.5	-	-
Congo	1,886.4	154.6	8
Cote d'Ivoire	6.074.5	461.3	8
Djibouti	98.4	5.2	5
Equatorial Guinea	146.2	8.3	6
Ethiopia	1,486.2	221.5	15
Gabon	1.595.2	14.5	1
Gambia	233.3	3.3	1
Ghana	1,405.1	93.7	7
Guinea	1,539.5	186.7	12
Guinea-Bissau	160.6	5.9	4
Kenya	3,784.0	388.7	10
Lesotho	222.3	3.3	1
Liberia	893.4	23.8	3
Madagascar	2,178.1	146.8	7
Malawi	860.3	.6	0
Mali	1,276.0	39.1	3
Mauritania	1.670.4	156.4	9
Mauritius	553.2	23.0	4
Niger	938.9	11.3	1
Nigeria	15,552.7	5.286.8	34
Rwanda	383.8	27.4	7
Senegal	2,106.8	166.9	8
Seychelles	60.8	.2	6
Sierra Leone	459.3	26.9	6
Somalia	1,422.4	296.0	21
Sudan	6,123.4	195.2	3
Swaziland	245.4	36.7	15
Togo	936.9	116.4	12

continued

Table 17

Country	Total debt a/ (1)	Manufacturing debt b/ (2)	(2) as a percentage of (1)
Uganda	1,022.5	159.8	2
United Republic of Tanzania	3,234.5	465.1	14
Zaire	4,704.7	283.2	6
Zambia	3,210.4	321.0	10
Zimbabwe	2,166.6	74.6	3
TOTAL	74,471.2		

Source: World Bank data on sectoral distribution of public debts of African countries south of the Sahara (data as of 25 April 1985), in Industry and Development, No.17, UNIDO.

However it could be argued that the failure of industrial co-operation, and inadequate domestic industrial production, has led to increased import dependence, worsening balance of payments and increased debt. Industry also has to bear a share of the debt of the economy as a whole. The weight of the debt itself is then a major reason why essential input imports cannot be obtained, and production is restricted. The debt service ratios have deteriorated .

The total external debt of SSA, estimated at $90 billion at the end of 1985, is now more than $100 billion. The aggregate ex ante debt servicing coefficient for SSA had reached 42% by 1986, with an average nearer 60% for the 22 countries classified as "debt-distressed". The debt crisis is even worse than the ratios indicate since the gap between obligations and debt service actually paid had risen to $5/6 billion in 1986

for SSA/ACP.

3. Demand Constraints

Evidence is emerging from case studies that the principal source of manufacturing growth for some SSA/ACP countries over the period covered by the Lome Conventions has been the growth of domestic demand. An analysis of sources of growth in manufacturing output for Zimbabwe shows that domestic demand accounted for 61% from 1964/65 to 1978/79, with import substitution at 30%, and export growth 9%. The relative contribution of exports, and import substitution to manufacturing output growth declined significantly to be replaced by domestic demand between 1978/79 and 1982/83, (see Table 18).

Table 18 "Sources" of Growth in Manufacturing Output by sub-sector in Zimbabwe: 1964/65 - 1978/79 and 1978/79 - 1982/83

	Percentage of Total Growth due to:					
	Domestic Demand	Export Growth	Import Sub.	Domestic Demand	Export Growth	Import Sub.
Sub Sectors	1964/65 to 1978/79			1978/79 to 1982/83		
Foodstuffs	75.27	2.52	17.98	104.48	-3.98	-0.51
Beverages and Tobacco	93.46	0.21	6.32	100.55	-1.40	0.85
Textiles	29.59	14.33	56.08	89.20	11.94	-1.13
Clothing and Footwear	68.22	2.20	29.58	108.45	-4.09	-4.36
Wood and Furniture	65.20	7.52	27.28	96.55	2.54	0.91
Paper and Paper Products	65.09	-1.62	36.53	103.76	1.83	-5.58
Chemical and Pharmaceutical Prods.	77.81	0.00	22.19	92.82	0.68	6.49
Non-Metallic Minerals	88.21	-1.55	13.34	94.96	5.95	6.49

continued

Table 15 cont.

Sub Sectors	Percentage of Total Growth due to : Domestic Demand	Export Growth	Import Sub.	Domestic Demand	Export Growth	Import Sub.
	1964/65 to 1978/79			1978/79 to 1982/83		
Metals and Metal Products	50.36	12.93	36.71	113.78	11.64	-25.43
Transport Equip.	111.96	-7.59	-4.37	141.83	-0.38	-41.45
Miscellaneous Manufactured Prods	18.35	13.80	67.85	81.90	3.29	14.81
TOTAL	60.99	9.08	29.93	103.60	2.30	-5.90

Source: R.Riddell 'Industrialisation in SSA - Country Case Study - Zimbabwe', 1988.

Similarly, an analysis of sources of manufacturing growth in Kenya through the period 1964 - 84 found the dominance of the growth of domestic demand in 'explaining' the growth of manufacturing output. More than two-thirds of output growth was due to domestic demand, and more than one-third of total output growth came as a result of increased domestic demand for food, beverages and tobacco products. Import substitution provided just over one-quarter of the sources of domestic output growth, with the two most important contributing sectors being chemicals, rubber and petroleum and, again, food, beverages and tobacco. Finally, export growth of manufacturing contributed only 5% to total growth of manufacturing output between 1964 and 1984.

Tables 16 and 17 summarize for two sub-periods the relative contributions of the ten different sectors to output

growth. The rising importance of food, beverages and tobacco as a source of output growth is evident through the whole period. The effects on the petroleum sector following the oil shocks are shown by the increases in the share of the chemicals rubber and petroleum refining sector in the 1980-84 period.

Import substitution was a negative contribution to growth in the late 1970's, reflecting a relatively rapid rise in aggregate imports. The share of output growth due to import substitution was highest in the early 1980s, and reflects in large part the stringency of import licensing and the generally depressed macro-economic conditions in the early 1980s.

From the viewpoint of the Lome objective of trade promotion the principal disappointing feature is the poor export performance throughout the whole period, particularly if one excludes petroleum exports. However from the mid-1970s onwards an increasing amount of Kenya's exports to neighbouring countries were unrecorded. For all sectors, excluding chemicals, rubber and petroleum, export growth never exceeded 5% of manufacturing growth.

Sectoral analysis shows that because of the dominance of food, beverage and tobacco sector in total manufacturing output, the very low rate of import substitution in that sector (15% of total growth) is the major factor bringing down the overall contribution of import substitution to manufacturing growth in Kenya. The textiles, clothing and leather sector shows the highest share of import substitution as a source of growth (almost 65% over the entire 20 years); followed by

Table 19 Sources of Growth in Manufacturing Output in Nigeria (in current prices) twenty years 1964-84.

Sector	Output Growth	Growth Domestic Demand	Export Growth	Import Substitution
	percent of increase in total output			
Food beverages & tobacco	42.28	34.50	1.30	6.48
Clothing textiles leather consumer goods	49.07	36.74	1.44	10.89
Wood & furniture	2.10	1.61	0.07	0.42
Paper printing publishing	5.04	3.26	0.11	1.68
Building materials intermediate	10.40	7.32	0.70	2.38
Chemicals rubber petroleum	23.71	13.94	2.77	7.01
Metal products	6.73	3.68	0.07	2.98
Machinery	3.89	1.86	0.00	2.03
Transport equipment	5.46	4.94	0.00	0.53
Miscellaneous investment goods	16.81	10.72	0.11	5.99
TOTAL	100.00	68.72	5.01	26.27

Source: T.Sharpley and S.R.Lewis, Kenya's Industrialisation, 1964-1984, I.D.S., 1988.

Table 20 Sources of Growth in Manufacturing Output in Nigeria (in current prices) 1975-80

Sector	Output Growth	Growth Domestic Demand	Export Growth	Import Substitution
	percent of increase in total output			
Food beverages & tobacco	39.97	35.90	2.38	1.68
Clothing textiles leather	8.98	5.89	0.42	2.66
consumer goods	48.95	41.80	2.81	4.35
Wood & furniture	2.81	2.52	0.21	0.07
Paper printing publishing	4.35	3.93	0.14	0.28
Building materials	2.10	2.52	0.42	-0.84
intermediate goods	9.26	8.98	0.77	-0.49
Chemicals rubber petroleum	19.35	22.16	9.12	-11.92
Metal products	8.27	9.54	0.28	-1.54
Machinery	4.91	4.21	0.00	0.70
Transport equipment	9.96	7.43	0.00	2.52
Miscellaneous	-0.70	0.98	0.14	-1.82
investment goods	22.44	22.16	0.42	-0.14
TOTAL	100.00	95.09	13.11	-8.20

Source: [illegible] and S.R.Lewis, op. cit.

Table 21 Sources of Growth in Manufacturing Output in Nigeria (in current prices) 1960-84.

Sector	Output Growth	Growth Domestic Demand	Export Growth	Import Substitution
	percent of increase in total Output			
Food beverages & tobacco	46.24	45.18	1.00	0.06
Clothing textiles leather consumer goods	5.20 51.44	3.57 48.75	0.50 1.50	1.13 1.19
Wood & furniture	1.44	1.38	0.00	0.06
Paper printing publishing	4.76	3.63	-0.06	1.19
Building materials	3.57	2.07	0.44	1.07
Intermediate goods	9.77	7.08	0.38	2.32
Chemicals rubber petroleum	24.06	9.77	-0.25	14.54
Metal products	6.02	3.70	0.06	2.26
Machinery	3.70	1.63	0.00	2.07
Transport equipment	4.45	2.63	0.00	1.82
Miscellaneous	0.56	0.13	0.06	0.36
Investment goods	14.73	8.08	0.13	6.52
TOTAL	100.00	73.68	1.75	24.56

Source: [illegible], op.cit.

miscellaneous manufactures (62%); machinery (52%), metal products (44%), paper, printing and publishing (33%), and chemicals, rubber and petroleum (30%).

On the other hand disaggregation by sector does not improve the picture for exports. The principal contributors to exports as a source of manufacturing growth are refined petroleum products (where there is little smuggling) and the building materials sector, which is basically cement production, and which enjoyed a major cost advantage in providing the Middle East and the Indian Ocean basin with bulk cement from Mombasa. Other than these two sectors, only the small miscellaneous manufacturing sector had more than 4% of its output growth accounted for by exports over the full 20 year period. That this dismal export record is the experience of one of the better industrial performers is cause for concern for other SSA/ACP countries. The reliance on domestic demand for growth of manufacturing has arisen from the excessively restrictve trade regimes - itself a constraint,
However, whatever the causes of this dependence on domestic demand, the collapse of purchasing power has dealt a severe blow to the manufacturing sector.

A fundamental constraint to industrial development is the restricted size of the ACP/SSA markets. Only eight countries reach the critical mass of 10 million plus citizens, establishing a market whose purchasing power remains even then, limited. Fifteen of the ACP/SSA states have a population of approximately 1 million or less.

This fundamental constraint is exacerbated by a number of factors:

(i) the dimension (size of population x purchasing power) is not necessarily what it seems, given the unreliability of statistics;

(ii) lax border control reduces the impact of any protective measures, which can only exert their effect against official imports;

(iii) market fragility lays open the possibility of a substantial fall in consumer demand in the event of an economic downturn;

(iv) insubstantial regional markets, often more theoretical than real, do little to encourage the expansion of national markets (non-tariff barriers, hidden protection, difficulty and cost of transport, monetary problems etc.);

(v) the economic and political power of importers, who enjoy higher margins than the normal industrial margins, acts as a disincentive to the establishment of business activity;

(vi) market dispersion in large but sparcely populated countries reduces correspondingly the size of the available outlets.

The improved producer prices paid to farmers have meant a growing purchasing power, for the rural citizens - the majority of the population - and have had a stimulating effect on demand for consumer goods bought by them as well as for agricultural implements and some intermediate goods needed in the country side. These factors have particularly benefitted small-scale industries located in rural areas whose production is based

domestic inputs and geared to rural markets. However deteriorating terms of trade for primary products have hit purchasing power of some rural populations hard.

4. Over-valued Exchange Rates and Protective Trade Regimes

Over valued exchange rates and highly protected trade regimes have been a widespread phenomenon in the ACP/SSA, creating an inward-looking bias, making capital goods appear cheaper, leading to over capital-intensity in choice of techniques and perpetuated reliance on imported current imports. A spate of devaluations in 1985 and 1986 halted the tendency of African currencies to serious over-valuation and marked a return to more realistic parities. Real effective exchange rates for sub-Saharan Africa as a whole, which appreciated by 46% between 1978 and 1984, fell by 7% in 1985 and almost 20% in 1986. The currency readjustment process got under way in 1982-83 in a handful of the poorest countries, spreading after 1985 to the middle-income countries.

The existing structure of industry in many ACP/SSA countries is heavily influenced by the heritage of highly protected trade regimes. For example the recent study of Kenya's industrialisation in finding the principal source of manufacturing growth over the twenty years was the growth of domestic demand, concluded that a substantial portion of the growth in manufacturing was the result of increasing levels of protection both from tariffs and quantitative restrictions. Average scheduled tariff rates doubled between 1974 and 1984,

and the lower duties on intermediate goods combined with the easier access to import licensing for intermediates encouraged import intensive manufacturing industries. Trade policies and the nature of manufacturing growth were major factors in explaining the macr-economic crisis of the early 1980's. However the reality that exchange rate realignment and trade liberalisation does not provide a quick release from the constraints is clearly illustrated by the recent experience of Zambia. With close co-operation with the IMF and with substantial technical help from the World Bank, price controls and quantitative restrictions on imports were abolished, susbsidies removed from all but one staple product, interest rates raised to yield positive real returns on savings, public sector employment compressed and, after several devaluations, the national currency (kwacha) left to float against the US dollar with its rate set through weekly auctions. The very sharp devaluation of the kwacha produced by the float had given rise to a two-week suspension of auctions early in 1987 which was hesitantly agreed to by the IMF. It patently signalled the difficult nature of the prescribed policies for a debt burdened economy with a dwindling import capacity. President Kaunda's May Day announcement reinstated former controls and administered foreign exchange allocations. The Fund's Lusaka office was closed overnight and the Bank's technical staff drastically curtailed.

The belief that Zambia's difficulties would ease from an expected upturn in the price of its major export - copper -

thus allowing the continuation of the liberalisation with no sacrifice of welfare, proved unfounded. The copper terms of trade are shown in Table 22.

The Zambia case is a stark illustration of the acute hardships faced by a developing mono-product economy adjusting to a hostile external environment. Well over 90% of Zambia's foreign exchange earnings have come from sales of copper and some lead and zinc. Production bottlenecks in Zambia, weak world prices and demand for non-ferrous metals- largely the result of the irreversible substitution of man-made products- the absence of foreign investment, diminishing aid flows in real terms, expensive commercial loans, combined to aggravate the country's external sector constraint.

Action on the exchange rate and trade liberalisation may be a necessary condition for industrial development, clearly it is not a sufficient condition. Hasty policy measures may do more harm than good to industrial development.

Table 22 Zambia's Copper Prices and Derived Ratios

Year/Period	Current price US$/MT	Current price cents/lb	Const. 1982 price Cents/lb	Copper terms of trade (1970-74=100)*
1965-69 av.	1,332	60	195	127
1974	2,059	93	155	101
1970-74 av	1,482	67	154	100
1975-79 av	1,459	66	83	54
1980-84 av	1,675	76	74	51
1985	1,417	64	61	43
1986	1,373	62	(51)	(40)
1987 (II)	1,546	69	(60)	(44)

Note* Current price index deflated by the CIF value index of industrial countries' exports to developing countries.
Source: G.Karmiloff, Industrialisation in SSA-Zambia, London, 1988.

The ACP/SSA States situated within the franc currency area, are relatively well placed as regards foreign exchange, but others are afflicted by a structural trade deficit and, consequently, are burdened by foreign exchange problems. This situation has two main consequences:

(i) import restrictions which paralyse local undertakings by depriving them of necessary production inputs or equipment and spare parts, leading to capacity under-utilisation;

(ii) a bias towards export-orientated projects (which tend to be few in number) that are not geared to the local market, thus considerably restricting the scope for co-operation.

5. High Factor Cost

Contrary to what is often imagined, production costs are not necessarily lower in the ACP/SSA States, given:

(i) the shortage of skilled manpower in production (middle rank supervisors, foremen and skilled workers) and in management (accounts), a fact not unconnected with the cultural and social environment;

(ii) The low labour productivity in relation to wages which, whilst apparently modest, are in fact kept up by the fixing of minimum thresholds;

(iii) the volume of "extra-contractual costs" resulting from other constraints (delays, procedures, requirements, etc.) which are reflected in non-recoverable costs;

(iv) the higher cost or inadequate quality (amounting ultimately to the same thing) of the local inputs which firms are sometimes obliged to buy in place of imported inputs.

6. Poor Public Enterprise Performance

It is argued that in many ACP/SSA countries there has been a bias in favour of state ownership, especially of large, capital intensive projects which may have been unviable or, even when viable, were burdened with political interference, poor staffing, price controls, "social" objectives, etc. and were bailed out by massive subsidies when they made losses. Together with this went policies unfavourable to foreign direct investment, local private investment, and small scale industry. The cost increases many of the public enterprises have had to accept have increased their operating losses, while the squeeze on state budgets has made it impossible for many Governments to continue their subsidies, or to extend greater credit to parastatal companies to enable them to maintain output while restructuring their operations. As a consequence, a number of Public Enterprises have had to close; others in better financial shape or operating in more attractive markets have been sold off to the private (often foreign) sector. This has augmented unemployment since many of these, in principle capital-intensive enterprises, are judged by their new owners to be overstaffed, having followed employment generation policy (often including elements of manpower localization) under government guidance.

The resources available to the public sector from mining and agriculture, the traditional sources for investment have been drastically reduced. Even in the best of years, the low level of development in any sector of the economy forced the African States, as the major entrepreneurs, to rely on foreign financial and material resources. The State has been crucial in decisions regarding the role of foreign investment in domestic manufacturing; the State acted as buyer not only for certain basic industrial commodities but also for many intermediates.

Recent UNIDO analyses of the share of the public sector in manufacturing investment, value added, output and employment for those African countries for which reliable data could be obtained, permits a few tentative generalizations. First, the emphasis on the public sector non-ACP/SSA, Algeria, Egypt and Somalia comes through strongly. Secondly, those countries of sub-Saharan Africa that are shown, while frequently cited as striking examples fo state involvement, do not in fact exhibit such high proportions - for example, none of the figures for the United Republic of Tanzania reaches 50 per cent. Thirdly, there is some indication that investment shares exceed output shares. This may be explained in part by the tendency (and indeed necessity) for the public sector to become involved in activities where the incremental capital output ratio is significantly above the average, in part by investment outrunning output, and in part by low utilization of installed capacity.

Table 23 Share of Public Sector in Manufacturing Investment, Value Added, Output and Employment (latest available year)

Percentage share	Investment	Value added	Output	Employment
80-89	Egypt (81.4)	Algeria (84.9)	Somalia (85.1)	Algeria (81.0)
70-79	Somalia (79.9)		Algeria (79.1)	Egypt (70.0)
60-69	Zambia (64.0)	Egypt (66.7)		Somalia (65.3)
50-59	Tunisia (53.7)	Zambia (51.0)		
40-49				United Republic of Tanzania (47.3)
30-39	United Republic of Tanzania (39.0)	United Republic of Tanzania (33.6)	Ghana (32.9)	Zambia (42.5)
	Morocco (34.8)			
20-29		Senegal (21.1)		
10-19	Cote d'Ivoire (19.3)			
	Nigeria (17.7)			

Source: UNIDO

7. Inadequate "Industrial Capabilities".

The installation, operating and expansion of industrial facilities requires specialized skills and capabilities. These skills and capabilities vary widely by country and include entrepreneurial response and capabilities, investment capabilities, and operational capabilities, the efficiency with which similar facilities are operated under similar market conditions and external constraints differ in terms of productivity, quality,

raw material, usage, intensity of operation etc. Various managerial and organisational skills also differ, for example in managing, marketing, raising finance, recruiting workers etc.

Dividing industrial capabilities into three categories of entrepreneurship, management and technology, the ACP/SSA countries suffer from limitations in each. The surveys undertaken by the EC into industrial co-operation with ACP concluded:

Absence of genuine local entrepreneurs

Co-investment, the most common form of industrial co-operation, by definition assumes the presence of at least two parties, one from the North and the other from the host country. Unfortunately, industrial partners are rare in the ACP countries and many ideas for projects come to nothing owing to the absence of reasonably competent promoters with a real interest in industrial development.

Absence of industrial fabric

This industrial "fabric", meaning the whole range of upstream and downstream business enterprises and the availability of various facilities, to which businessmen have ready access in the developed countries, is lacking: e.g. basic infrastructure; difficulty, high cost and unreliability of communications (transport, ports and telecommunications); maintenance and repair services; subcontractors; industrial supplies of all sorts; information, etc. This structural deficiency, inherent in less-developed countries, is felt all the more severely since import restrictions shut off other solutions, and even these would inevitably be expensive.

These factors account for a number of initiative-inhibiting measures or actions which European businessmen regard as political institutional, administrative or legal constraints, including:

1. Failure to honour commitments

European firms criticise host countries for their inability to provide stable conditions within which to set up a business. A firm can get used to strict rules provided that those rules are predictable and reliable and do not change in the course of the operation being undertaken.

Apart from individual cases (business losses, closure of undertakings, failure of projects), the most serious long-term effect is the loss of confidence of investors. The investment climate, to which businessmen attach supreme importance, is adversely affected and the damage which is quickly done can be repaired only slowly.

2. Restrictions on employment of expatriate staff

These restrictions take various forms: quantitative restrictions fixed in absolute terms or as a percentage of the total number of employees per undertaking, restrictions concerning salary transfers (shortage of foreign exchange), complex procedures for obtaining exit visas or the treatment of heads of firms as mere company representatives. To this list must be added the lengthy delays resulting from the various cumbersome procedures.

For many investors the problem is a major one, which is not properly appreciated by the host countries.

3. Restrictions on foreign capital remuneration

Even when foreign capital is welcomed, the ACP States sometimes ~~obviously~~ try to limit the export of foreign exchange, either by fixing maximum rates of remuneration, taxing transfers progressively, manipulating exchange rates or, in some cases, limiting maximum transfers to the amount of capital invested plus a dividend fixed by the government.

In addition, transfers that are officially authorized are blocked in practice in certain countries through the lack of foreign exchange.

4. Protectionist measures

Measures to encourage local production by limiting imports may be justified temporarily in order to enable a new industry to establish itself but can often lead to the featherbedding of uncompetitive industries. Unjustified protectionism may penalize local industries by depriving them of foreign supplies of raw materials or equipment or else by obliging them to use local inputs that are unsuitable or of inadequate quality, with the result that their activities, their sales and, consequently, their results are placed in jeopardy.

5. Restrictions due to economic policy

Restrictions of this type take different forms and have varying degrees of impact on the firms whose freedom of action they limit. They consist chiefly of geographical constraints imposed by the national development plan (firms required to set up business in areas of political priority but little economic interest or a ban on the establishment of businesses

in particular areas, often the most attractive) or restrictions affecting sectors (foreign concerns obliged to forgo the most attractive opportunities).

Foreign enterprises in all cases find themselves directed to places or sectors which they regard as not meeting their minimum criteria. The potential foreign investor will obviously draw the appropriate conclusions and not become involved.

6. Nationalizations or expropriations

These are not felt to be a serious risk by the firms thinking of setting up business in the ACP States. There was little recourse to such measures in the ACP States following independence except in the case of mining and plantations, virtually no action being taken against manufacturing industries, (except by Zaire).

Investors do attach great importance to the concept of guarantees against non-commercial risks and the unconvincing nature of the previous Lome Conventions in this connection has impeded EEC-ACP industrial co-operation.

9. Institutional, Administrative and Legal Constraints

These constraints result from the political context the debate between the supporters and opponents of a foreign economic presence, the low priority accorded to industry and the inevitable imperfections of young institutions, administrations and managerial and supervisory staff that are still in some cases inexperienced or insufficiently aware of industrial

realities.

1. Institutional constraints

Two cases should be mentioned:

(i) the insufficient transparency of institutions within which the undertaking wishing to set up a co-operative venture has to find a suitable party or parties with which to deal causes slowness and discouragement. The establishment of a "single window" (a body to centralize all procedures) could help to resolve this problem;

(ii) the unpredictability of legal and tax measures is greatly disliked by businessmen, who are willing to accept restrictions clearly defined in advance but object to coping with a lack of continuity.

2. Administrative and legal constraints

In the sphere of industrial co-operation, these constraints take the form of extra costs (non-contractual) and management problems.

10. Social and Cultural Constraints

These constraints are hard to come to grips with, can be overcome only in the long term and offer little or no scope for negotiation, but they are one of the problems which a business has to resolve, necessarily involving extra-contractual costs that are difficult to predict and bringing the risk of a larger number of failures.

1. Confusion between industrial co-operation and technical assistance.

2. Short-term vision
3. Misconception of industrial reality
4. Mistrust of intangible contributions by the foreign partner
5. Preference for prestige projects

11. Identification of the Major Constraints to ACP/EC Industrial Co-operation in the Survey of European Firms

The major constraints to industrial co-operation from the European viewpoint were ( ):

a. The prime obstacle is the lack of information - details of the general economic framework right through to the most sophisticated technical issues.

b. Manpower shortage - there has to be enough qualified staff to study the situation, produce dossiers and, above all, set up production. At this final stage, someone has to live on the spot, leave his firm and even face a whole range of personal problems such as tax status, maintenance of social security and conditions of family life. Without the right status and enough guarantees, an increasing number of qualified managers are refusing to agree to expatriation - which often also means harder work than in Europe and doing such things as training local staff, too.

c. Financing problems - public financing institutions which the private sector says are short on means, slow and formal in their procedures, geared to big firms and full of red tape. The trading banks are said to have high lending

rates, dislike non-material operations (the transfer of know-how, for example), and tend to rely on a public institution, one of the consequences of which is that local development banks then intervene, apparently creating difficulties. There are also complaints about lines of credit. These, it would appear, often help sectors other than industry and are used without consulting the businessmen concerned...

It is hard to find a source of financing for some components of an industrial investment, particularly preparatory studies and equipment.

d. Miscellaneous problems - for guarantees and insurances, the European businessmen want to see any commitments the European partner made in an industrial co-operation contract covered by a collective private investment guarantee system involving a broad definition of the "non-commercial risks" and aimed at a wide audience. Only 10-15% of international investments are insured because the big firms often provide their own cover and because the present premiums are too high, as well as being at a flat rate (instead of scaled according to risk and host country). Bilateral systems already exist and they need adding to.

- Intellectual property rights were ill-defined and badly protected in industry - and this applied to the technology, the know-how and professional techniques. The most affected are the SMEs.
- Training: European businessmen who negotiate with their opposite numbers in the developing countries have noticed a remarkable change over the past 15 years in the know-how

and ability of the people they are negotiating with. But there has been no equivalent improvement in the European staff sent overseas, and staff in European firms would like to be taught to shoulder responsibility in the Third World. They want advanced classes on the economic environment in the developing countries, on recent experience of industrial co-operation, and on the particular conditions of industrial activity in the developing world. Local staff and technicians also need specific industrial training which the European businessmen would prefer to see offered locally, possibly on an in-service basis.

12 Identification of the Constraints at Sub-Sector Level

Analysis of the sub-sector level reveals even more dramatically the severe problems facing ACP/SSA industrial development. The following is based on the study of 343 enterprises in SSA ( ):

a) The dairy sector - The small dairies of Zimbabwe, Rwanda and Kenya, which are working properly, account for almost half the sample, but, in fact, throughout the rest of Africa, the sector is hampered by poor milk supplies. The problem is a substantial one, as the local breeds produce mediocre milk and the dairy breeds do not adapt on a lasting basis. So most of the plants use reconstituted milks. This is considered to be only a temporary solution, but it has proved risky and unprofitable. All the products (powder,butteroil,sugar) are imported and

they are fragile and therefore pose delicate problems of storage and transport to the place of production. In addition to this, milk reconstitution is highly energy intensive.

A further problem in this sector is the narrowness of the market. The consumer centres are spread over a wide area and communications are poor or non-existent. Rwanda, for example, has good production, but cannot develop it because it is unable to export to the neighbouring countries.

Thirdly, the dairies are sophisticated factories using precision technology. One of the problems is the poor quality of the finished products, which hinders marketing.

However, although involvement by large western firms (Nestlé, in particular, and France Lait) can attenuate this problem, it cannot guarantee the proper functioning of plants by itself. The difficulties encountered in this sector arise more from demands that are usually more political than economic in origin than from any lack of competence. Many countries have in fact demanded to have a dairy industry established locally to ensure local productions at all costs, often with support from international health organizations. The western industrialists have responded in order to "get their foot in the door" of a possible base for the regional distribution of other products (as Nestle has done in Dakar).

b) The timber sector, in spite of what seems to be a relatively satisfactory performance (12 out of 33 processing units working to capacity), is in fact doing badly.

Wood processing (sawing, veneering and peeling) only occurs, essentially, in five countries of Africa - Cameroon, Congo, Gabon and Ivory Coast, all of which are in the sample, and Liberia, which is not.

The fact that Africa, which exports ¾ of its output as roundwood, is even partly under-utilizing what are extremely inadequate processing capacities compared to existing potential reflects a profound malaise. The internal market is certainly not large, in particular because there are no real regional markets and some investments are only amortizable on a large-scale. The laminate plants in Ivory Coast are too large for the present market and have to close periodically as they have no orders. However, there is a good export market, in Europe mainly - 75% of Europe's imported sawn wood comes from Asia, as against only 15% from Africa (but for roundwood the figures are 96% for Africa and 3% for Asia). Although the (20% approximately) price difference between the countries of Asia and Africa was justification for this in the 70's, the gap is closing (5% approximately).

c) Maybe the only really healthy sector is brewing and lemonade making. However, the survey reveals that the situations is sound in only slightly more than half the units - and the sample includes the units of three

countries (Mozambique, Nigeria, where new projects are being run, and Zimbabwe) which have systematic import restrictions in all sectors.

Breweries seem to have relative advantages - reliable local markets, considerable involvement (if not control) by big western brewers (BGI and the Artois group in particular) and, above all, substantial government help, especially with import licences. Breweries are a major source of indirect tax earnings and so the States are particularly interested in seeing that they work properly.

d) The cement sector is often considered to be one of the keys to development and economic independence and it has attracted major internationally-financed investments.

Overall, the situation is a serious one, as 10 units have stopped and nearly 30 are under-producing on a permanent or sporadic basis, (see Table 24).

On the continent as in most of the individual countries, the production capacity is far too large for present requirements. The two main causes of difficulty in this sector come from:

- bad location which creates problems bringing in the raw materials and taking the products out (as in Nigeria, Madagascar and Mozambique) or inadequate energy supplies (as in Mozambique, Togo and Madagascar):
- competition from imported products, which are often cheaper and sometimes better than those produced locally.

Table 24 Key Figures in the Cement Sector in Africa

1983 000 tonnes

Country	Consumption	Imports	Production	Production Capacity	Utilisation of Production Capacity
Angola	320	20	300	1,000	30%
Benin	255	80	255	450	56%
Cameroon	540	530	528	1,000	53%
Congo	180	150	0*	100	0%
Ivory Coast	660	710	800 (clinkers)	1,900	42%
Ethiopia	230	80	150	170->310	90%
Gabon	200	15	183	420	43%
Ghana	280	190	276	1,400	20%
Guinea	90	90	0*	250	0%
Kenya	510	50	1,181	1,850	68%
Liberia	80	95	85	200	42%
Mali	150*	150	25	35	71%
Mozambique	310	?	420	990	42%
Niger	175	150	25	35	71%
Nigeria	6,670	3,670	3,600*	5,350	67%
Uganda	50	50		400	?
Senegal	380	-	400	400	100%
Sierra Leone	70	60	54(1)	120	45%
Somalia	160	160	0	(180)	under construction)
Sudan	270	120	151	510	30%
Tanzania	450	40	420	1,350	31%
Togo	200	10	232(2)	1,230	19%
Zaire	380	-	507	1,000	51%
Zambia	310	-	343	700	49%
Zimbabwe	570	-	580	710	82%

Source: G.Egnell (1985)

e) Paper pulp is produced by only eight countries of Africa and paper by 12 (see Table 25)

The global capacity of each country suggests that, in most cases, paper pulp production is satisfactory. The exception is Cellulam, which has stopped operation. paper production, however, has bigger problems to contend with, as capacity in the majority of producer countries is being used to less than ⅔ and sometimes less than 50% of potential (Angola, Madagascar, Mozambique and Zaire). Only two countries (Nigeria and Sudan) are producing to capacity.

But these global figures mask a situation that is not reflected in the official statistics - units that have been started and even completed but never been put into operation. The financial burden of schemes of this kind is considerable. The cellulose-paper sector alone has at least four integrated projects of this sort (in Angola, Gabon and Nigeria).

The market, as in the cement sector, is not the sole culprit. Although it is very narrow (per capita consumption varies between 0.1 and 4 kg p.a.), it represents a volume of national consumption that is always in excess of the volume of production (except in the case of Kenya, which exports) turned out by units that are not working to capacity. Assuming constant consumption, some countries - Angola, Madagascar, Cameroon and Zimbabwe, for example - ought to be able to stop their imports

Table 25 Key Figures in the Cellulose-Paper Sector in Africa

'000 tonnes

	Pulp		Paper	
Country	Capacity	% utilized	Capacity	% utilized
Angola	45,000	75%	30,000	50%
Cameroon	120,000	0%	-	-
Ethiopia	-	-	8,000	63%
Kenya	60,000	86%	80,000	84%
Madagascar	10,500	66%	28,000	50%
Mozambique	10,000	?	10,000	30%
Nigeria	?	?	14,000	86%
Uganda	-	-	5,000	60%
Sudan	-	-	10,000	100%
Tanzania	-	-	4,000	75%
Zaire	-	-	3,000	33%
Zambia	14,000	70%	16,000	63%
Zimbabwe	35,000	86%	75,000	73%

Source: G.Egnell (1985)

entirely, and even export, and others could cut them drastically.

Over and above the problems of poor project specifications, poor financial arrangements, a defective environment (water and energy) and insecurity, the weakness in this sector is maintenance. Paper mills demand considerable technical skill and they use a lot of spare parts. The plants that work well are those that have plenty of logistical back-up from international companies (La Rechette Cenpa and Parsons and Whittemore, for example).

f) The majority of Africa's textile units are healthy, even though only 2 units out of 50 work properly. In most cases, the installations are in a decent state of repair and management is sound - thanks, often, to technical assistance from the west (Schaeffer, for example). Certainly, however, there are examples of the opposite - Ibetex (Benin), operating without a certain market, had losses that were greater than turnover in 1983 and Togotex (Togo), although completed, has never gone into operation as it has no orders.

The problems of almost all the units in this sector in fact arise from the partial collapse of the (domestic and external) market. National incomes drop, Nigeria, the main consumer, has closed its frontiers amd there is a downturn on the western markets. The decline in African textile production, which began in Ivory Coast three years

ago is now reaching other countries - Benin and Cameroon, for example.

The textile sector is also very sensitive to the import restrictions attendant on the foreign exchange shortage. In Nigeria, to take but one example, ⅓ of the factories have had to close down and others are running at less than 40% capacity now that the import licences are restricted (only 30% of needs are now authoirzed). The sector, including the making-up of garments, now provides only 80,000 jobs, as against 200,000 in 1978.

g) Sugar refining and processing brings us to food and agricultural industries aimed at capitalizing on agricultural production locally.

In cases of under-production, it is often difficult to decide what is due to the agricultural sector and what to the processing industries proper ...unless, of course, the problem is one of co-ordination between production on the farm and processing in the factory.

Of the 32 sugar factories in the sample, 20 are not up to capacity and eight have stopped altogether.

In this sector, the installations are more or less systematically oversized, which Somidaa, one of the main western companies involved in Africa, justifies by pointing to the long -term savings accruing from building units today to meet demands 10 years hence. There is however no dispute about the crisis in the Ivory Coast's sugar plants -

two have closed and are due to be converted and three of the other four opened in 1978 are functioning well below capacity, although normal operation was scheduled for 1980-81. Rehabilitation studies are currently being run on the whole sector.

h) The oils and fats sector is doing even less well. Only one out of 50 units is operating properly and 16 have stopped altogether. The problem of agricultural supplies is of prime importance here. Many consecutive years of drought have set the groundnut and palm plantations back, so rehabilitation of the sector will inevitably involve rehabilitating the plantations too.

Chapter 5

Industrial Co-operation - An Agenda for Lome 4

The disappointing record of industrial development in ACP/SSA as outlined in ~~section~~ Chapter 3, and the severe constraints limiting industrial development detailed in ~~section~~ Chapter 4, provide the framework for drawing up an agenda for renegotiation of Lome 4. Many of the issues are depressingly familiar. This is due in part to the nature of the complex and long term process of industrialisation, and also in part due to the rolling basis of the Lome planning process. At any given time there exist national differences in the quantity and quality of capabilities which affect the success of industrial development. However, the record of African industrialisation may be seen as the result of the interaction between exogenous shocks, government policies, and industrial capabilities.

These key features have applied under Lome 1,2 and 3, and remain as the basis for renegotiation of Lome 4.

1. Selecting a Strategy for ACP/SSA Industrialisation

It is argued that the record of industrialisation in ACP/SSA indicates the absence of a 'strategy' - the reality has been an ad hoc, piece-meal approach. Although there is a separate chapter on Industrial Development in Lome 3, there are grounds for concern that a clear, consistent strategy for industrialisation has yet to emerge, and this remains a challenge for renegotiation of Lome 4.

The following possible options for an industrial strategy may be considered:

i) An Intermediate Action Programme for Rehabilitation

There is a concensus that the functioning of existing industrial units throughout Africa is alarmingly bad. The survey of 343 firms is clear evidence of industrial decay, and there is strong pressures to afford priority to rehabilitation. Such a programme would require identification of three broad categories of enterprises:

(a) there is a group of activities which are already efficient, in the sense of being export-oriented or having capabilities to enter world markets given incentives via price signals;

(b) there is a group of activities which are operating inefficiently because of a legacy of poor industrial capabilities, inadequate infrastructure, public policies etc. These could become efficient with upgrading and policy changes.

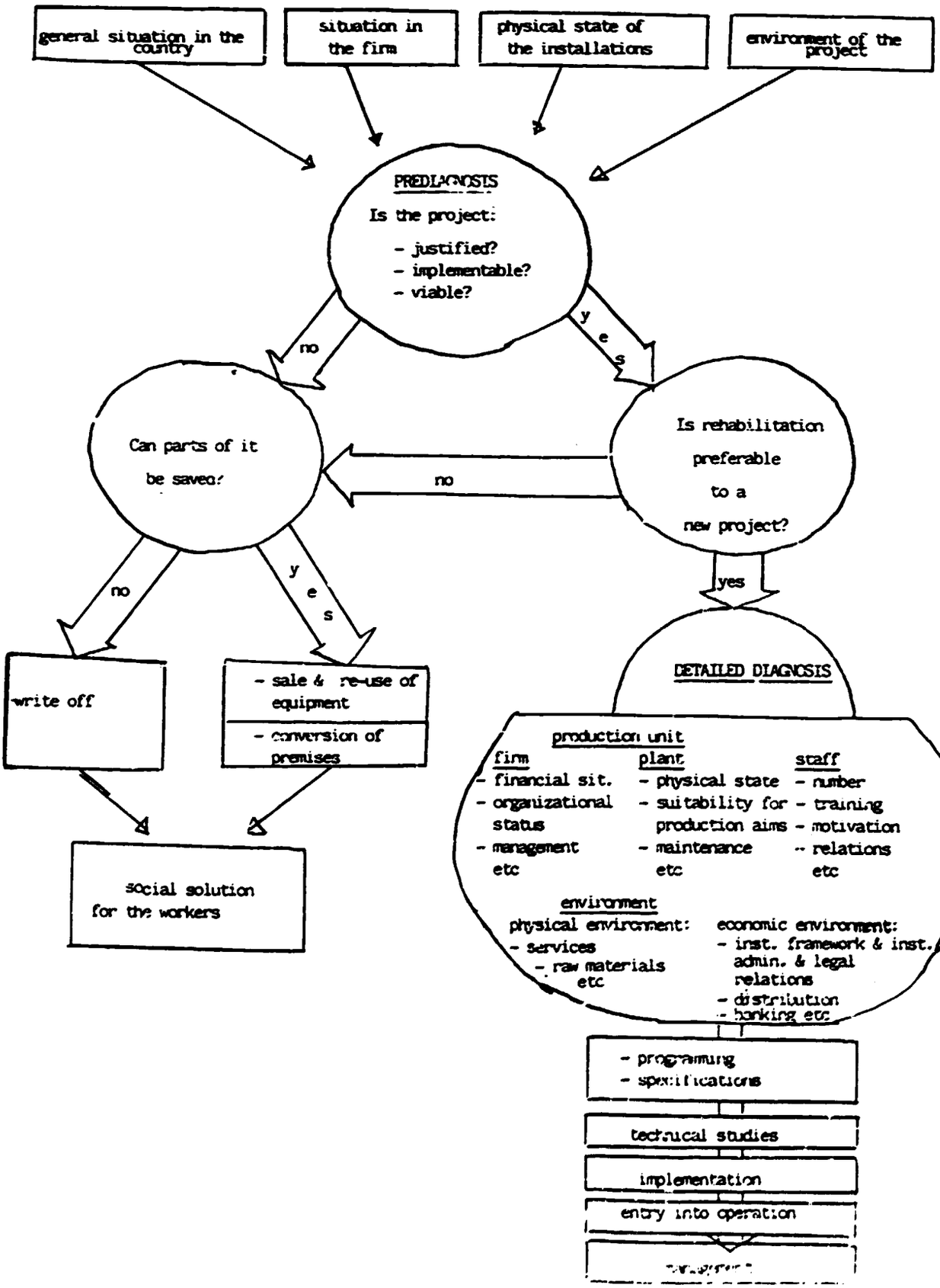
(c) There is a group of 'hopeless cases'. These enterprises cannot be salvaged economically and should be written off.

A procedure for undertaking a rehabilitation operation is shown in figure 3 . However, drawing up such an inventory would not be without its problems. The content of rehabilitation measures is not clear. There is also a danger that concentration on rehabilitation would be at the expense of resources allocated to 'new' projects. There are many ACP/SSA countries with little or no industrialisation, and therefore no rehabilitation problems, but would they receive adequate resources to build-up an industrial base? How can rehabilitation of different activities be linked so that system improvements can be made? Furthermore, rehabilitation by itself, is not sufficient. One has to deal with the causes which led to the problem situation. Sometimes it will be rules and regulations which have to be questioned. As regards the undertaking itself, stress must be placed on two major aspects, namely maintenance (upkeep and depreciation) and management (accounting, forecasting etc.).

ii) Import Substitution

This has been part of the industrialisation process of most ACP/SSA countries. Some of the industries created are well suited to the size of the local markets and are economically justified (e.g. cotton, beer-making and soft drinks. footwear and plastic goods), others

Figure 3 Standard Outline of a Rehabilitaion Operation



are out of proportion to the available markets and have been built up on the basis of tax and tariff incentives (investment and import concessions, high protection against competing imports) and are thus of little economic benefit to the country. They have frequently proved to be non-profitable, creating a substantial burden for the national economy. They have aggravated foreign indebtedness and produced a situation of greater dependence; the dependence of substitution industries on imported inputs creates a recurrent problem of foreign exchange, the problem being exacerbated by the structural decline of commodity exports, notably agricultural products. Given the limited size and slow growth of domestic markets and the absence of progress towards regional integration, development of import substitution industries have little scope. There may be a case for selective import substitution on a case by case basis.

iii) Processing of Local Resources for Export

Examples of this strategy include manufacture of(cocoa butter, cotton-ginning, sawing of timber and veneer peeling, processing of fishery products, concentration of mineral ores, refining of non-ferrous metals etc), some undertakings are viable whereas others (e.g. Cote d'Ivoire's sugar industry) have proved incapable of competing on world markets. Prospects for this strategy are hampered by recession in world markets, resource-saving technological innovations, problems

of market access and emergence of new competitors for industrialised and developing countries.

One possibility is that Africa could take up some market segments as they are vacated by other developing countries moving into new products. Alternatively, Africa could generate competitive advantages which would allow some countries of the region to capture shares from other developing country sellers. Though it is unclear to what extent market shifting by established exporters is in fact taking place, the capacity of Africa to develop a competitive edge certainly could not be developed quickly. The slow growth of internal markets does not provide much base for cutting costs by using large-scale production. This implies that export-oriented output would most probably have to be geared explicitly towards external markets. Since African countries (even the most industrialized of them) are exceptionally weak, any export drive would also have to rely heavily on the production and marketing command of transnational corporations - at least for some time. Empirical analysis also casts doubt on the potential for attracting foreign investment through incentive schemes, and by generalised liberalisation policies, (UNIDO, 1986).

* INSERT p 99(b) →

iv) Heavy Industries and Manufacture of Capital Goods

Prospects for heavy industry and manufacture of capital goods are limited by ACP/SSA market size.

INSERT

* The pessimistic view of exports should not be exaggerated. The recent case study of industrialisation in Kenya concluded

" there are considerable opportunities for changing the structure of incentives in ways that would be expansionary in their impact on manufacturing and would improve the efficiency of manufacturing, thus contributing to the growth of output and reducing the drain that manufacturing presently represents on the rest of the economy and on the balance of payments....A restructuring of incentives is needed to encourage exporters of manufactured goods by reducing the heavy penalty they now face. This means a compensated devaluation or continued depreciation of the Kenya shilling while at the same time reducing tariffs for almost all categories of imports." (Source: J. Sharpley and S.R. Lewis).

An export based industrialisation strategy may be feasible for a limited number of ACP/SSA countries.

financial and technical requirements, and the constraints of international competition. Opportunities for expansion may exist in a limited number of larger countries, for certain products, especially given regional integration.

v) Sub-contracting

There have been some successful cases of this strategy, for example the growth of textiles in Mauritius, but most ACP/SSA countries do not have abundent cheap productive labour to attract all or part of a manufacturing process to locate.

vi) Self-Reliant Development Strategy for Industry

This strategy received significant support both from the studies undertaken by the EC on African industrialisation, and by a large number of European and African personalities convened by the then Commissioner Pisani to discuss strategy. It is suggested that a new strategy towards industrialisation would result from a different conception of development, namely one of endogenous development based primarily on strategies of self-reliant integrated development concentrated chiefly on rural communities, agriculture and food self-sufficiency.

The priority to be given in this context to small-scale domestic undertakings (including the informal sector) is stressed.

This strategy includes an industrial component which

> will accompany rural development instead of trying to precede it. It gives a new dimension and a new roles to industrialization which would be based on local needs and resources, and the domestic or regional market, on self-sufficiency rather than on exports, and would as a matter of priority be directed towards overall development in an integrated fashion in contrast with the externally oriented ad hoc approach which has prevailed until now.

Self-reliant development and industrialization - not the same thing as a situation of autarky, would make it possible to make a break with the logic of excessive adherence to the international division of labour. Such logic means that the advantage always lies with the dominant countries and social classes associated with them. Self-reliant development, however, implying as it does greater autonomy of productive systems, places emphasis on the essential needs of the population, domestic markets and internal accumulation.

Self-reliant industrialization will help significantly to:

i) increase production of goods and services meeting essential requirements;

ii) increase employment and ensure a broader income distribution;

iii) multiply intersectoral links furthering self-reliance;

iv) develop local sources of saving to replace as far as possible external financing;

v) develop human resources (manpower, management, training, research and innovation, technological adaption, spirit of enterprise, etc.) as a means towards progressive, generalized mastery of modern technology.

The slow pace of agricultural development and the lack of customers for manufactured products among the rural population are major factors blocking industrialization in the ACP States. Priority must therefore be given to:

1) increasing rural productivity so as to obtain a larger surplus;

2) leaving the rural population a larger share of that surplus so as to create purchasing power to be used on agricultural inputs and consumer goods manufactured in the country.

Industrialization, in this context, should no longer therefore be viewed in isolation as it has been hitherto - an approach which has inevitably led to failure and real doubts as to the proclaimed priority of such industrialization - but integrated within a process of comprehensive development in which the rural population and agriculture provide the motive force.

Within this new strategy, three directions of industrialization could warrant special attention:

a) Supply of agricultural inputs

If peasant farmers acquire the necessary motivation and aspire to greater productivity, if access to credit and technical expertise is assured and if inputs are made available (distribution

and marketing), consideration must be given to producing such inputs as far as possible locally. It becomes necessary to link up the two problems of how to modernize agricultural production systems and industrialization with a view to producing inputs - something that so far has rarely been done. In practical terms, this involves a certain amount of equipment and products: equipment for cultivation, irrigation, transport, storage, first-stage processing, fertilizers and pesticides, animal feed, etc.

Potentially, the market is huge, if only because the point of departure is excessively low. The key problem is to render the market effective; this must be the aim of agricultural and pricing policies, but also of institutional and administrative adjustment measures.

b) Product processing

Clearly, products must be processed and adapted to the needs and tastes of the urban consumer. There are obstacles to such adaption:

i) the weakness of applied research in this sector;

ii) competition from products imported from the industrialized countries;

iii) food aid.

However, there is scope for industrialization in many different areas; milling of various sorts of flour, beverages, biscuits and bread-making, ready-to-use traditional food products, canning, etc. Outlets in addition to exporting to the industrialized countries are a possibility.

c) Other requirements of the rural population

The few surveys undertaken among rural communities to discover which needs are currently greatest and least satisfactorily met show that the most urgent demand would be for a range of products or services which could provide outlets (production, maintenance) for local industries:

lighting: hurricane lamps, acetylene lamps, other forms of lighting, etc.

supply of clean water: hand pumps and other equipment;

housing construction: materials, ironwork;

all manufactured goods already available to rural dwellers (textiles, household utensils, bicyles and mopeds, radios, etc.) for which the potential demand is very high.

Commitment to this Self-Reliant strategy would necessitate incorporation of appropriate objectives and instruments in Lome 4. There is a danger that the strategy could result in a delinking process between manufacturing units in ACP/SSA and the EC, even from the limited contact so hard fought to establish - for example in export promotion and import substitution activities in the 'modern' urban sector. Furthermore, Lome 3 marked a new recognition by both parties of the need to encourage private investment. The question must be raised whether EC firms would become involved in a self-reliance strategy given the narrow profit-margins for satisfying low-income rural-dweller markets, and the gulf in technology and marketing which would exist, at least in the short term until adaptations were made.

Furthermore, evidence for some countries which shows that domestic demand has already been the overwhelmingly important source of growth for manufacturing output, and when set against the dismal sector performance, must raise doubts whether further reliance on domestic markets would lead to any significant growth in the near future.

2. Industrial Strategy, Structural Adjustment, and Policy Dialogue

Which ever strategy is adopted, but especially if the self-reliant approach is emphasised in Lome 4, there is a strong case for ACP/EEC to be more involved in the debate over the macro-environment and structural adjustment while recognising the defacto lead of the IMF and World Bank. As of October 1987, out of 21 countries which had agreed Structural Adjustment Facility Arrangements with the IMF/World Bank, 16 countries were ACP/SSA, (see Table 26).

A major innovation of the SAF is the requirement that a comprehensive three-year policy framework paper (PFP) be prepared by the national authorities, with the joint assistance of the staffs of the World Bank and the Fund. The PFP sets out the macroeconomic and structural policy objectives of the authorities for the ensuing three-year period, the policy strategy and measures that will be employed, and estimates of the financing requirements associated with the adjustment program. The paper identifies, in particular, the principal macroeconomic and structural impediments to a better growth and external payments performance. It also generally describes and assesses the

Table 26 Structural adjustment facility arrangements, as of October 31, 1987

	Date of three-year arrangement	Amount committed	Amount disbursed
Bangladesh	Feb.6, 1987	182.6	57.5
Bolivia	Dec.15,1986	57.6	18.1
Burundi	Aug.8, 1986	27.1	8.5
Central African Republic	June 1,1987	19.3	6.1
Chad	Oct.30,1987	19.4	6.1
Dominica	Nov.26,1986	2.5	2.0
Gambia, The	Sep.17,1986	10.9	3.4
Guinea	July29,1987	36.8	11.6
Guinea-Bissau	Oct.14,1987	4.8	1.5
Haiti	Dec.17,1986	28.0	8.8
Madagascar	Aug.31,1987	42.2	13.3
Mauritania	Sep.22,1986	21.6	6.8
Mozambique	June 8,1987	38.7	12.2
Nepal	Oct.14,1987	23.7	7.5
Niger	Nov.17,1986	21.4	6.7
Senegal	Nov.10,1986	54.0	42.6[1]
Sierra Leone	Nov.14,1986	36.8	11.6
Somalia	June29,1987	28.1	8.8
Tanzania	Oct.30,1987	67.9	21.4
Uganda	June15,1987	63.2	19.9
Zaire	May 15,1987	184.8	58.2
TOTAL		971.3	332.7

Source: International Monetary Fund.

[1]includes amounts disbursed under second-year arrangement.

public investment program and discusses financing requirements and, to the extent that information is available, the role of the major aid agencies. Finally it analyzes the social implications of the program and describes the steps being taken by the authorities to ameloriate the possible adverse short-term impact of the adjustment measures on vulnerable groups within the society. PFPs have evolved in the 20 months of operation of the SAF and are increasingly incorporating long-term development issues.

Industrial policy measures featured in a majority of structural reform efforts, primarily to improve the environment for industrial investment, in general, and production of tradables, in particular. Measures to eliminate institutional or regulatory barriers to growth have included, for example, the elimination of labour codes that acted as disincentives to new employment, reduction of quantitative restrictions on imported inputs, and streamlining of investment approval procedures.

The EC/ACP have not been directly involved in the formulation or financing of SAP's in SSA, altough they have made an important contribution in terms of both dialogue and operational support. They have focussed on sectoral policies and on long term development policies, downstream from macroeconomic adjustment. Renegotiations of Lome 4 provides an opportunity to regularise this new involvement, and to consider taking the following four complementary steps:

i) increased and more flexible use of certain existing co-operation instruments, for example considering budgetary and balance of payments support, at present not allowed.

ii) close co-ordination between the Member States and the EC/ACP;

iii) gradual adoption of a common approach to the problem of structural adjustment in sub-Saharan Africa;

iv) a more active and concerted participation in co-ordination and discussions prior to drawing-up structural adjustment programmes.

The negotiations of Lome 4 provides an opportunity to emphasis the need for growth - oriented remedies to the balance of payment problems.

3. To Increase the Flow of Investible Resources to Manufacturing

The negligible share of the EDF flows under Lome 1 and 2 allocated to manufacturing should be significantly raised in Lome 4. The dilemma for ACP/EC is that under existing arrangements the EDF allocation is determined bilaterally between the EC and each member State, with the priorities of the member paramount. The priority of the ACP/SSA states has been towards rural development and food security, hence, it is argued, the low priority to manufacturing within the EDF. The sixth EDF/Lome3 has been negotiated between the EC and individual member states. Details of the allocation were not available as of December 1987 to this study, but there was no indication of a significant shift towards manufacturing.

In the negotiation of Lome 4 it is therefore necessary to resolve this dilemma. Emphasis on the Self-reliant strategy option for industrialisation, which focuses on the rural development needs, would de facto lead to a greater share of

the EDF to manufacturing. More attention could also be given to initiatives to co-ordinate EDF operations with local and EC private sector investment and management. To this end the EC and ACP could establish a joint private sector working group to prepare proposals for co-ordinating EDF operations with private sector investment and management. EDF funds could be programmed to support such operations in the ACP/SSA states.

A new institution (ACP/European Development Co-operative Council), may be necessary to bring together representatives of the business community to advise ACP/SSA and EC governments of the effects of policies and regulations on business and the specific needs of the business community. The CDI could be well-placed to undertake the creation of such an institution.

The Lome 3 Convention contains a separate chapter on investment (Article 240-247). In this chapter the contracting parties underline the importance of private(direct) investment for the promotion of their development co-operation as well as laying down principles for the treatment of those investments. New forms of direct investment could be encouraged, for example where the foreign investor does not hold a controlling interest via an equity participation (in particular of more than 50% of the total equity) but where his investment is in the form of various international contractual arrangements such as licensing agreements, franchising, managements contracts, product-in-hand contracts, production sharing contracts, risk service contracts, international subcontracting, and joint international business ventures, in which foreign-held equity does not exceed 50%.

The scope for increasing the flow of resources to manu-

facturing from the ACP/SSA government in its role as a mobiliser of domestic resources should be developed. A lot of effort has also gone into restructuring public spending and cutting budget deficits. By dint of recruitment freezes, stringent selection, cuts in pay or redeployment measures, a number of governments have managed to reduce the public sector wage bill. Many countries have overcome considerable misgivings to get in train the process of reducing subsidies on staple food items and agricultural inputs. The reform of public - sector firms has also allowed significant reductions in deficit subsidies and a number of countries have succeeded within the space of two or three years in cutting overall public sector deficits by half, to under 5% of GDP. The potential for fiscal measures, cost - recovery, etc. could be explored further, but generation of investible resources of the necessary volume would seem to require additional sources.

The scope for increasing the flow of resources to manufacturing from the ACP/SSA domestic financing institutions should also be developed, although in most ACP/SSA countries local capital markets are at present extremely small, or non-existent. Such broad assessments do have to be qualified, as with statements on the attractiveness of ACP/SSA to commercial borrowing. Within sub-Saharan Africa, three groups of countries may be distinguished. The most industrialized - Cote d'Ivoire, Kenya, Nigeria and Zimbabwe - are now though to have reached such a degree of industrial/financial maturity that they can proceed with commercial borrowing and avoid too much cutting back of industry. The intermediate group, including such

countries as Ghana, Madagascar, Malawi, Senegal, the United Republic of Tanzania, and Zambia, are seen as possible areas of industrial activity but subject to severe constraints.

An important impediment to investment in ACP/SSA has been inadequate insurance cover. The scope of the national systems and the private sector has been limited and attempts have been made to establish a multilateral system which would provide much broader coverage of investments against political risks. Discussions began in the early 1960's and a variety of proposals were made, in particular by the World Bank and by the European Commission. Progress was blocked until recently, when the World Bank launched its proposal for a Multilateral Investment Guarantee Agency (MIGA), which may begin operating before the end of 1987. MIGA will considerably extend the scope of available insurance by covering a wider range of risks, by extending cover to host countries which are for various reasons excluded by national systems and by enabling investments to be insured even where the home country has no national scheme. MIGA should also facilitate insurance of projects promoted by multinational consortia.

The Third Lome Convention provides, in the Investment Chapter, for a study to be made jointly by the ACP and the EEC of the scope and appropriate mechanisms for a joint ACP-EEC insurance and guarantee system, complementary to existing systems under Article 241 and 244. The study was in two phases: the first phase to determine whether the gaps in the coverage offered by existing systems (including MIGA) provide sufficient scope for a viable and financial autonomous ACP-EEC system, and the second phase to outline the possible operating principles

and mechanisms of such a system. The results of the study will be examined in the Joint Working Party established to monitor the implementation of the provisions of the Investment Chapter, and its recommendations would be the basis for negotiation of appropriate clauses in Lome 4 to improve insurance cover and facilitate direct investment.

A note of caution has been expressed in previous debate from the ACP viewpoint concerning export credits and investment guarantees. As presently constituted the cost of the schemes are borne directly by the EC country involved and are not a charge on EDF. The attractions would have to be high for ACP to change this. Moreover with individual schemes, rather than Community wide ones, the ACP countries can play one EC country off against the other, and enjoy the best bargain from the resulting competition.

Expand the E.I.B. or create a new EC/ACP Bank?

A key issue in the negotiation of Lome 4 and the availability of investible resources for manufacturing in ACP/SSA is whether to expand the E.I.B. or create a new ACP/SSA Bank/ Development Corporation. This issue has been debated at previous Lomes, and many of the same pros and cons still apply.

The establishment of a separate development bank would be worthwhile if there was additionality - i.e. if it made available to member countries funds that would not otherwise be available.

For the ACP countries only the equity capital contributed by EEC members would, as far as equity capital is concerned,

represent funds that would not otherwise have been available to them. But the equity is always a very small proportion of the funds available for lending as much of it remains uncalled representing collateral for the loan funds, which the bank receives. Initially, there would not be any profits either, so that the funds for the new bank would have to come from loans raised in the capital markets of the EEC countries and special funds contributed by the treasuries of the EEC governments. Would the new institution receive support from the EEC? Given the continued abhorrence of new institutions displayed by EEC Governments and the emphasis on consolidation following the revisions of Lome 3 the answer would seem to be no. Furthermore in order to attract funds from the capital market, and to obtain a sufficient surplus to meet its administrative expenses and build up reserves, the bank would have to adhere to fairly rigid commercial criteria in granting loans in its initial stages. This would be a major impediment if a Self-reliant strategy for industrialisation was adopted.

Concern about expanding the E.I.b. include the fa c that its operations in the ACP are peripheral to its major investment activities, and that its current form of operations would make it difficult to contribute significantly to a self-reliant strategy, in particular rural development. However several factors continue tc strengthen the case for expansion of the E.I.B. to increase the flow of funds to ACP/SSA manufacturing

a) The E.I.B. is already operational so the reluctance to create a new institution would not apply.

Since 1976, certain broad trends can be distinguished in the sectoral breakdown of E.I.B. financing.

During the first two years of Lome 1, the bulk of E.I.B. funding involved individual financing for new projects or extensions. Agro-industry took a major share (34%), followed by energy projects (20% of all funding and 34% of the sum total of loans from the Bank's own resources) and investment in contruction materials (18%). During this period, the schemes funded were similar in type to those which had received aid under the Yaounde Conventions, with the notable exception of energy projects (mainly hydroelectric schemes) which gained a new status as part of the drive to economise on oil products.

In the remaining period of Lome 1, the most striking feature was the significant share of global loans (lines of credit) provided through the medium of ACP development banks (25% of loans from the E.I.B.'s own resources between 1978 and 1980). This flexible aid formula was used principally to help finance investment by small and medium-sized enterprises which generally adapt better to the diversified needs of often limited markets.

This trend became even more marked with the implementation of the second Lome Convention, which increased considerably the scope for providing risk capital to ACP development banks. It is argued that this type of operation has now

reached its capacity level and that global loans will account for roughly 20% of all E.I.B. financing under the second Lome Convention. At 31 December 1985, the Bank had undertaken 61 operations with 34 development banks in ACP countries and with 4 regional development banks, for a total amount of 268 million ECU (86.5 million ECU under Lome 1 and 181.5 million ECU under Lome 2).

The E.I.B. had by end - 1985 approved some 400 allocations representing a total of 177 million ECU. The total funding for all projects amounted to 675 million ECU, giving an average allocation of 1.8 million ECU. It is estimated that some 30,000 jobs have been created or preserved, with an average cost per job in the region of 23,000 ECU. The four principal sectors in receipt of aid in the form of E.I.B. global loans are agro-industry (32%),textiles and leather (11%) and paper (10%). All the signs are that, on average, the economic rate of return on funds allocated through the medium of development banks has been higher than for projects financed directly by the E.I.B. The latter often have greater knock-on effect with the creation or extension downstream of new activities. Both types of assistance are seen as complementary and help to construct a progressively diversified industrial fabric.

One of the objectives of global loans is to facilitate the participation of ACP promoters (private and public)

in implementing and financing productive investment. This goal would seem to have been achieved since nationals of the ACP States account for over 75% of the capital of the enterprises financed (61% being private concerns). This is, however, an average figure and does not apply to all countries. For example, in Botswana, Ivory Coast, Lesotho, Liberia and Malawi, the share of foreign investment is higher, even though majority holdings are very unusual.

b. The E.I.B. has a broad operational base, and its focus on the EC may be seen as an advantage in spreading the risk away from too much concentration on a high risk area such as the ACP/SSA.

c. The E.I.B. is already involved in co-financing whereby it joins with other official agencies to provide the total finance required for a particular project. Under Lome 1 and 2, some 273 projects were the subject of cofinancing between the EC and other donors.

d. The E.I.B. is already a major borrower on the European capital Markets with an AAA rating. As some of the funds borrowed are lent to ACP countries the E.I.B. is already facilitating the flow of private investment from the EEC to the ACP

A crucial question is whether funds available from the E.I.B. are of the type suited to financing manufacturing development in the ACP/SSA. In theory risk capital should be available from smaller/medium projects, while E.I.B. own account funds should cover worthwhile large projects. It is argued that there can be no justification for establishing large-scale industrial enterprises that are not viable.

Loans to manufacturing in rural development and to small and medium scale industries is a high risk activity with very high administrative costs. The entrepreneurs while they may have some technical ability are usually lacking in rudimentary business skills, particularly as regards book-keeping and marketing. Indeed, this area of activity has to be regarded not merely as a commercial venture, but one of training the local population to become business men. The development banks/corporations who have engaged in lending to small and medium scale enterprises have faced considerable amount of bad and doubtful debts. In fact, some of the corporations and banks have themselves become bankrupt. Is the E.I.B. doing a reasonable job, or would a new EC/ACP Bank do better? Are the criteria for project selection appropriate? Is there justification for two institutions? There is a strong case for suggesting that the Community's development policy needs to assist European industry to identify opportunities for production-sharing in ACP/SSA, and to invest in areas where restrictions on, for example, the movement of foreign exchange would normally deter investors. This could be complementary

NEW PARAGRAPH.

to the restructuring of European production away from smoke-stack industries, in which Europe no longer enjoys a comparative advantage. The European Investment Bank, with responsibility for strategic investment within the Community and support for the private sector in ACP/SSA could be called upon to take up this role. Resources to relaunch growth simultaneously in the European Community and the ACP/SSA could be incorporated into a special E.I.B. programme to support production-sharing projects.

The question of the ACP participation in the management of E.I.B. resources to be allocated to ACP States remains a contentious issue. The points made prior to the Lome 3 negotiations remain relevant. It would not be correct to say that ACP countries have no say in the provison of loans for industrial development. Obviously the loans would have to have been agreed by the Governments in the ACP States before they can be requested, not to mention provided by the E.I.B. The major difficulty is the failure of the E.I.B. to involve ACP machinery in Brussels in its decision-making process in regards to the ACP countries. This is a serious problem not least of all because involvement would help to acquaint the ACP in Brussels with the project by project problems that arise in various ACP countries information which is vital for determining negotiating positions when formulating new Conventions. A specific window at the E.I.B. for the ACP countries, on whose management the ACP would have representation, could be an appropriate compromise.

To strengthen the role of the CDI

The impact of the CDI interventions is inevitably limited by the small size of its budget allocation and its lack of direct access to investment funds via a development bank or financial institution in either EC or ACP States. The CDI has been allocated a budget of 40 million ECU for the duration of Lome 3 1985/90. Vigorous efforts have been made to establish working programmes for all ACP states. By the end of 1986 all ACP/SSA states had country programmes with the exception of Angola, Chad and Equatorial Guinea, due to difficulties outside the control of CDI. Although the number of interventions by the CDI has rapidly increased, totalling 263 between 1981 and 1985, the absolute size of its impact is at best marginal. In 1986 its additional investment resulted in the creation of 690 new jobs. It did not prove possible for the EC to involve the CDI in Lome 3 ACP country indicative programming missions.

Table 27 Results Achieved by CDI to date.

Year	81	82	83	84	85	Cumulative figures since 1981
CDI assisted projects which entered production*	4	9	12	16	23	64
CDI rehabiltation interventions which had positive effects on production	16	12	19	21	18	86
CDI training interventions which had positive effects on production	6	19	26	31	31	113
TOTALS	26	40	57	68	72	263

* These figures cover projects initiated under Lome 1, plus implemented adapted technology projects and the re-starting of units that were completely idle.

Source: CDI Annual Reports

In his report of activities of CDI for 1986 the Director ruefully observed:

> "the contacts with the E.I.B. have not been as resourceful even though a framework for regular exchange of information on ACP investment projects has been set up. The lacuna in the institutional channel for bringing risk capital assistance to ACP projects promoted by CDI, however, still remains unbridged, notwithstanding that the provisions of Article 199(6) confer eligibility to "programmes and projects identified and promoted by the joint bodies set up by the Community and the ACP States, and authorized by those States to attain certain specific objectives" in the spheres agriculture, industrial and trade co-operation."

A radical appraisal of the objectives, resources available to fulfill those objectives, and commitment of the various parties, EC, E.I.B., and ACP States, to the CDI seems to be required.

A realistic overall assessment of the effectiveness of the two major instruments, E.I.B. and CDI channelling resources to the ACP/SSA seems to be a prerequisite for a successful negotiation of Lome 4.

To Terminate Special Loans

There seems to be a concensus that Special Loans have not performed adequately, and consideration should therefore be given to reallocating these resources to grants or risk capital.

To extend the Product Coverage of Stabex:

A possible means of increasing available resources for investment is to negotiate a wider coverage of the Stabex scheme. This has not been favourably received by the EC in

the past.

To improve the Provisions for Manufacturing Trade

One view is that there is little left to do under the trade heading for Lome 4. It is suggested that the SSA/ACP manufacturing is so small that most of what could be done, has been done.

Alternatively it is argued that the manufacturing sector is small in part because of inadequate measures to promote its exports and the tariff and non-tariff barriers that still exist. Certainly the case study evidence shows that for some ACP/SSA countries export demand as a source of growth for manufacturing output has been negligible. Diversification away from commodity dependence seems to be essential.

Of the three contributory causes of the decline in sub-Saharan Africa's external resources between 1979-81 and 1985-87, the deterioration in the terms of trade accounted for $2.9 bn. a year.

As the most commodity-dependent region in the world, sub-Saharan Africa has suffered a huge contraction in export revenues on account of the slump in commodity prices since the 1970's. The real price index for sub-Saharan Africa's 16 main non-oil commodities (obtained by deflating their nominal price index by the trend in manufactured import prices) peaked in 1977 and is now only half what it was then.

African countries' terms of trade have deteriorated regardless of whether their exports have predominantly been agricultural commodities, non-fuel minerals or oil.

Some commodity prices improved in 1987 - in dollar terms

at least. But many countries lost more from the fall in the prices of cocoa and coffee, which together account for 30 per cent of the region's non-oil commodity exports. Furthermore, dollar price rises have been offset by the steep depreciation of the dollar against currencies of most supplier countries from which Africa buys its imports.

Given depressed commodity prices, the danger of increased production eroding them further, and technical innovation in industrialised economies biased against commodity exports from ACP countries, emphasis should be given in Lome 4 to the EC providing increased market opportunities for manufacture from ACP/SSA. A necessary condition is to improve market access. The rules of origin need streamlining since they prevent climbing up the ladder of processing. Relative to GSP they are better for ACP, but are still too restrictive. Derogations, it is claimed, are flexible with seven cases in seven years, of which six were granted. Criteria for invoking safeguard clauses are too general and should be made more specific. It may not be invoked, but the threat is still there to impede development. The network of non-tariff measures, now more systematically collated by UNCTAD, should be removed.

Regional co-operation may permit economies of scale and an element of necessary protection. The EC should give more support to sub-regional groupings like SADCC and ECOWAS from which ACP/SSA would gain.

The Uruguary Trade Round will be important in determining the EC/ACP trade relations with third partners, possibly for the next decade. Since the Punta del Este meeting the EC has

submitted offers on tropical products, natural resources, and the Commission has been authorised to make an offer on agricultural products. Within the Lome framework consultations could take place between EC and ACP/SSA to limit any erosion of existing preferences.

Improved market access may be a necessary condition, but it is not a sufficient condition for accelerating manufacture exports from ACP/SSA. Industry in the EC should be encouraged to enter production-sharing arrangements with ACP/SSA enterprises, and the EC should implement favourable tariff and non-tariff measures to ensure that the products from these enterprises gain access. Furthermore, action further along the production chain, for example in marketing may be essential. The UK has established a Developing Country Trade Association to assist in marketing. What measures have been taken, and are planned within the EC, to assist in marketing of ACP/SSA products?

To Ameliorate the Debt Service Burden

ACP/SSA debt relative to export earnings has risen rapidly. It is estimated that for some ACP/SSA countries, (Mozambique, Somalia, and Sudan for example), the ratio of scheduled debt service (including arrears) to exports of goods and services exceeds 100% in 1986. For SSA as a whole annual debt service payments averaged $10 billion a year 1984-86. Excluding Nigeria the region paid $2.1 billion more per annum in interest than in 1979-81 but, as already noted, $5-6 billion of debt service was not actually paid in 1986 due to rescheduling and accumu-

lation of arrears.

Although the manufacturing sector in ACP/SSA has contributed only a relatively small share of this debt it is badly affected by the resulting 'import strangulation', and deflationary impact on domestic purchasing power. One view is that there is no shortage of solutions, only of the political will to apply them. The Lome framework could be used as a medium to agree on some measure of debt relief, for example the Lawson/ Balladur plans for relief and rescheduling of the low-income countries official debt.

The Paris Club moved in 1987 towards longer repayment and grace periods (up to twenty and ten years respectively) in rescheduling operations with hard pressed, low income countries. But this brings no immediate relief to debtors. First it makes no difference for the first five years (the previous norm for grace periods) and, second, the debt burden is pushed into the future with compound interest. This is tantamount to taking new credit on market related terms to discharge a maturing liability, and only makes sense if the debtor country can reasonably be expected to become creditworthy in the meantime. Where this cannot be anticipated - and this is the case for much of sub-Saharan Africa - more is needed than the improved Paris Club rescheduling terms.

One additional step, which has already been taken by some bilateral creditors, is to convert official development assistance (ODA) loans into grants. This could be extended to all existing ODA claims on low income , heavily indebted African countries.

In addition for low income countries with no prospect of attaining creditworthiness in the foreseeable future, the WASS Report recommended that "Paris Club reschedulings, which are in effect long-term loans, should not be more onerous in our view, than IDA or other soft loans."

Recent proposals by creditor countries, such as the UK, France and the Nordic countries, for interest rate reductions or the concessional refinancing of existing non-concessional debts are in this direction.

Though commercial bank creditors account for only about 25 per cent of sub-Saharan Africa's outstanding debt, they have received about half the total interest paid by the region in recent years. Moreover, the London Club has not normally rescheduled interest payments. Nor has there yet been any element of debt reduction in London Club reschedulings.

Many European and US banks have built up provisions against the risk of losses on Third World debt, and some have started to sell or swap claims on developing countries at a discount. However, this "secondary market" is still thin,especially for African debt, and the debtor country's obligations are in no way diminished either by the writing down of claims by bank creditors or by the trading of claims at a discount - unless the debtor can buy back its own debt.

The EC could consider providing funds to debtor countries to enable them to repurchase some of their commercial bank debt, or to facilitate debt-equity swaps or the conversion of debt into long term securities, or bonds, if creditors accepted

a lower rate of interest and could be assured of their value and liquidity. A proposal along these lines, involving the conversion of debt into securities of at least twenty years, has recently been floated by the African Development Bank.

There are many possible variations in the implementation of these schemes. For example if the EC purchased debt outright, the ACP/SSA state could be required to service debt, but in local rather than hard currency. This money could go into a Development Fund used to contribute towards the local currency costs of investment in long term industrial development in the debtor country.

The extent of existing debt can easily act against the implementation of projects that promise to yield foreign exchange. The reason is simply that current creditors may insist on having first claim to any funds generated by the project, thereby cutting out the project sponsors (or at best relegating them to the queue). To confront this obstacle, some efforts have been made to "cordon off" projects generating foreign revenue from the burden of meeting prior claims due to the perilous debt position of the country as a whole. One example of this type appears to be the urea factory constructed to use the natural gas resources at Songo Songo in Tanzania.

Such is the urgency of the debt servicing problem, the Lome framework provides an important opportunity to assist the ACP/SSA directly. Manufacturing would benefit especially given a relaxation of the depressing effects of the debt problem on import availability and domestic purchasing power.

To increase efficiency of the Public Sector Enterprises

One view is that the intervention of the State in industry in ACP/SSA has "gone too far", and that considerable waste and inefficiency exists. A closer analysis of the States involvement in manufacturing has shown that this stereotype view may be exaggerated, (UNIDO, 1986). Furthermore, in recent years progress has been achieved in raising efficiency in the public sector. The recent study of industrialisation in Zambia praised:

> "the model way in which the Fund's and the Bank's precepts concerning management practices, cost accounting, cross-borrowing among parastatals, public wage restraint and the reduction in current outlays, were followed by Zambia. Public sector enterprises achieved commendable results in introducing a tight and up-to-date system of management reporting that can provide decision-makers with most of the information they usually require."
>
> (I. Kamiloff, Country Case Study - Zambia,1988)

As already illustrated there are however still serious efficiency shortcomings in public enterprises, and problems with shifts in policies. A further illustration is a case from Zambia, where parastatals have been accounting for approximately two-thirds of total industrial employment and value added.

> "The enterprise comprises four cereal mills and enjoys monopoly conditions of sale. In two of the factories the machinery is around 50 years old. For want of spare parts and repairs, milling coefficients are low and operating costs high. Before price decontrol, these costs could not be passed on to the consumers. Moreover, while the landed price of wheat rose by over 50%, the ex-factory price of flour had to be kept unchanged by administrative fiat. Losses were high and obliged the company to default on its payments to the cereal purchasing and importing agency in 1982. The following year was taken up with the

> preparation of a rehabilitation study and then 3 more years were spent on mobilizing the necessary foreign finance - just when praise was being heaped on Zambia for its bold reforms by all donors - and ordering equipment.
>
> Meanwhile, the by then unencumbered enterprise raised the price of its flour - as agreed with the retailers- from K50.5 per 90kg bag to K68.0, causing offtake to contract proportionately. In 1986, as the excess liquidity and auctioning of foreign exchange accelerated the price spiral, the retail price of flour had to be raised from K147.4 to K224.0/bag. The price elasticity of consumer demand took its toll of flour sales, which dropped to less than one-half of their pre-liberalisation level!", (ibid).

In 1985/86 out of 37 INDECO companies (a major parastatal holding company in Zambia) in only 20 was net working capital positive.

Consideration could be given to a special programme under Lome 4 to assist ACP/SSA in the streamlining and rationalisation of public enterprises, for example mechanisms for the enterprises financial performance, introduction of improved supervisory systems, strengthening of administrative and financial management.

Consideration could also be given under Lome 4 to assistance in divestiture or privatization programmes.

Privatization efforts are continuing in a number of ACP/SSA including Togo, Guinea, the Central African Republic and Gambia. This approach does however have problems, for example as regards valuation of assets, reductions of the labour force and identification of potential investors, thereby causing delays in reaching divestiture targets. The Government of Malawi, which has assigned a high priority to preserving the role of the private sector in industrial enterprises, is introducing export promotion schemes and credit facilities, including investment

credits, as well as undertaking a tax reform. Both Rwanda and Burundi have recently embarked on limited exercises in divestiture of State corporations, with mixed results.

Although the Governments of ACP/SSA adopting privatisation policies have been turning to domestic business circles with their proposals, it has generally become apparent that, given the limited savings capacity of these countries, the capital outlays required for the take-over of public enterprises exceeds available domestic resources, and hence the search for foreign investors. Even this alternative encounters serious limitations in the case of the ACP/SSA, as their ability to attract foreign investment is impeded by their small domestic markets, lack of skilled labour, and inadequate infrastructure. Given the great number of PEs in need of rehabilitation, Governments must decide how much, if any, of the country's manufacturing sector they want to see in foreign hands, and at which discounts they are prepared to sell the enterprises built up with substantial capital outlays. Unlike equivalent policies in developed countries, such as France and the United Kingdom, where privatization of powerful monopolies or internationally competitive major firms have raised enormous sums for the national treasuries in ACP/SSA very large concessions usually have to be made to induce private buyers to take on weakening assets. Thus in Togo, for instance where State corporations were sold to the private sector at very low valuations, the immediate, once-and-for-all benefits to the national budget may be outweighed by the longer-term effects on the economy as a whole. In addition, for a number of ACP/SSAs with a heavily subsidized public

enterprise sector, privatization through foreign investment is not a viable option, as no investor is likely to be prepared to buy lossmaking enterprises whose long-term profit prospects are doubtful without enormous local subsidies and long-term concessions. A case by case approach would be necessary to determine the desirability and extent of support.

To significantly up-grade "Industrial Capabilities"

If the flow of investment, both domestically and from the EC, to manufacturing, both public and private, is to be regenerated, and if the growth of the sector is to be sustained, a significant up-grading of industrial capabilities is essential. Building on its previous projects and programmes Lome 4 could make a major contribution in such an exercise.

In a macro-policy environment conducive to rehabilitation and growth industrial co-operation under Lome 4 could give priority to raising industrial capabilities in the following areas:

a) Industrial planning has remained a relatively undeveloped art in ACP/SSA in most countries. There is scope for improvement in project selection with a clearer set of criteria for rehabilitation and for ridding economies of the burden of 'white elephants': project initiation should be co-ordinated and monitored on a national scale to assess the collective impact of industrial projects on foreign exchange and other resource requirements; linkages should be developed in planning between the

private and public sectors.

b) The three areas identified as gaps in industrial capabilities in ACP/SSA namely entrepreneurship, management and technology, require major initiatives under Lome 4. The existing instruments available to implement the Lome objectives need to be considered in the light of their effectiveness in up-grading industrial capabilities. For example does the CDI have the resources to respond adequately to the demands for training, appropriate technology transfer etc. in its ACP/SSA programmes? Can existing Lome instruments help to bridge the 'missing middle' between intermediate and subsistence parts of the small-scale sector and the medium-large scale industrial sector?

c) There is an increased awareness of the need to improve the processes of project preparation and selection.

   i) Pre-investment studies are often undertaken by parties which have an investment stake. This has led to grave and often unrectifiable mistakes. Feasibility and pre-investment activities should be conducted as far as possible by neutral agencies. UNIDO can play an important role in this respect;

   ii) There is also a need to improve contract negotiation. An effort must be made to reduce the liability of African Governments in the case of delivery hold-ups, and construction delays. Assistance is needed in improving African negotiating capacity, and regional co-ordination can also prove beneficial in this respect;

iii) Equipment supplies to African projects have often been sub-standard. A co-ordinated technology acquisition and procurement policy based upon relevant market information should be given high priority, more competition should be introduced into procurement;

iv) African Governments and international agencies have rarely undertaken project appraisal on a systematic basis, and this neglect has entailed high economic costs. Project monitoring on a continuous basis would be helpful, particularly in view of rapidly changing international prices structures;

d) A key feature of pursuing industrialisation through encouraging the entrepreneur and private investment is that priorities for industry are determined primarily by the private sector. However in co-operating with the private sector, and in influencing the priorities of the public sector, certain priority areas may be specified - these could include:

i) Small and medium sized enterprises;

ii) Manufacturing activities located in rural areas and small secondary towns;

iii) Manufacturing activities which are linked to processing, upstream and downstream, of agricultural products;

iv) Manufacturing activities which create employment, develop linkages, and industrial capabilities, and use appropriate technology. Metal-working and mechanical engineering are identified as areas deserving

of particular attention. Up-grading of formal education, training and research, internal training by industry, consultancy organisations, and bureaus for standards and quality control should also receive priority.

To improve the relationship between Manufacturing, the Environment and Sustainable Development

Given the small size of manufacturing in most ACP/SSA states the sector does not pose a significant threat to the environment, as compared with climatic changes, soil erosion and similar largely man-made phenomena. However in some countries large-scale projects may have important environmental effects, (for example pulp mills), and as manufacturing expands so the environmental impact will increase. It may therefore not be premature to give special consideration to the relationship between manufacturing, the environment, and sustainable development in Lome 4.

Ecology has been incorporated in the Single European Act, and under the rules for European Political Co-operation the Member States are required to adopt a co-ordinated approach. There are various options currently under discussion, for example Environmental Performance Bonds- unless certain environmental criteria attached to the bond were met, the bond would be forfeited, so contractors and sub-contractors would be induced to avoid environmentally destructive methods. Consideration needs to be given to including effective measures to deal with the environmental challenge, otherwise the expansion of manu-

facturing may be impeded.

To improve ACP - EC Institutional Structures:

There is a concensus that some key institutional instruments within the Lome framework need to be greatly improved to assist manufacturing sector growth in ACP/SSA. Such improvements, for example to the role of the CDI and EIB have been specified in previous sections. One final proposal may be made concerning the ACP Secretariat. The responsibility for industrial co-operation in ACP rests on one desk officer who in practice has many other responsibilities, has limited secretarial assistance, and is largely desk-bound in Brussels. His contribution to assisting in drawing up the indicative programme concerning industry is negligible, since this is handled by the EC and the individual ACP State. The ACP have commissioned no research on industrialisation, given inadequate resources, so that the EC commissioned studies form the basis of evidence for evaluating performance, and shaping recommendations. Additional resources should be made available to ACP to more fully articulate the needs of the States. As part of this exercise links could be strengthened with concerned international agencies, for example UNIDO.

Annex 1

INTERVIEWS BY Dr. A.JENNINGS re Industrial Co-operation Project

UNIDO 7.12.87 to 14.12.87

H. Muegge.

T. Roepstorff

P. O'Brien

V. Richardson

A. Hasnain

R. Balance

C. Garganis

Mr. Margrieter

UNCTAD 15.12.87 to 16.12.87

E. Domen (OSG)

P. Pant (LDC Programme)

P. Hein (LDC Programme)

D. Zandee (LDC Programme)

Mr Greenhill (Commodities/Manufactures)

R. Andreasson (Technology)

A. Omer (Technology)

E. Herbolzheimer (Technology)

Mr Abakoumoff (Manufactures)

Mr Guzman (data on Trade Barriers)

Mr. Taj (Statistics)

Mr M.A. Ashiabore / T. Gina (Special Programme on Africa)

GATT 16.12.87

Mr Dixon-Fyle

Mr. H. Millan (Working Party on Regional arrangements - Tel 39-51-38) No time to interview.

Mr Vinod Rege (Trade and Tariff Data - Tel 39-51-50) No time to interview.

ACP Secretariat 17.12.87

Mr Carrington (Secretary General)

Dr C.Tibazarwa (Chief Development Co-operation)

Mme Georgia Bernard (Social and Cultural Co-operation)

Mr Nsingo (Chairman of the Industrial Co-operation Sub-committee) No time to interview.

EC Secretariat 18.12.87

Mr A. Huybrechts (EC DG8) retired on 22.12.87 - position to be taken by Mr P. Logli

Mr A. Tincani (EC DG8)

Mr Boidin (co-ordinating the EC response in the Lome Renegotiations)

Mr D. Friedrichs (Evaluation Unit -EC)

Mr McKenzie (Trade data) no time to interview.

Centre for the Development of Industry 18.12.87

Dr. J.Steketee (Southern Africa region plus Nigeria)

Annex 2 List of ACP Countries

ANGOLA (°)
ANTIGUA AND BARBUDA (*)
BAHAMAS
BARBADOS
BELIZE (*)
BENIN (*)
BOTSWANA (*)
BURKINA FASO (*)
BURUNDI (*)
CAMEROON
CAPE VERDE (*)
CENTRAL AFRICAN REPUBLIC (*)
CHAD (*)
COMOROS (*)
CONGO
DJIBOUTI (*)
DOMINICA (*)
EQUATORIAL GUINEA (*)
ETHIOPIA (*)
FIJI
GABON
GAMBIA (*)
GHANA
GRENADA (*)
GUINEA (*)
GUINEA BISSAU (*)
GUYANA
IVORY COAST
JAMAICA
KENYA
KIRIBATI (*)
LESOTHO (*)
LIBERIA
MADAGASCAR
MALAWI(*)
MALI (*)
MAURITANIA (*)
MAURITIUS
MOZAMBIQUE (*) (°)
NIGER (*)
NIGERIA
PAPUA NEW GUINEA
RWANA (*)
ST CHRISTOPHER AND NEVIS (*)
ST LUCIA (*)
ST VINCENT AND GRENADINES (*)
SAO TOME AND PRINCIPE (*)
SENEGAL
SEYCHELLES (*)
SIERRA LEONE (*)
SOLOMON ISLANDS (*)
SOMALIA (*)
SUDAN (*)
SURINAME
SWAZILAND (*)
TANZANIA (*)
TOGO (*)
TONGA (*)
TRINIDAD AND TOBAGO
TUVALU (*)
UGANADA (*)
WESTERN SAMOA (*)
VANUATU (*)
ZAIRE
ZAMBIA
ZIMBABWE

(*) Etats ACP moins developpes sous Lome II
(°) Membres depuis Lome III

Annex 3

Title 3 of Part 2 Industrial Co-operation

Zerox Section as above from Lome 3 Convention.