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Oliver VALLEE

UNIDO STUDY

Final Outline

Industry and External Debt in Africa: A Reassessment

Part I. The context

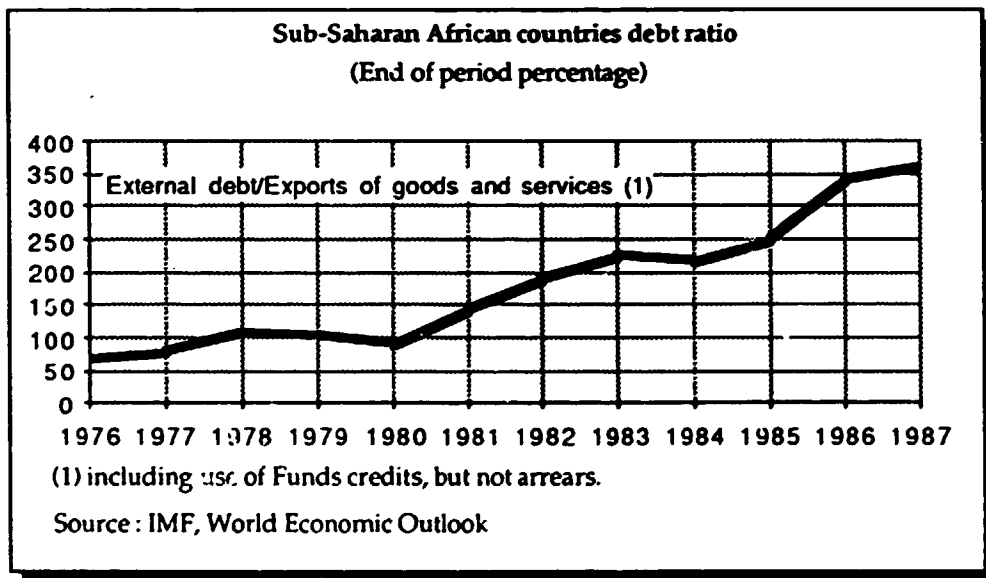
2. INDUSTRY AND THE DEBT SITUATION IN INDIVIDUAL AFRICAN COUNTRIES: AN OVERVIEW

2.1. Nature and characteristics of African industry and the debt problem

During the period 1985-1989, the economical situation in Sub-Sahara Africa countries has grown worse.

Without counting Nigeria, whose debt has doubled, in countries south of the Sahara outstanding debt has grown faster than in the fifteen most indebted countries. The increase in the ratio of debt to exports of goods and services, illustrated in the diagram below, has also been more rapid in Sub-Saharan Africa than in the most indebted countries.

Table 2. I



*debt?*

*sh. by more...*

Growth in the debt/exports ratio is much faster after 1985, the period 1983-84 appearing to be a phase of stabilisation. Both the current account and the trade balance were negative in 1986, 1987 and 1988. The volume of exports and imports did not change noticeably, but the terms of trade deteriorated by an average of 10% annually.

The divergences between external growth in Africa and in other regions of the world seem to be explained by their different exchange structures. The IMF's annual report in 1988 stressed that the content of exports had a specific bearing on performance.

*maybe ex-plant  
competition*

Thus, countries exporting manufactured goods, for the most part Asian and European countries, have continued to benefit from sustained demand for this type of product in industrialised countries, as well as from the pick-up in the volume of imports by developing countries which are not energy producers. The overall export volume of these manufacturing countries increased by 13.5% in 1986 and by almost 16% in 1987.

Furthermore, the strength of world prices for manufactured goods (up 12.5% in dollars in 1987 after a gain of 18% in 1986) encouraged a - moderate - improvement in the exporters' exchange conditions. However, in non-oil exporting raw material producer countries, conditions of exchange deteriorated for the third consecutive year, in spite of the rise in prices for raw materials at the end of the year. The cumulative drop was 9% which effectively wiped out the good nominal results which these countries continued to mark up in exports. (The volume of exports from agricultural product exporting countries has increased regularly every year since 1980 and increased by 10.5% in 1987). A good many non-oil exporting raw material producers are located in Africa and in the Western hemisphere regions which have continued to have concurrent and particularly serious external financing problems.

There are thus three concomittant factors which weigh upon the external balances of Sub-Saharan Africa.

#### 2.1.1. Increasing external debt

The table which follows (Table 2. II), from the annual report of the World Bank, shows the evolution of debt and of debt servicing for the period 1982-87 and for 1988. <sup>meanwhile</sup> ~~The~~ debt/GNP ratio has nearly doubled, reflecting the \$50 billion growth in debt stock. Even then, this is only long and medium term debt, for short term debt and arrears increase total African debt, here estimated at \$126.9 billion, by at least \$25 billion more to over \$150 billion. Interest and amortisements also continued to grow throughout 1988, affecting both the current and capital accounts.

Table 2.II

**Countries with low or intermediate revenues:  
Medium and long-term debt, debt servicing  
and gross expenditure 1982-88**

(\$ billion US)

**Sub-Saharan Africa**

	1982-87	1988 <sup>a</sup>
Debt	76,2	126,9
Public	46,4	86,0
Private	29,8	40,9
Debt as % GNP	47,4	98,6
Debt servicing <sup>b</sup>	7,2	8,8
Interest	2,9	4,0
Public debt	1,1	2,2
Private debt	1,8	1,8
Amortisement	4,3	4,9
Public debt	1,2	2,7
Private debt	3,1	2,2
Debt servicing as % of exported goods and services <sup>b</sup>	15,8	19,0
Average interest <sup>c</sup>	4,0	3,5
Gross expenditure	9,5	11,4
Public debt	5,0	8,3
Private debt	4,5	8,3

a Preliminary figures

b Based on effective payments

c Average interest payments effected on outstanding debt at mid-year

Source : World Bank

*Sama'*

2.1.2. The specialisation of African exports

Specialisation in primary products - raw materials - penalises African exports. They are unable to benefit from world demand for goods of this kind, nor from price increases. On the contrary, the price of the principle raw materials fell significantly from 1987 to 1989, and we know that the products referred to below constitute 70% to 90% of the exports of Sub-Saharan Africa (see UNIDO Regional and Country Studies Branch report, Economic Indicator: of African Development, October 1989).

Table 2.III

Commodity Price Data

Commodity	Unit	Annual Averages			Quarterly Averages				Monthly Averages			
		Jan - Dec 1987	Jan - Dec 1988	Jan - Dec 1989	Apr - Jun 1988	Jul - Sept 1988	Oct - Dec 1988	Jan - Mar 1989	Apr - Jun 1989	June 1989	July 1989	Aug 1989
Price indice : 1979/81 = 100												
Agri. Food		73	86,3	84,7	86,4	87,9	88	87,8	87,4	84,6	77,9	74
Fats and oils		87,5	88,6	84,3	88,4	90,8	90,7	88,3	85,5	83,8	80,3	72,3
Agri. non food		83	85,4	88,4	88,8	86,9	80,9	85	87,1	86,3	87,9	86,6
Agri. Timber		128	134	131	140	123	135	131	129	132	135	135
Metals and Min (Excl steel)		84,1	116	125	116	111	128	134	123	115	113	118
Steel Products		90,8	119	132	118	123	125	129	133	135	135	136
33 Selected Commodities (Excl Petro & Steel)		80,3	96,6	96,3	97,7	95,9	100	102	99,2	95,6	91,9	90,8

Source : World Bank, September 1989.

Concurrently, the high proportion of manufactured goods in imports by the countries of Sub-Saharan Africa weighs on the cost of their external purchases. The proportion of consumer goods to overall purchases of manufactured goods is increasing, which reduces the equipment capacity of countries which are already under-industrialises.

*to the detriment of*

2.1.3. The relative drop in external financing

Table 2. II shows the <sup>weak</sup> feeble growth of external <sup>financial inflow</sup> finance received by Sub-Saharan Africa. In 1988, this flow totalled \$11.4 billion against repayments of \$8.8 billion.

The net investment is only \$1.6 billion. The proportion of private investment in these external resources continues to fall, constituting only 27% of all external financing in 1988, as against 47% in 1982-87. This fall has a number of serious consequences.

To begin with, it turns the external debt crisis from a crisis of liquidity to a structural debt crisis, since access to foreign private loans appears to be shut for the duration. This explains why the list of PFE for 1986 shows considerable differences from the list of "principle borrowers" used a year earlier by the World Bank.

*↑ explain*

*spelled!*

*should be in a longer term*

Countries such as Egypt, India, Indonesia, Israel, Korea and Turkey, considered as "principle borrowers" no longer appear in the list of PFE. However, countries hitherto absent from the list of principle borrowers are now included in the PFE : Bolivia, Colombia, Costa Rica, Ivory Coast, Ecuador, Jamaica, Mexico, Morocco, Nigeria, Peru, Philippines.

There is a tendency for a distinction to appear between countries which remain principle borrowers, and those which are so no longer.

The African countries which were formerly of their number, with the most highly developed industrial base in their region, are now relegated to the category of countries which are barred from access to the private capital markets.

The 1989 report of the World Bank stresses that "in spite of repeated requests, Morocco has not received any fresh injections of capital since 1984" (page 29). Thus, the problem of African debt is becoming more severe as the weight of debt increases (rates of interest, <sup>Finance</sup> re-scheduling), although net indebtedness is not increasing rapidly. Furthermore, the interest rate is not the only variable to modify the debt profile. Falling growth rate, and hence falling GNP, together with the fall in exports automatically inflate the cost of debt servicing calculated in terms of these two aggregates. For African countries whose debt is only partially written in dollars, but whose exports use dollars as a <sup>demonstrate a fall</sup> currency of reference, the fall in value of the dollar is not necessarily a good thing, since debt repayment takes place in a number of currencies.

At the same time, African countries are increasing their undertakings to public creditors, in particular multilateral institutions such as the IMF and the World Bank. Among 13 African countries, 3/4 of the debt servicing went to multilateral institutions between 1986 and 1988. One can easily understand why, in 1987, four African countries were in arrears of payment to the IMF (Zambia, Liberia, Sierra Leone and Sudan), and two to the World Bank (Liberia, Guinea).

Fifteen African countries have also arrears on outstanding <sup>fall in</sup> World Bank loans, and this disqualifies them from getting desperately-needed IDA grants. In 1987, these countries owed the World Bank \$300 million. The Nordic countries have offered to take the lead in setting up a fund that would be used to reduce the interest due on these loans to 0.5%, the same as that payable under the ESAF.

The World Bank's reaction has so far been cautious. The Bank is always frightened of doing anything that smacks of debt relief on its own loans. But officials in the Swedish finance ministry warn that the offer will not stay open indefinitely.

Principle issues:2.1.4. Conclusion *But when have we talked about re-scheduling*

Rescheduling the debt of African countries has not led to improvements in the indebtedness of that part of the world. The slowdown in external support at a time when heavy repayments to the rest of the world were being maintained, has prevented the formation of a critical mass of development capital. This critical mass was all the more necessary in that this part of the world is particularly sensitive to decreases in investment, since gross <sup>domestic</sup> interior savings are forcibly diminished by a persistent current account deficit. Africa's specialisation in the export of raw materials makes her particularly vulnerable to changes in world demand, so that African countries are as <sup>in</sup>helpless in the face of falling prices in their principle exports, as they are in the face of persistent trade deficits in manufactured goods.

*Moves to be developed into a letter linkage*  
Africa seems to be confronted by three major challenges.

## 2.1.4.1. The growing burden of debt

The fact that Africa faces a burden of debt which is growing in relation both to exports and to national wealth implies that action can be taken with regard to either term in the comparison: action on the debt and on exports and national production.

## 2.1.4.2. The structure of Africa's debt

Reorganisation of growth in GDP and exports are all the more imperative in that the margin of manoeuvre left for debt reduction is hampered by two major factors: the growth of the <sup>non-</sup>reschedulable part of the debt (IMF and World Bank for the most part) and shrinkage of the debt to private lenders which is susceptible to market or conversion operations. The proportion of debt which can be rescheduled or sold at discount will continue to decrease.

## 2.1.4.3. Rehabilitation of industry

*excellent!*  
Faced with downward trends in both raw material prices and demand, return on investments depends on the development of manufacturing production. This adds value to traditional exports, and modifies both the structure and the total value of imports. The impact of secondary sector progress on GDP can be a decisive factor in reducing the ratio of debt to national wealth. It could also assist the maintenance of lightened repayments to the IMF and the World Bank. Such industrial development can also constitute a centre of attraction for national and foreign private investment. A flow of manufactured exports would have a positive effect on the balance of payments and also on the reconstitution of gross internal savings.

To reach this goal it will be necessary to:

- examine the characteristics of African industry after a decade of indebtedness;
  - analyse the relationship between debt and industrial development,
  - draw up a forecast for the reduction of African debt through industrial development.
- onset of debt crisis*

2.2. INDUSTRY PERFORMANCE IN A DEBT SITUATION

2.2.1. Industry and the structure of the economy 1965 - 1987

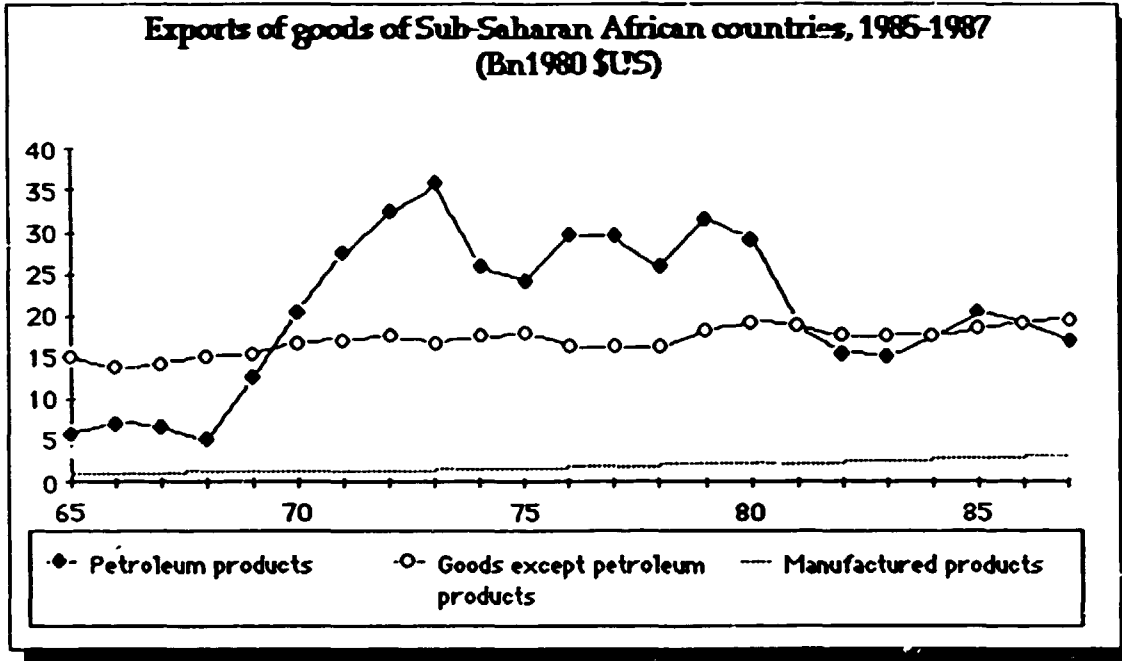
(See diagram below)

*Handwritten note:*  
 Note to explain why  
 other activities have  
 diminished

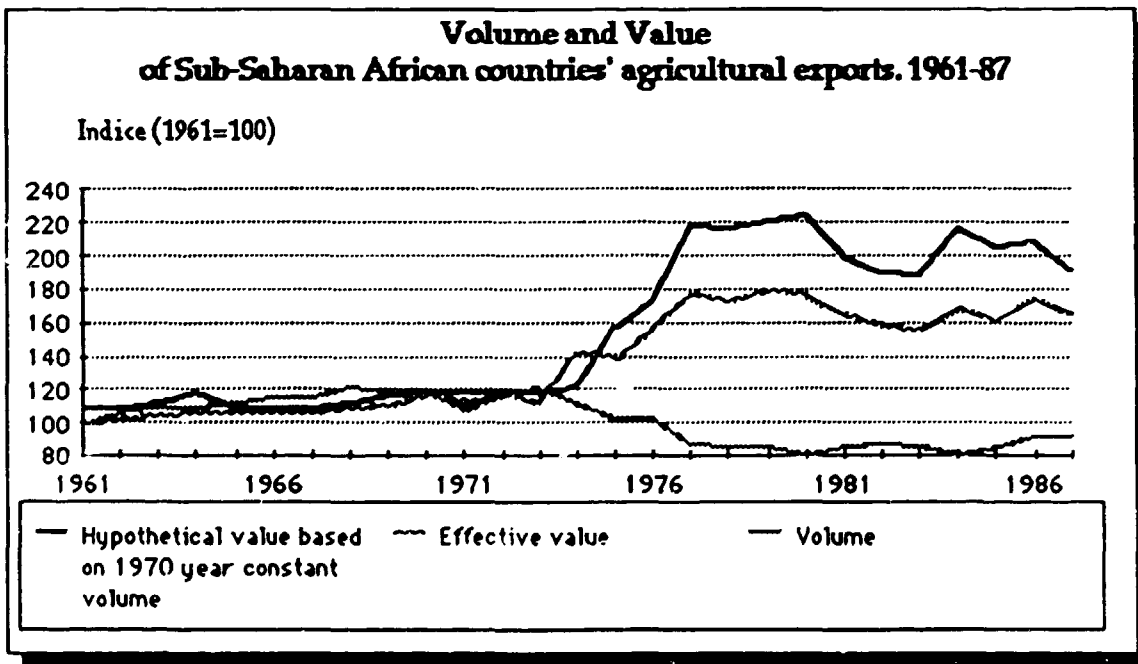
There is no fundamental change in the structure of African GDP. The increase in the proportion due to "other industries" is the result of oil industry growth in certain countries, to the point that in certain cases other activities have diminished.

Tables 2. IV

1965 -



Source : World Bank



Source : FOA

NB.: bold ligne shows that the export value would have been up <sup>higher</sup> if the export volume would had been maintained at its 1970s level.

*Handwritten note:*  
 sanction



2.2.2. Industrial growth and growth in GDP

The World Bank's long term forecast document entitled "Sub-Saharan Africa, from crisis to durable growth" brings out the same characteristics of growth, pointing out that "All together, the 5% annual growth in industrial GDP recorded during the period 1965-87 is based on increased oil production".

In fact, during the specific period 1985-89, with the fall in the price of oil and stagnation in the overall hydrocarbon production in Sub-Saharan Africa (with the exception of Angola), it was the oil exporting countries, with one-quarter the population, which recorded the weakest and most variable rate of GNP growth. During this particular period, it was agriculture which powered the growth which, according to the FAO (UN System) progressed at 4% per year. Such a development is in itself positive. However, it was not sufficient by itself to halt imports of cereals from abroad (on average 36% of cereals consumed). Towed by oil and agriculture, Africa did not modify its productive structures in favour of industry during the years of the financial crisis provoked by debt.

\* Need more on the growth of manuf!

2.2.3. The role of Sub-Saharan Africa in world trade

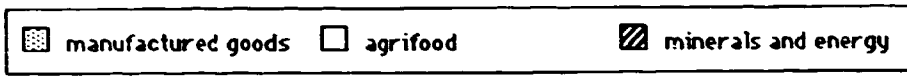
The bridgehead Africa, had created for itself in world trade, shrank during the period 1985-88: in 1987, it represented only 2% of world trading activity. Its place in the international division of labour remained the same, with exports of raw materials and imports of manufactured goods. The diagram below (p.93 of CEPII n°39) even shows how exports of manufactured products decreased and imports of made goods increased from 1967 to 1987.

From 1980 to 1987, imports of transport machinery and material grew more slowly than that of other manufactured goods, demonstrating the slowdown in the gross formation of fixed capital assets in favour of imports for consumption.

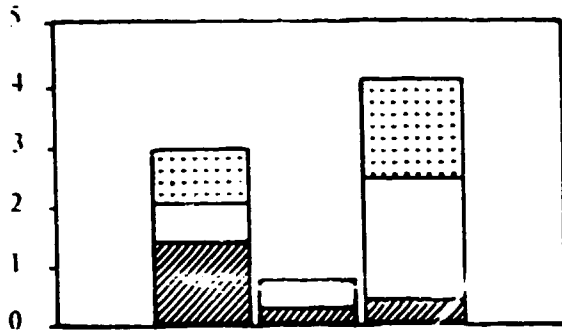
⇒ implications for industry and rehabilitation!

Tables 2.V

Structure of African external trade  
In bn SUS

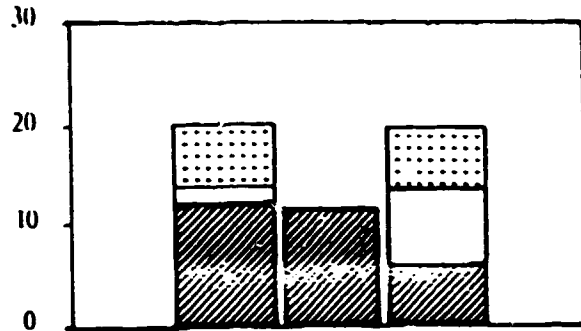


Exports 1967



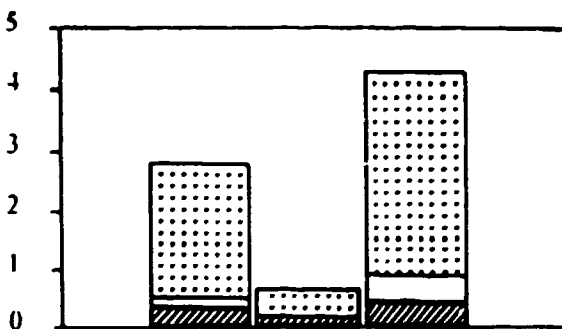
South Africa Nigeria Non OPEC African countries

Exports 1987



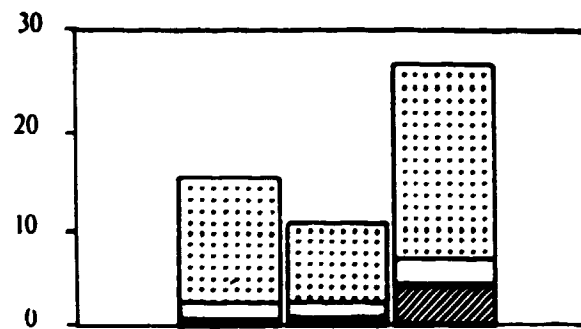
South Africa Nigeria Non OPEC African countries

Imports 1967



South Africa Nigeria Non OPEC African countries

Imports 1987



South Africa Nigeria Non OPEC African countries

Source : CEPII - CHELEM-CINH

*some spell out.*

### 2.2.4. Industry and investment

The ratios of savings and investment to GDP illustrate the weakness of fixed capital formation over the period 1984-88 in comparison with the average annual investment rate for the period 1980-83 (see World Bank report for 1989, page 29).

*Performance* While gross <sup>domestic</sup> internal savings reached 14.8% of GDP during 1980-83, it achieved no more than 12% during 1984-88. This trend towards diminished savings is worrying, since it is investment which enables the integration of technological progress and improvement in the economy's competitiveness and efficiency. The fall in rates of investment is the consequence of the fall in gross internal savings. This in turn is generally the difference between the surplus received from the rest of the world (trade exports + sundry revenues) and what is paid out (imports + sundry remunerations). Growing consumption of services by the African continent and the payment of interest on debt have together reduced gross internal savings, and simultaneously affected investment in African countries.

### 2.2.5. Conclusion

*Explain* The second half of the Eighties can be described, for the African continent, as a retreat from world commerce, a diminution of export capacity in manufactured goods and the reinforcement of its dependance on the rest of the world for goods of this type.

*Explain* At the time, <sup>restructuring</sup> the restructuring of worldwide <sup>trade</sup> exchange was accelerated with increased production from Asia and Latin America in both industrial and agricultural sectors. The growing competitiveness from these new participants is the counterpart of the industrial investment efforts they have made, and of policies which include exchange rates that lower their international prices and even exchange controls (e.g. in South Korea) which limit the allocation of currency reserves to imports. Growing debt poses increasingly serious problems for these sub-groups, generally of an internal nature, especially in Latin America.

*Explain* Deterioration of nutritional standards in Latin America has been noted in a number of enquiries, but the proportion of manufactured exports is increasing, which enables a greater number of countries in these areas to have trade surpluses. New conditions of market operation attract localised activities financed by foreign investment. The debt crisis creates an insupportable burden, but appears also to have enabled many more developing countries to be included in the ranks of the ILD (International Labor Division), while concurrently increasing their internal capacity. We shall see below if these phenomena are to be found in Africa.

*Re-phrase of what we understood in L.A.*

## 2.3. CONTRIBUTION OF THE INDUSTRIAL SECTOR TO DEBT ACCUMULATION

The foregoing <sup>F. In. 2</sup> UNIDO study (Industry and external debt in Africa) showed that the debt attributed to the manufacturing sector was relatively unimportant when compared to other sources of demand for external capital, since only four Sub-Saharan countries showed as much as 20% of debt due to the manufacturing sector. Nigeria is the principle exception, since its debt is derived primarily from industry. The importance for this country of the Ajeokuta steel project is noteworthy, representing as it does external undertakings of between 2 and 4 billion \$US.

The first hypothesis to be examined is that African debt has in fact been very little directed to industry and that the rapid growth of outstanding debt and debt/export and debt/GDP ratios indicated in section 2.1 were not attributable to a strategy of capital accumulation in the industrial sector. *what does this mean?*

The share of industry in the formation of debt appears at first sight to be slight, if we except the countries mentioned above. The total sums absorbed by white elephant projects, over-sized and under-researched, is however considerable when related to the modest resources of numerous African countries. The oil refineries installed in numerous ports never reached critical size, while the multiplication of sugar refineries in the Ivory Coast was to lead within a few years to the closure of 3/4 of them. The Celucam project in Cameroon, which has shouldered responsibility for this repayment! <sup>over its</sup> The secondary costs of operational industrial projects represent a further dimension to be taken into account when measuring African debt. Foreign experts, expatriate management, the import content of numerous processes, all drain the external reserves of African countries. Slowdowns in these outflows during periods of adjustment disturb still further attempts to arrive at improved levels of productive efficiency on the basis of existing industrial equipment.

On the one hand, the IMF in its bulletin of 28 March 1988 pointed out that recent world trends in financial affairs had necessitated a rigorous effort of adjustment including strict import limitations by almost all African countries.

On the other hand, the prices of non-petroleum base products, adjusted to take account of prices of imported manufactures, are currently somme 50% below 1977 levels. The challenge to African manufacturing industry lies not in its weak capital absorption but in its inability to assume its share of debt repayment.

The second question which must be asked concerns the reasons <sup>why</sup> this feeble development has not enabled reductions in imports of goods of <sup>weak</sup> this type, nor provided increased exports of such goods, a performance achieved by Asia (more than 25% of exports by developing countries) and Latin America (16.6% of developing countries exports). same?

The third question confronting African manufacturing industry in the Sub-Saharan countries was underlined in the report by the UN consulting group entitled "The Financing of African Reorganisation". Its authors point out that the financial deficit "...is not merely quantitative, but that, in addition, imports aimed at "enlarging and supporting ... the use of existing production equipment and returning equipment to operational status would have to show particularly high profitability". Furthermore, they prescribe increased aid in expanding food production and long term structural

changes "to increase the production of exportable goods and diversify Africa's economies".

However, with the adjustment of the years 1985-88, loans for the rehabilitation of African industry slowed down. The OECD report on the financing and external debt of the developing countries "Study 1989" appearing in the same year, questions the figures shown in the table below concerning countries with low incomes. It shows the decline of export credits in 1987. But the report also suggests that :

*"The tightening of credits and bank loans over the past three years is somewhat equivocal, since it corresponds in large measure to the development of arrears and short-term financing rather than new long-term finance"*

The new group of Low Income Countries (LIC) in Sub-Saharan Africa (see Table 2. VI), which includes Nigeria, now represents about three fourths of the net income of Sub-Saharan Africa. The proportions were approximately the same in 1980-81. Measured in constant terms, the LIC incomes increased at the beginning of the Eighties and have remained stable since 1985. (The group of Sub-Saharan African countries not members of the LIC consists of Angola, The Cameroon, The Congo, Ivory Coast, Gabon, Mauritius and Namibia).

Summary

How is this relevant?

Table 2.VI

Total net inputs of resources to Sub-Saharan Africa

	Billions of current dollars										Percentage of total		
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1980	1985	1987	
<b>I / Public financing of development (FPD)</b>	10,6	10,3	10,9	10,7	12,5	12,1	15,4	18,1	20,4	65,8	81,8	82,6	
1. public aid to development (APD)	8,9	9,1	9,2	9,1	10	11	13,4	15,1		55,3	74,3	68,9	
Bilateral	6,4	6,5	6,7	6,5	7,2	7,6	9,4	10,7		39,8	51,4	48,9	
Multilateral	2,5	2,6	2,5	2,6	2,8	3,4	4	4,4		15,5	23	20,1	
2. Other FPD	1,7	1,2	1,7	1,6	2,5	1,1	2	3		10,6	7,4	13,7	
Bilateral	1,2	0,7	1,1	0,9	1,8	0,5	1,2	2,1		7,5	3,4	9,6	
Multilateral	0,5	0,5	0,6	0,7	0,7	0,6	0,8	0,9		3,1	4,1	4,1	
<b>II / Total export credits</b>	1,8	1,9	1,9	0,3	0,2	1,1	-0,1	-0,2	0,6	11,2	7,4	-0,9	
1. CAD countries	1,7	1,8	1,8	0,2	0,1	1	-0,2	-0,2	0,6	10,6	6,8	-0,9	
Short term	0,1	0,3	0,2	-0,7	0,2	0,9	0,5	1,5		10,6	6,8	-0,9	
2. Other countries	0,1	0,1	0,1	0,1	0,1	0,1	0,1	x		0,6	0,7	x	
<b>III / Private investments</b>	3,7	4,4	4,9	2,1	-0,5	1,6	4,2	4	4,2	23	10,8	18,3	
1. direct Investment (CAD)	1	1,8	2,2	0,3	-0,3	-0,2	0,6	0,9		6,2	-1,4	4,1	
2. international bank loans (a)	2	2	2	1,1	-1	0,8	2,5	1,4		12,4	5,4	6,4	
3. Secured loans	x	x	x	x	x	x	x	x		x	x	x	
4. Other private investment	x	x	x	x	x	0,1	0,1	0,7		x	0,7	3,2	
5. Gifts from the NGC	0,7	0,6	0,7	0,7	0,8	0,9	1	1		4,3	6,1	4,6	
<b>Total inputs of resources</b>	16,1	16,6	17,7	13,1	12,2	14,8	19,5	21,9	25,2	100	100	100	
For information :													
Use of IMF credit, net	0,6	1,6	1,2	1,6	0,6	0,1	-0,3	-0,7	-0,4				
Net financing granted by the FEDs	x	-0,7	-0,2	-0,3	-0,5	-0,2	0,4	0,3	..				
Flight of capital (estimated)	-4	-4	-3	-3	-2	-1	-1	-1	..				
Interest and dividends paid by the PED													
Gross totals	-5,4	-5,3	-6	-5,1	-4,9	-5,2	-4,6	-5	-5,5				
	At 1987 prices and exchange rates												
Total net input of resources	21,3	22,8	24,9	18,5	17,6	21,1	22,4	21,9	23,5				
Total from the FDP	14	14,1	15,3	15,1	18	17,2	17,7	18,1	19				
APD receipts from all sources	11,8	12,5	12,9	12,8	14,4	15,7	15,4	15,1	..				

(a) including long and short term transactions

SOMA

## 2.4. ROLE OF FINANCIAL INTERMEDIARIES

### 2.4.1 Not much interest in the manufacturing sector

Although they have taken part in financing many production oriented investment projects (in energy, rural development and the industrial sector), the numerous development finance institutions - both multi- and bi-lateral - have to a great extent concentrated on assisting the development of basic infrastructures, a domain almost exclusively dominated by the public sector. This assistance has taken the form of long-term aid usually benefiting from the guarantee of the country concerned. On a far more modest scale, certain institutions (IFC and a number of regional banks) have participated in financing private investment in production - on a scale all the more modest in that their assistance here has taken the form of venture capital.

Explain

Spill out 1

Finally, the international financial market has only played a limited role in financing private North/south investment. Until quite recently, it has only been a long-term lender to institutions specialising in development finance, or to African states. It was only a short while ago that financial markets appeared to start developing an interest in direct portfolio investment in developing countries (Korean, Mexican and Thai funds, North-South SICAVs, etc.), or for very long term (40 year) bonds issued by first class borrowers and the World Bank.

Explain

This is in part explained by the growing reluctance of a number of African countries to accept private investment at the very moment that the strategies of international groups and the policies of the advanced nations were both trying to integrate the Third World countries in the International Labor Division.

Explain to work

The behaviour of African countries was not very favorable to this policy and was usually marked by :

- a) the wish to develop a large state-run production sector which would escape from the constraints of an open-market economy and would ensure that the country concerned maintained mastery over its own economy;
- b) distrust of their own national private sector, and even more of foreign private investment, which was suspected, whether alone or in joint ventures, of being concerned to undermine their sovereignty.

### 2.4.2 Reluctance from investors

The reluctance of major industrial groups, and financial institutions to invest in African countries can be explained in a number of ways:

- a) The multinationals apart, it can be seen that entrepreneurs in the advanced countries generally try to reach a certain threshold of commercial and financial power on their own domestic markets or through exporting before they undertake international investment. When they do take the plunge, it is usually in terms of North/North investment, but as we have already noted; agonising reappraisals of past internal policies by developing countries are watched with considerable attention; they do not yet automatically encourage investors to revise their arbitrages in favour of the South.

(a) example  
ultimately  
investor

- b) For financial reasons, it is difficult to carry through an installation program in a developing country. Potential investors have to take account of volatile interest rates and uncertainty as to rates of exchange with the country concerned, so that one is brought back to the problem of finding financial intermediaries who are willing to play their role to the full.
- c) Reluctance to undertake North/south investments is derived from fear of political risks (official or de facto nationalisation, discriminatory treatment, blocked revenue transfers etc.), and this fear persists in spite of new political orientations in countries which could be involved. Bilateral systems of investment guarantee, however much cover they provide, are often seen as too rigid and too costly. They are not, therefore, a deciding, or even a positive factor in investment decisions.
- d) Finally, North/South investment runs up against thorny financial problems:

- Public financing (bi- or multi-lateral) and private financing by commercial banks have a shared characteristic: the greater part of these external flows are in the form of loans to beneficiaries whose own financial contributions to their projects are usually inadequate. Risk capital injections by banks and institutions are usually very limited (IFC, EEC, a few investment banks). The feeble degree of involvement of Northern savings in financial packages involving promoters' own funds is a key problem which is explained as follows:
- The generally modest level of funds which Northern promoters find forthcoming from their potential partners in Africa.
- The well-known reticence of those who have their own funds to invest; this affects the viability of projected operations and increases the risks for others involved, obviously reinforcing other lenders' reluctance.
- Faced with the almost general aggravation of African developing countries' debt, even projects whose economic and financial justification is impeccable do not protect external lenders from the dangers of re-scheduling. The only protected lenders are those who are co-financers with the World Bank and the IFC, whose projects are excluded from all re-scheduling otherwise imposed by balance of payment constraints in the receptor country.

unstable  
sum u

Explains



2.4.3 An out-of-joint local banking system  
*or du-routine (Congo)*

A clear degradation of the banking system, which can be observed in numerous African countries in both public and private sector banks is due to the coincidence of a number of factors: the international and internal situations, over-endebtment, management deficiencies, decay of the public sector, inadequate monetary policies, insufficient incitement for local commercial banks to modify their traditional credit policies, etc.

This results in:

- ✓
- Volatility of sight deposits *? checking! current accounts*
  - Weakness of time deposits (mistrust of savings investors regarding internal banking sector, capital flight to the exterior, inadequate monetary policies...).
  - The accumulation of loans of doubtful quality through bad risk judgement, the vulnerability of projects to internal situations and distorting effects on private clients of arrears of payment in the public sector.
  - All together, a serious reduction in local or external refinancing possibilities, leading to a sometimes dramatic restriction of access to medium or long term bank credit from even the most reliable operators, even to finance profitable production projects, in particular in the manufacturing sector.

Bringing back private investment, even in its classic FDI form, cannot be left exclusively to long term help from foreign banks. *So, what is the conclusion?*

This is truer today than in the recent past, even for export-oriented projects which offer external lenders a certain degree of security.

Where's 2.5: Role of the industrial sector

Steven Riley will do

## ETUDE ONUDI

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### 3. IMPACT OF RECENT DEVELOPMENTS ON INDUSTRY AND THE DEBT SITUATION

#### 3.1. Structural adjustment Programmes : impact on the economic and institutional structures of african debtor countries

##### 3.1.1. *The French speaking countries of Subsaharan Africa*

###### 3.1.1.1. *The countries of French speaking Africa belong to a common monetary zone<sup>1</sup>, The Franc zone<sup>2</sup>.*

The French Franc Zone comprises the set of countries, and countries grouped in monetary unions, whose currencies are linked with the Franc by means of a fixed exchange rate. That rate is guaranteed by the French Treasury. In return the countries are obliged to keep a minimum of 65% of their reserves in the form of French francs and conduct their foreign exchange business through the Paris market. Each of the currencies in the zone is freely convertible into French francs at the fixed rate through the operating accounts<sup>3</sup> held by the central banks of the zone with the French Treasury. The arrangement allows the central banks overdraft facilities with the Treasury.

These countries are Benin, Burkina Faso (formerly Upper Volta), Ivory Coast, Mali, Niger, Senegal, Togo, the Comoros Islands, Cameroon, the Central African Republic, the Congo Republic, Gabon, Chad. Finally, by itself in the category of countries from outside the French sphere of influence that have joined the Franc Zone is the former <sup>French</sup> French colony of Equatorial Guinea, which became a member of the Franc Zone in January 1985.

The "Banque Centrale des Etats de l'Afrique de l'Ouest" (BCEAO) is the central bank for the "Union Monétaire Ouest-Africaine" (UMOA) and issues CFA (Communauté Financière Africaine) francs for Benin, Burkina Faso, the Ivory Coast, Mali, Niger, Senegal and Togo. The "Banque des Etats de l'Afrique Centrale" is the central bank for Cameroon, the Central African Republic, Chad, the Congo Republic, Equatorial Guinea and Gabon, for which countries it issues CFA (Coopération Financière en Afrique centrale) francs. The "Banque Centrale des Comores" is the central bank for the Comoros, where it issues Comoros francs.

The exchange rate fixed within the zone is 50 CFA francs to one French franc. This rate been fixed since 1948, effectively providing these countries with a convertible currency that fluctuates with the French franc against other convertible currencies. Because currency is more or less freely transferable within the zone, exchange controls follow those operated by the "Banque de France" in France. Thus when the French government introduced exchange controls in the political crisis of May 1968, the other central banks were obliged to do so as well, and the CFA Francs was also devalued in August 1969 together with the French franc.

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<sup>1</sup> With the exception of Zaïre, Burundi and Rwanda

<sup>2</sup> Cf. Olivier Vallée : "Le prix de l'argent CFA". Editions Karthala, Paris, 1989.

perhaps similar to

Currency is issued in this area on monetarist/early Keynesian lines. Every year the central banks make an assessment of the currency and credit requirements of each member country's public sector and civil economy for the coming year, taking into account chiefly the rate of economic growth and the level of foreign trade. Currency and credit are then allocated in accordance with the requirements proposed by each country's "Comités Nationaux de Crédits" under the responsibility of its Ministry of Finance.

The system relies for its effectiveness on a fiscal discipline that is imposed on the governments of member countries. Essentially, they are obliged to draw up and implement balanced budgets (although this does not always work out in practice), with the central bank limiting its advances to governments merely to operating credits. In the absence of domestic capital markets in which loans could be raised, actual fiscal deficits have to be met with grants and loans from abroad. The result has been a debt crisis that has severely strained the finances of most of the member countries.

From a monetarist point of view, the effectiveness of this system in controlling the money supply and inflation is quite remarkable by the standards of the rest of Africa, or for that matter most countries in the world. In recent years, the broad money supply (including bank credit and money supply) in the UMOA and Central African regions of the zone has not risen by more than 20%, and has even fallen recently.

The record on inflation is even more extraordinary: Consumer prices have fluctuated within bounds that are regarded as normal in the advanced industrialised capitalist economies. For these countries, many of which are experiencing severe debt problems, to have retained the value of their currency with full convertibility in this way is a remarkable achievement. Those who know the region are not surprised therefore that the African franc zone countries are a favourite destination for African smugglers carrying anything exportable<sup>3</sup>. An unknown but significant proportion of these countries' gross national products and exports is in fact produced in neighbouring countries whose governments have retained and abused the monetary prerogative.

3.1.1.2. The effect of adjustment on countries in the Franc zone

Pub. adjustment  
to curb  
in the  
the  
substantive  
rate

Given this context, monetary adjustment should take place more smoothly than in other countries of the continent

The adjustment criteria include control of the money supply and price stability. In fact, it must be remembered that the countries in the Franc zone are particularly heavily indebted. Per head of population, the debts of Ivory Coast, the Congo, Cameroon and Gabon - the intermediate <sup>low income</sup> revenue countries in this group - are among the heaviest in the whole of Subsaharan Africa. The less advanced countries, for their part, are faced with debt servicing which is a crushing weight in proportion to their budgetary receipts and in view of their

<sup>3</sup> Cf. Olivier Vallée : "La dimension monétaire des échanges entre les pays du Golfe du Bénin (Nigeria, Bénin, Togo)". Paris, Décembre 1988.

stagnating exports. The table below shows the development of the balances of payments for countries belonging to UMOA.

It is easily realized that in certain years trade performance did not allow current debt to be reduced.

International aid and re-scheduling are the responses to the disequilibrium caused by buying services and repaying debt. The balance has to be financed through the IMF and the BCEAO operating account with the French Treasury. This deficit on external accounts is demonstrated by the fall in gross internal savings and investments.

To this must be added the fall in direct foreign investment and loans from commercial banks. These resources, which should have been used to finance industrial development, are also lacking. It is therefore important to appreciate the impact of the debt crisis and the re-adjustment process on the production structures of these states.

Table 3.1. I

## Current balance of UMOA countries (million \$)

1982	1983	1984	1985	1986	1987	Total for the period
- 2 158	- 1 730	- 1 377	- 698	- 1 066	- 1 616	- 8 645

Table 3.1. II

## Official transfers (million \$)

1982	1983	1984	1985	1986	1987	Total for the period
+ 738	+ 654	+ 628	+ 666	+ 482	+ 457	+ 3 625

Table 3.1. III

## Long term capital (millions \$)

1982	1983	1984	1985	1986	1987	Total for the period
+ 1 134	+ 904	+ 558	+ 403	+ 424	+ 270	+ 3 693

Table 3.1. IV  
*mean, Recovery*

## Exceptional financing (million \$)

1982	1983	1984	1985	1986	1987	Total
+ 158	+ 406	+ 83	- 175	+ 132	+ 316	+ 920

Source : IMF and personal calculations

*rest. de déficit*

3.1.1.3. The effect of the adjustment on production structures

The table below, drawn from the World Bank report, shows the performance of African countries under adjustment. All members of the Franc zone, with the exception of Togo, Benin, Gabon and Cameroon, are considered to be following strong reform programs.

Table 3.1. V

Economic performance in Sub-Saharan Africa: reformers versus non reformers, 1980-87 (a)					
Indicators	Period	All countries		Countries not affected by strong shocks	
		with strong reform programs	with weak or no reform programs	with strong reform programs	with weak or no reform programs
Growth of GDP (constant 1980 prices)	1980-84	1.4	1.5	1.2	0.7
	1985-87	2.8	2.7	3.8	1.5
Growth of agricultural production	1980-84	1.1	1.3	1.4	1.8
	1985-87	2.6	1.5	3.4	2.6
Growth of exports	1980-84	-1.3 (-11.0)	-3.1 (-0.9)	-0.7 (-4.7)	-5.7 (-2.1)
	1985-87	4.2 (-2.0)	0.2 (-2.5)	4.9 (3.5)	-3.3 (-6.0)
Growth of imports	1985-87	-1.7 (-7.7)	-2.7 (-3.0)	6.1 (7.4)	-4.0 (-2.2)
Growth of real domestic investment	1980-84	-8.1	-3.7	-3.5	-7.0
	1985-87	-0.9	-7.0	1.9	-4.8
Gross domestic savings (percentage of GDP, period average)	1982-84	9.9	2.3	7.8	0.9
	1986-87	10.7	6.0	10.7	5.6
Growth of per capita consumption (real)	1980-84	-2.3	-1.1	-2.4	-1.5
	1985-87	-0.4	-0.5	0.7	-0.9

Source : World Bank, Africa's Adjustment and Growth in the 1980s, 1989.  
 Note : Country coverage varies by indicator depending on available data over the entire period covered. Average are unweighted except as noted. Growth rates are computed using least squares. Periods are inclusive. Figures in parentheses are weighted averages of country growth rates for trade.

(a) Countries with strong reform programs are : Burundi, Central African Republic, Congo, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Madagascar, Malawi, Mauritania, Mauritius, Niger, Nigeria, Burkina Faso, Comoros, Equatorial Guinea, Ethiopia, Liberia, Mali, Sierra Leone, Somalia, Sudan, Zambia, and Zimbabwe. Countries affected by strong economic shocks (good and bad) are underlined. Others are excluded because special adjustment has not been needed, reform efforts are very recent, or data are lacking.

\* Need to say that this data is only indicative word of caution,

For the most favoured countries, investment growth has only been 1.9% during 1985-87. Elsewhere, it has fallen. Consumption per head of population has also fallen, with the exception of 0.9% growth in those countries unaffected by the adjustment.

|| One of the characteristics of the Franc zone adjustment is that it has not included devaluation.

In non-CFA countries, exchange rates have been a major area of reform. Domestic currencies had become increasingly overvalued because of higher inflation than in the region's major trading partners and resistance to nominal devaluation. One indicator of overvaluation is the difference between official nominal exchange rates and parallel market exchange rates. In 1986, the average ratio of the black market exchange rate to the official rate was about a third higher than in the early 1970s.

Currency devaluation has also substantially increased the scope for higher farm prices. However, most governments adjust official prices with a lag, or by less than the full extent of the devaluation.

|| Unable to use devaluation, the Franc zone countries attacked the problem of adjustment by decreasing the protection given to the manufacturing sector. This policy was based on the observation that the imposition of high tariff rates or quantitative restrictions on imports of finished goods, coupled with minimal tariffs on imported raw materials and intermediate goods encouraged the growth of inefficient, import-intensive manufacturing enterprises.

This decrease in protection (cf. country case studies) facilitated imports of products competing with local industries, and encouraged customs fraud. The lack of efficiency and productivity with which local industry was reproached resulted, finally, in the destruction of the existing productive fabric, increased imports and reduced employment<sup>4</sup>.

{ The other principle measure of adjustment in the countries of the Franc zone bore on the reduction of the budget deficit (cf. table from Structural Adjustment and Industry in Africa, IBRD, 1989).

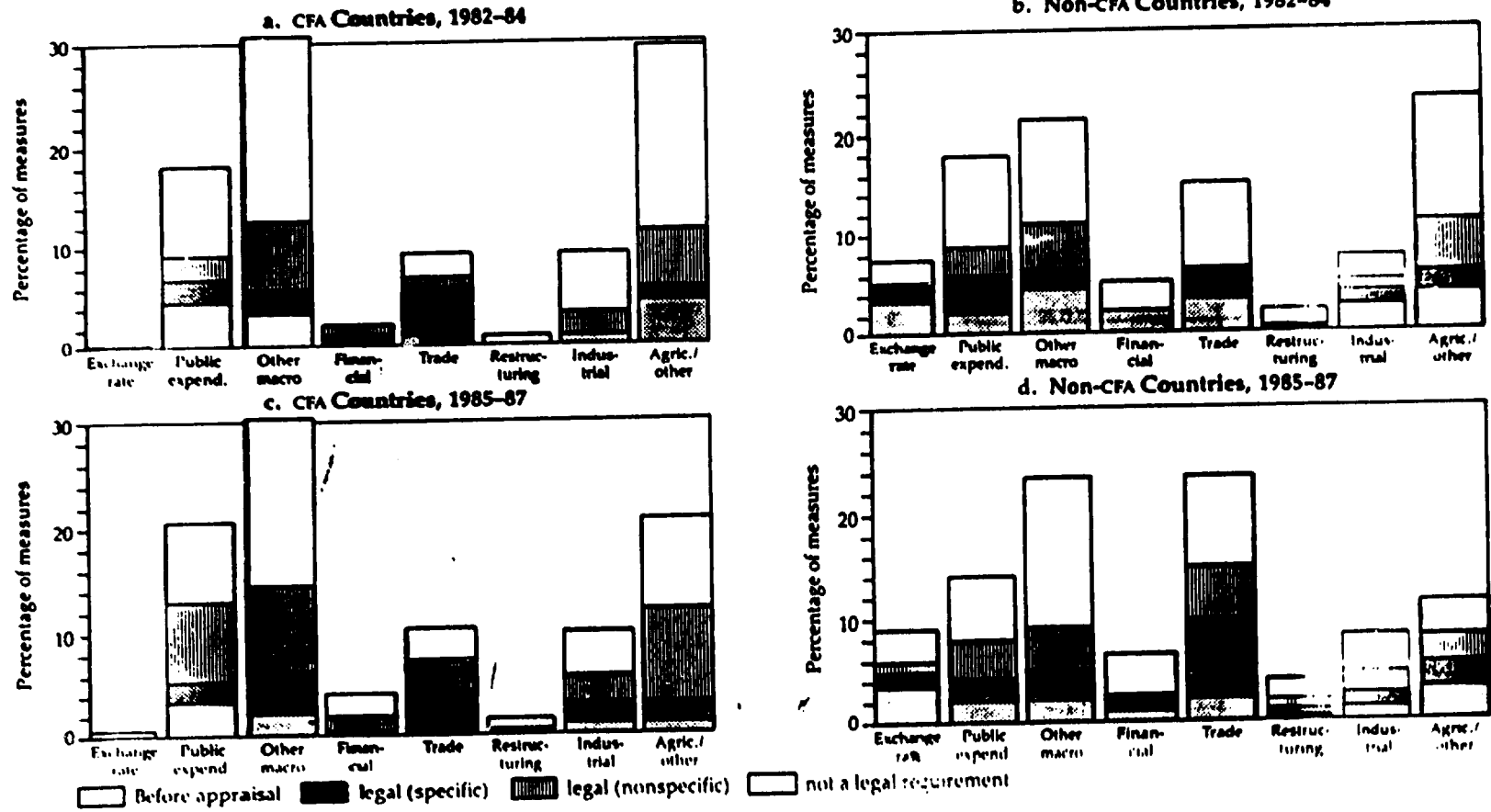
explains { In countries where the state inevitably has to undertake the organisation of capital accumulation, this fiscal discipline has resulted in a tendency for the countries within the African Franc zone to stagnate<sup>5</sup>. This does not mean that they have not gone on periodic development project spending sprees like their neighbours in the rest of Africa. But these excesses have tended to be set off by favourable conjunctures in world commodity markets, resulting in high export revenues, rather than being "dashes for growth" financed by monetary profligacy.

overly expanding monetary expansion

<sup>4</sup> Cf. le rapport ONUDI 1989, "Industrie et Développement".

<sup>5</sup> M. Kalecki.

Distribution of Adjustment Measures by Policy Area in CFA and Non-CFA Countries, Fiscal Years 1982-84 and 1985-87



Source ?

In recent years fiscal discipline has been reinforced by the ministrations of the International Monetary Fund, with the aim of eliminating financial deficits (in trade and public sector balances). It has been bureaucratically convenient for the burden of this austerity to fall on investment, in particular since the savings that can be obtained from squeezing consumption are limited and politically dangerous in countries with relatively weak governments and low standards of living. The result is that economic growth rates in the 1980s, have largely failed to keep up with the increase in population growth<sup>6</sup>.

With <sup>replace government investment!</sup> capital accumulation by the state shackled by the requirement to maintain nominally balanced budgets, this responsibility devolves on the private sector in the countries concerned, and on the Franc zone's development banks. These are the "Banque Ouest-Africaine de Développement" and the "Banque de Développement des Etats de l'Afrique Centrale", for the two African regions of the Franc zone. The problem with the indigenous private sector in these countries is that in urban areas it is made up of an essentially <sup>trading & mercantile class</sup> mercantile class interested mainly in accumulating and extending mercantile capital. World Bank-inspired privatisations of industrial undertakings have tended to transfer them to foreign interests frequently endowed with monopoly privileges<sup>7</sup>. Apart from nominal shareholdings by the African States that are supposed to benefit from their development activity, the development banks themselves have capital put up by the France, West Germany and Kuwait. During the 80s, both industry and infrastructure projects have been financed by the development banks with co-financing from the World Bank and <sup>by</sup> French and other official agencies. Inputs from indigenous capital have been purely nominal.

Trading

3.1.1.4 Financial variables / What is this!

Indigenous capital itself is constrained by the very system of quantitative credit controls and high real interest rates that are used to maintain the value of the currency and prevent depositors from converting their holdings into French francs. Little risk capital is therefore available in these countries, while the process of securing co-financing from official aid donors and credit institutions is cumbersome and bureaucratic.

In addition, by <sup>refusing the investment</sup> refusing devaluation the Franc Zone system is forced to rely on the price of money to defend the CFA Franc. The central banks, in particular the BCEAO<sup>8</sup>, raise the interest rate, limit <sup>explains</sup> re-discounts and suppress all sectoral allocation coefficients. It is of course manufacturing industry which already bears the brunt of competing imports that then has to bear the added weight of a rise in the cost of its financial resources.

The steps taken in the first half of the 1989 to stem capital outflow have centred around an increase of the central banks' preferential discount rate to 9% (the

title how does this fit in? demand reb? explain

<sup>6</sup> J. Toporowski "Togo : A Structural Adjustment that Destabilizes Economic Growth" in IDS Bulletin Institute for Development Studies, Sussex 1988, Vol.19, N°1  
<sup>7</sup> J. Toporowski "Privatisation Queried" West Africa 28 August 1989  
<sup>8</sup> Ct. Olivier Vallée, "la Dynamique de l'UMOA", Marchés Tropicaux, juin 1989



second increase in three months), before which it stood at 6%. For countries which are experiencing price deflation this represents a severely restrictive monetary stance. A meeting of finance ministers of UMOA in Dakar on the 10 June agreed additional measures to "rehabilitate the banking system on a long-term basis". These were to include "firm action to recover frozen debts and grant management autonomy", while external aid donors were to be asked to help with financial resources for a restructuring of the banking sector<sup>9</sup>.

None of these measures seem adequate to cope with the acute problems of economic stagnation and monetary deflation in the Franc Zone and may even exacerbate them. The recovery of frozen debts is a step that is more likely to put pressure on the cash flow of the corporate sector, already strained by weak demand and high real interest rates. The granting of greater management autonomy in those circumstances is more likely to increase capital outflow and encourage illicit currency activity and embezzlement. Finally, the banking sector in the Franc zone is hardly likely to be a priority for external aid donors when other sectors of the economy are evidently experiencing more acute difficulties.

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<sup>9</sup> "Banking Reforms Speed up" African Economic Digest 19 June 1989

4 THE CHALLENGE OF INDUSTRIAL REHABILITATION IN THE CONTEXT OF INDEBTNESS

Perhaps the most extreme debt relief proposal suggested is to forgive all external debts, including those to international organisations, and to restrict all future assistance to outright grants. This was also proposed in the 1979 UNCTAD agreement. Such a strategy would, of course, eliminate the Sub-Saharan African debt problem. However, it raises difficult policy issues, including the possibility of a reduction in net flows to Sub-Saharan African countries. In addition, the resources required to forgive all outstanding external debt of this region far exceed the present or foreseeable aid budgets of industrial countries. Simply to repay the estimated end-1987 African debt to international organisations would require more than \$29 billion. As this is more than twice the annual sum of official grants and net official borrowing by these countries in 1987, this proposal appears financially infeasible.

*U. should have explained*

Along with the policy initiatives by the creditor countries, it is essential for Sub-Saharan African countries themselves to adjust their policies to the changed external situation to alleviate their debt burdens. One way is to increase domestic savings by encouraging private savings, as well as by increasing public savings through fiscal retrenchment. Since many of these countries have very high inflation rates and negative real interest rates, encouraging private savings may require substantial increases in nominal interest rates, so that real rates become positive. As for boosting public savings, this will require measures to decrease the government's budget deficit, through revenue increases and appropriate expenditure cuts.

These two major conditions for rehabilitating the industrial capacity of Subsaharan Africa nevertheless have certain limitations. Cancelling a debt is still considered by foreign investors as a sign of risk. Without circumstances that specifically guarantee access to foreign currency, cancelling a debt foreshadows problems for repatriating dividends or simply the absence of resources for the purchase of spare parts and raw materials.

*reducing in the deficit*

The gift solution restricts the transfer of resources to states and target populations. Industrial donations are not yet a reality. Nutritional aid is, furthermore, a factor in the destabilisation of local products and poses all the problems of a resource in kind which is substituted for a local product. Recommendations in favour of budgetary equilibrium and a rise in interest rates are not without their own influence on the re-industrialisation of Africa. In fact, it would result in the disengagement of the state from industrial policy without any foreign national forces being visibly able to take up the burden of investment and management alone. In addition, the rise in the cost of money has effects which are not always positive for investment even if it is a means of stimulating savings. Difficult access to credit aggravated by a rise in price of financial resources can slow industrial investment. The facilities opened by the removal of economic protection incite economic agents to turn to trade and imports. The remuneration

of monetary investment stimulates savings to move towards the interbank market and reduces the resources available for allocation to industry.

For industry to benefit from the conversion of the constraints of debt into an advantage, it is imperative to institute a strategy including:

- the rehabilitation of productive capacity
- the acquisition of technology
- the financing of industrial rehabilitation
- the encouragement of direct foreign investment
- the integration of the state and the private sector into the industrial process.

#### 4.1 THE REHABILITATION OF PRODUCTIVE CAPACITY

*Poppy*  
*Swat!*  
The 1989-90 UNIDO report "Industry and development in the world" brings out the regression and/or stagnation in Africa of added manufacturing value in certain branches: clothing, leather, shoes, wooden products, furniture, industrial chemicals, other chemicals, non-ferrous metals, electrical and non-electrical machinery and transport equipment. It also stresses (page 65) the feeble use made of industrial capacity in numerous countries in this region. *in ad. walt.*

It explains the under-utilisation of existing industrial capacity as follows:

*"But import reduction has not been the only cause of under-utilisation of industrial capacity<sup>1</sup>. Internal causes have also played a role, among them a lack of competence in management, frequent failure of energy supplies, insufficient technical service installations, lack of information and weak sales and distribution".*

Faced with this double problem, the rehabilitation of the existing industrial base seems to require the specification of a sectorial strategy and a plan for dealing with current obstacles to improved use of productive capacity.

- ? *Continuing good old industrial*  
On the first point, in spite of Africa's disquieting absence from the International Industrial Labour Division, it must be remembered that household consumption, ahead of any improvement in inter- and intra-sectorial relations, is the real driving belt of industrial manufacturing demand. Population growth, like the non-saturation of the primary needs of the population, make the consumer goods sector a privileged wing of industrial development. This orientation allows the manufacturing sector access to fast resources after sales and also to economies of scale.

The success of the tobacco, drinks and food sectors in the face of strong competition from imported products at dump prices, proves this contention. The necessary extension of distribution networks accompanying this success is the source of increased worker recruitment and of the settlement throughout the

<sup>1</sup> It has been suggested that a large part of the decrease in productivity of the manufacturing sector in Kenya, Tanzania and Zambia and the feeble growth of overall productivity in Zambia are due to under-utilisation of production capacity.

territory of populations which are accustomed to frequent relocation as a means of combating the dearth or excessive cost of consumer goods and staples.

✓ Textiles, clothing, leather, shoes, wooden articles, furniture, chemical products, plastics, pottery and non-metallic mineral articles will meet this goal. The structural advantage of this approach to industrialisation is that it emphasises the economic insertion of local recruits, and uses technologies whose access and utilisation are not subject to restraint or caveat. Local outlets exist and encourage more intensive employment of the labour force in these sectors than in capital equipment sectors. The content of programs for industrial rehabilitation and for the reconstruction of industries which have ceased to exist (cf. the shoe industry in French speaking Africa), should be linked to measures which we shall present briefly:

Needs to be really || The first measure would appear to be the intensification or re-establishment of protection in the sectors mentioned above. Prohibition or taxation of finished goods on entry cannot limit the development of industrial and supply side capacity, the ultimate goals of the adjustment plans. Lowering customs duties on semi-finished goods and capital equipment will complete this measure. |

This restriction on the influx into Africa of products from the rest of the world is of course only tenable while production costs are held steady and sale prices remain acceptable for both producer and consumer.

## 4.2 ACQUIRING TECHNOLOGY

### 4.2.1 Restricted human resources

#### a) The brain drain

by whom  
No precise data are available on the extent of the brain drain out of Africa. There are certainly thousands of expatriate African executives, the majority of whom have no intention of returning during their professional career. (Nearly 33,000 immigrants from developing countries were recorded during 1979).

Ghana  
Shan  
summary  
We know that in certain professions there are more expatriate Africans in the West than remain in their own countries (Senegalese doctors, for example). The efforts to repatriate these emigrants undertaken until now have produced rather modest results. Between 1983-87, the Inter-governmental Migrations Committee (IMC) encouraged only 535 Africans with higher education to return to their countries.

#### b) The lack of finance

Quality in higher education, especially at technical and professional levels, requires far greater investment than basic education. Many African states have had to cut their educational budgets because they are facing a period of generalised financial austerity. For lack of personnel and means (in particular technical equipment), the practical aspect of technical training is severely compromised.

### c) The socio-cultural environment

In addition to competition from the public sector, the private sector has to face the disdain for production oriented and technical work shown by holders of degrees and certificates, especially noticeable among teachers in higher education. This well-known phenomenon is paralleled by numerous constraints due to family, ethnic or religious environment, which are often in opposition to the values necessary for the development of an enterprise (confusion between personal resources and resources belonging to the business, absence of notions of time, etc.). Additionally, African executives lack the necessary daily contact with a developed economy and the tools necessary for in-depth consideration of a subject or for updating their own knowledge base.

### d) Supply of skilled labour

The existing supply of skilled labour in Africa is quantitatively insufficient. This is clearly shown by the available statistics and comparisons between countries in different categories.

#### 4.2.2 Information requirements in the manufacturing sector

These requirements include information concerning markets, finance, capital equipment, technology, statistics and other selected products and services. Although the information needs of each sector varies from heading to heading, the information required by any given business in fact depends on the sector (extraction, fabrication or agriculture), the sub-sector (food industry, machinery manufacture), the locality, the size of the business, the markets supplied (local, export or both), and the immediate objective in view.

#### 4.2.3 General problems

Firms have had difficulty in adopting modern management practices, undertaking sizable and riskier investments, or incorporating more complex technologies. The introduction of sophisticated technology from abroad has been discouraged by inadequate intellectual-property protection.

Antiquated local financial markets pose another obstacle, failing to finance either maturing smaller companies or venture capitalists. The banking system is virtually entirely nationalized and, though awash with funds, is not encouraged to deliver competitively priced funding to any but the largest, most cash-rich companies. A tradition of short-term lending tied to physical collateral discourages lending to business except for low-risk investments. This tradition penalizes new borrowers as <sup>and involves</sup> low technology level of investments.

Tableau 4.2 I

## Technological gap indicators between regions

Indicators	Available between	Devel. countries with market econ.	Socialist countries			Developed countries			
			East Europe	Asia	Total	Africa	U.S.A.	Asia	Least dev. countries
1- Scientists and engineers per 10,000 inhab.	1968-72	157	224.1		43.3	5.8	93.1	43.3	
	1978-82	285.2	308.2		95	9.6	68.7	157.6	
2- Technicians per 10,000 inhab.	1968-72	138.4	425.8		37.3	7.9	116.1	33.4	
	1978-82	1 156.6	692.4		117.8		127.3	184.8	
3- Scientists and engineers in R&D per 10,000 inhab	1968-72	10.4	16.9		0.9	0.4	1.7	1.4	0.3
	1978-82	16.6	29.9		1.5	0.5	1.9	1.2	
4- Technicians employed in R&D per 10,000 inhab	1968-72	8.2	19.0		0.6	0.4	1.4	0.6	0.3
	1978-82	11.8	20.3		1.0	0.8	2.2	0.8	
5- R&D expenditure in % GNP	1968-72	1.2	3.0		0.3	0.6	0.3	0.3	
	1978-82	1.3	3.5		0.2	0.2	0.2	0.5	
6- Professionals and technicians in % active population	1968-72	10.1	10.9		5.3	4.0	7.5	4.1	
	1978-82	13.8	12.8		7.3	2.4	8.0	6.3	
7- % active population employed in manufacturing sector	1968-72	25.5	34.9		11.2	5.4	11.7	11.9	
	1978-82	22.3	28.7		11.1	4.5	12.3	10.4	
8- Adult literacy level (%)	1968-72	96.3	95.0		41.5	18.0	87.9	31.0	10.0
	1978-82	98.5	98.8	66.0	54.0	34.5	85.0	64.5	17.4
9- School enrollment as % school age population	1968-72	91.0	88.5	64.0	61.0	43.0	78.5	56.0	26.0
	1978-82	91.0	93.0	88.0	70.5	56.0	82.0	69.5	43.5

Source: CNUCED

In order to escape from this trap, it will be necessary to carry out the following program in close collaboration with government partners and representatives of the employers:

- a) Definition of strategies and projects
- b) Identification of specific needs of different types of business and different sectors
- c) Measurement of the ability of these businesses to participate in training programs, in particular the reception of young people in pre-professional courses
- d) Evaluation of existing training capacities and the problems requiring attention before they can be utilised for continuous training and/or professional improvement (including the identification of potential training staff and their preparation for this role).

#### 4.2.4 *The answers* ? Possible remedies

Faced with these difficulties, the countries of Africa must discipline themselves to the search for a new framework for training. This research must be guided by the total training requirements of African entrepreneurs. Businessmen cannot arrive at a better understanding of employment needs without access to information about technologies and markets.

For a country able to seize the opportunities offered by new technologies and new forms of organisation, these trends offer tremendous potential. For others, the rapid pace of technical change can be a threat. Among developing countries, present trends show an increasing polarization between those that can successfully adjust to technical change and heightened international competition, and those that cannot. This puts a premium on developing strategies for being able to take advantage of technology and technical change.

Technical change is defined broadly, as change in the technological knowledge, procedural methods, and organisational modes used to transform inputs into outputs. This definition lays less stress on hardware than on knowledge, organisational modes, and methods. This is because technology is to a large extent embodied in people and institutions, not just in physical objects, and hence to acquire technological capability is mostly a matter of building up skills and institutions, not of buying hardware. Technology policy in a developing economy may be defined as the network of policies and institutions that affect how the economy acquires technology from abroad, diffuses and uses technology, and improves and develops technology.

### 4.3 FINANCING INDUSTRIAL REHABILITATION

#### 4.3.1 *The importance of reorganising the local financial sector*

Africa is beginning to realise what is required for the re-adjustment of that she has been living with for the past decade, emphasising the decisive importance of mobilising savings as the means for managing external imbalances and internal change. Without the creation of national savings, the investment efforts required to improve productivity and expand a supply economy cannot be financed from the outside. The weight of external capital on debt servicing in the public sector of African states and their relative neglect of the private sector are likewise well understood.

It is of course the local financial structure which has the ability to attract these resources and orient them towards the sectors that use them most profitably. But the development of this production oriented economy appears to be blocked by the state of the banks.

The role played by mediating financial institutions is to be found at the heart of economies which for too long have lived on the dualism of a modern sector and a traditional sector, with classic forms of financing and informal savings structures. Practitioners and theorists alike have had to accept that the financial framework of African states has been a necessary condition for their development and that the complete intermediary role of an economic system does not follow maturity but

accompanies it. The search for local resources and their allocation to viable projects, the financing of both consumption and investment appear more and more, at a moment when the public sector is being reformed, to be the pivots upon which the relaunch of economic growth must turn.

Financial institutions, from central banks to commercial ones and from specialised institutions to regional organisations, must be keep the appointment with the new order, of which they can in part define the rules.

The need for central banks to defend the currency by raising rates, restructuring bank balance sheets and reducing their lending capacities, the under-equipment of financiers faced with projects requiring analysis, the automatic pursuit of markets, all constitute so many brakes on the emergence of African financial resources to encourage manufacturing industry.

#### 4.3.2 Injections of liquidity

The installation of risk capital and development capital structures in Africa basically requires a complementary pool of resources for financing business. Enterprises in general suffer from scarce liquidity and foreign correspondents' lack of confidence in local banks. Similarly, the local banking system, faced with the poor quality of the guarantees it receives, requires more and more frequently a personal engagement from the promoter in the form of a counter-guarantee.

Taken together, these constraints open the way for innovations, such as a market in bills of exchange, the underwriting of share or bond issues, warrants on imported goods, etc. etc.

However, it would not be wise make these local reforms a subordinate part in the introduction of a substitute for public export insurers.

#### 4.3.3 Backing by export credits

The support offered by this facility, often used for the purchase of capital equipment, is blocked in the absence of a guarantee or local support from domestic banks. This formula is perhaps necessary in the context of debt crisis.

But above all, local businesses need to mobilise resources in order to create their own capital, and obtain operating credits linked to their reserves, or prefinancing for production cycles.

By contrast, the purchase of capital goods, which must be approved locally and will be guaranteed by external public resources, resembles closely a re-run of the African state guarantees, which have in the past given rise to far too many white elephants. If medium term finance is necessary for capital equipment purchases, it should be remembered that numerous financial security systems already exist, such as forfeit accounts, escrow accounts etc.

At any event, it is the capacity of the investing business to create a cashflow which should be the determining factor; secondly, the allocation of a proportion of this cashflow to a blocked account for the repayments should satisfy the suppliers and their bankers.



**4.4 ATTRACTING FOREIGN INVESTMENT**

**4.4.1 The advantages of this form of investment for industry**

The situation of the developing countries would seem to require a renewal of growth, which has to be based on productive investment.

The resumption of productive investment will of necessity be dependent on external sources because of the feeble level of internal savings, reduced still further by the incidence of debt servicing.

This resumption therefore requires the joint action of export development, the search for bank aid, reinforced Public Aid for Development and a renewal of direct foreign investment.

The full use of current production capacities to make goods for export in response to the increase in international demand, should in theory result in a rise in the level of export receipts. However, it may well be that this will not suffice to finance a sufficient level of imported productive equipment: the developing countries have a crucial need for external financial support to develop their export production, at least in those fields where world demand is elastic.

In addition, at current level <sup>Official development Aid</sup> Public Aid for Development should be concentrated, as we have seen, on structural adjustments, rehabilitation of infrastructures, rural development, training and <sup>research by market</sup> research. In spite of the new accent on rapid disbursement loans destined in part to finance imports, there is little hope that Public Aid for Development will today provide a significant injection of resources directly aimed at recreating productive economies based on the manufacturing sector.

Finally, the pursuit of long-term debt under market conditions, whether in bonds or bank loans, seems problematic even for financing projects whose viability is accepted as certain. It will remain so until the developing countries have reconstructed their borrowing capacity <sup>out</sup> in way or another.

There remains, then, direct private investment. The role it should play in the resumption of growth in the developing countries appears to be better understood today. If it is in the common interest of both advanced nations and developing countries for it to play a larger part, it seems nevertheless likely that it will only gradually come to play a supporting role, and will not become a substitute for other means of transferring real resources to the developing countries. Which said, the need for external financial support dictates a broadening of the variety of possible sources. Direct private investment is one of them, and a growing number of analysts think that private investment is an essential ingredient in the process of integrating developing countries into the global economy.

Its merits can be better understood today:

- a) Direct foreign private investment can contribute to the credibility of the country's internal policies in the eyes of international and bilateral financial backers: its resumption would be the proof of the serious intent behind the policies undertaken. It is easier to see today that direct foreign private investment can, if really desired by the government, contribute to the adoption of more stable and more realistic policies with regard to rates of exchange, public finances and interest rates.

Rephrase

Where have we mentioned this?

Capital (bank and bill) supply

- b) National private investment, which a growing number of developing countries are now trying to promote, can act as a catalyst and a stimulant to competition, and encourage local suppliers. It is not simply a source of financial throughput, but also a source of technology, modern management and commercial organisation.
- c) Insofar, as the credibility of private international investors give lenders better assurance as to the viability of investment projects, there can be no doubt that privately financed projects with external components have better access to external sources of bank finance than publicly financed projects or purely local private projects.
- d) The classic type of direct private investment offers the receptor country better risk sharing than certain new forms of productive investment. The significant financial participation of investor-promoters, joined with the input of modern management methods - the heart of classic direct investment activity - encourages the optimisation of profitability in a manner which is disregarded by newer forms of investment which do not require serious financial commitment by the promoter (management contracts, technology transfer agreements, industrial management agreements, etc.).

#### 4.4.2 Conditions necessary for foreign investment

**A transparence and rapidity of agreement procedures for investment facilities.**

Private economic agents should be represented on the specialised decisionary commissions examining these questions, on the same footing as the representatives of international organisations (UNIDO). This would avoid lengthy (and sometimes useless) dialogues between administrations and businesses. The presence of national promoters would also be advantageous for the development of an industrial strategy in agreement with the authorities. It would further reduce useless competition from the exterior in sectors where a local business was already profitably installed, or with the potential for expanding its development investments.

#### **Insurance against political risk**

The free play of market forces should be assisted by the fine tuning of more strongly incitative and more coherent policies in favour of private investment.

The slow gestation of the MIGA project of international investment guarantees is a good example of the degree of divergence between industrialised countries and certain developing nations (bilateral guarantee systems, fiscal measures, etc.). A system of private insurance against political risk, underwritten by international organisations, would unfreeze a good number of projects whose profitability is considered sound.

#### 4.5 ROLE OF GOVERNMENT/PRIVATE SECTOR AS A MOBILISER OF RESOURCES AND A DIRECT PRODUCER

##### 4.5.1 *The government*

- a) It is not only by adopting or reinforcing encouraging policies that developing countries will succeed in attracting direct foreign investment. It is equally important for them to prove their determination to introduce the policies of stabilisation and adjustment that they have announced, and their will to make them succeed. This means initiating development outward-looking strategies, accepting the constraints of the market and putting every effort behind progressive integration into the international economy.
- b) Internal adjustment policies in particular will have to show their determination to encourage the development of the national private sector. The measures of encouragement, however favourable they appear on paper to foreign investment, will be of little effect if the treatment reserved in practice for the national private sector remains ambiguous or mistrustful, and if the rules of the game are not clearly spelled out and fairly applied. The effectiveness of measures of encouragement will, in fact, be a function of their degree of real integration into overall internal policy.
  - on the one hand, by installing more realistic monetary policies, more orthodox budgetary policies and generally by the introduction of stability, one can meet the major conditions for attracting potential investors;
  - on the other hand, by loosening the constraints which are too often imposed by receptor countries as the counterpart of the encouragement offered by codes of investment; this includes especially restrictions on external participation in capital or management, the payment of royalties, access to local financial markets and sources of credit, transfer of dividends, etc., as well as obligations regarding levels of incorporation of local products or the export of a certain percentage of output, etc.
- c) Finally, in the panoply of essential technical instruments, separate mention // must be made of the restoration of interest rates to their role as selectors of productive investments.

##### 4.5.2 *The private sector*

###### 4.5.2.1 *Obstacles to its development*

In Africa, numerous factors have contributed to deprive the private sector of a meaningful role in the development process. The most important of these factors, taken separately, is the absence of a propitious climate for private enterprise. Barriers in the form of regulatory controls, legal restrictions or sterile bureaucracy have seriously limited the possibilities of business for the private sector. Excessive government regulation of economic activity, added to restrictions on starting businesses, have suppressed the growth of private enterprise.

#### 4.5.2.2 Financial constraints

Financial constraints have also impeded the development of the private sector by limiting its capacity to mobilise the funds which it urgently needed for both trade and investment (cf. table 4.5 I following). Because governments made a priority of directing available financial resources to public projects, private entrepreneurs found themselves confronted with severe shortages of investment capital. Furthermore, as the governments borrowed massively on the interior credit market, private enterprise was de facto excluded from this market. This capital shortage, which particularly hit small and medium businesses, can be explained by the low level of incomes, but is also due to political and institutional weaknesses which have frequently constituted barriers to effective mobilisation of resources. In addition to which, regulations restricting financial market activity reduced savings deposits and discouraged banks from lending to small businesses. The lack of African stocks markets and merchant banks has also hampered the private sector's efforts to mobilise capital for financing the creation of new businesses or for the modernisation, expansion or restructuring of existing ones. In many cases, rigid exchange rates have led to the reduction of the amount of foreign currency available for deserving private undertakings which were obliged to import essential industrial components for their activities. Loans and gifts from abroad, which have largely remained the perquisite of public sector projects, have rarely benefited the private sector. Because of the uncertainty weighing on the availability of foreign exchange, private entrepreneurs have often refrained from carrying out important new investments or have postponed expansion projects.

#### 4.5.2.3

For some time, however, the predominance of the public sector has been the subject of a detailed scrutiny, essentially as a result of growing awareness in official circles that the financial constraints imposed by plethoric public enterprises are far too heavy. Many African countries are now questioning the necessity of maintaining state control over a large number of enterprises which need constant support and subventions if they are to survive.

#### 4.5.2.4

In order to create a more certain climate and one more favourable to direct foreign investment, twenty African countries have revised their investment codes since 1980 and others are following the trend by introducing attractive encouragements for private investors.

*U Commendatary*

Tableau 4.5. I

## Greedy Government

Distribution of ressources between the public and private sectors in sub-Saharan Africa

Net Flows	% of GDP	
	Private Sector	Public Sector*
Domestic savings	14	-1
Domestic tax transferts	-18	18
Domestic credit	1.5	3.5
Foreign aid: grants	1	4
concessional loans	0.5	3.5
Total investment	6	10
Stocks		
Domestic debt	9	30
Foreign debt	4	80
GDP	70	30
Employment (% of total)	85	15

\* Government departments and agencies and public enterprises.

Source : estimated by Mr. Keith Marsden

The Economist, September 23 1989

## 6 COUNTRY CASE STUDIES

### 6.5 SENEGAL

#### 6.5.1 *The evolution of Senegal's economy since the start of the Eighties*

##### 6.5.1.1 *Macro-economic data*

###### **From 1980 to 1987**

Pursuit of a post-independence model of agricultural and economic development reached a critical phase.

At the beginning of the 80s, the droughts of 1980 and 1982 resulted in negative real-term GDP for 1981, 1984 and 1985.

The growth element in government expenditure (31.9% of the PNB in 1981) appeared with a public deficit equal to 11.5% of the GDP, a deficit which still stands at 8.2% in 1983.

The increase in public consumption accelerated in parallel with private consumption and investment. To finance the deficit in resources, Senegal's debt expanded to 510 billion CFAF between 1979 and 1983, reaching 57% of GDP.

The Central Bank became indebted to the rest of the world. The State had to stand in for ONCAD in order to pay back the banks (94 billion CFAF or 10.5% of GDP) and was 55 billion CFAF in arrears to the private sector (6.2% of GDP) in mid 1983.

Senegal undertook a series of reforms in the course of a medium to long term program of economic and financial adjustment which was supported by five stand-by loans from the IMF, three SAP from the World Bank and several reschedulings as well as loans from the CCCE (Caisse Centrale de Coopération Economique) during the period 1983-87. A new agricultural policy and a new industrial policy liberalised crop sales, price controls and protectionist tariffs.

Public expenditure fell to 25.2% of the GDP and the budget deficit was reduced to 19.7% of GDP in the same year.

Between 1983 and 1986 the trade deficit shrank from \$311 million US to \$261 million under the influence of stabilising exports and a reduction of imports.

The current account also returned to health with a decrease in service expenses and an increase in foreign trade.

The table of State financial operations (TOFE) shows that the balance of ordinary operations became positive, climbing from -20 billion CFAF in 1983-84 to +34.8 billion CFAF in 1986-87.

But in fact the weight of repaying public arrears was still present and the State's global deficit was higher in 1986-87 than in 1982-83.

The proportion of gifts and SAP increased considerably from 1984-85 to 1986-87.

The GDP increased from 939 billion CFAF in 1983 to 1,374 billion CFAF in 1988-89.

### From 1988 to 90

Evolution of the GDP during this period is somewhat uncertain insofar as we do not yet have the total GDP for 1988. The Senegal authorities postulate GDP growth of 4.2% from 1987 to 1988, suggesting that groundnuts production increased in 1988 by 120,000 tonnes, dropping back to 722,000 tonnes in 1989. The gross sales of industrial production fell during 1988 and continued to fall during 1989.

## 6.5.2 Actual measure of the situation

### 6.5.2.1 External exchanges

In spite of falling groundnut prices in 1987, Senegal has almost maintained the export level of 1986 (206 billion CFA as against 214 billion). Since 1984, however, a downward trend has been observable, largely due to the fall in prices of groundnuts, phosphate and cotton. Senegal's main exports are fishery products (59.5 billion), re-exports of refined petroleum products (14.5 billion), groundnut products (21 billion), phosphates (19.8 billion) and chemical products (16.4 billion).

Imports continued to shrink although less evidently than in 1985-86 (1985, 355.8 Bn; 1986 309.2 Bn; 1987 286.1 Bn). The main headings are: Intermediate goods, 117 Bn; Food products, 74.3 Bn; Non-food consumer products, 62 Bn; Heavy machinery 50.9 Bn; oil products 43.1 Bn. The oil bill shrank very markedly, allowing the State to turn in important Extraordinary Receipts, insofar as the fall in prices was not wholly passed on to the internal market.

As concerns food imports, there was a marked regression of rice imports in 1987 (252,000 tons as against 372,000 in '86) because of the excellent weather conditions.

With 89.2 Bn CFA, the deficit of FOB trading balances is reducing at 6%, within the adjustment measures advocated by the IBRD and the IMF. On the basis of 1982=100, exports in 1987 are indexed at 133.1 as against 127.3 for imports.

In terms of the balance of payments, there is a slight reduction of the deficit in goods and services and in the current account (-86.6 as against -93.4 Bn); by contrast, the overall balance after re-scheduling has deteriorated afresh. This new drop is the result of the trade deficit and particularly of the heavy fall in the capital balance (58.8 Bn as against 177.2 Bn), resulting from the decrease in private investment flow (-26.6 in 1987); this latter phenomenon is particularly worrying, as it illustrates the lack of interest on the part of private investors.

Transfers from Senegal without offset, which reached 75 Bn. in 87/88, included 9 Bn of expatriate salaries.

### 6.5.2.2 Debt servicing

In 1987 debt servicing after rescheduling reached 88 Bn CFA, a level identical to 1986 (23% of export revenues) while the disbursed debt continued to grow regularly in terms of current values; outstanding debt including the IMF and short term loans had reached 941 Bn at end 1987 as against 973.5 in 1986. It

should be noted however that in GDP terms the weight of debt decreased slightly, from 72.7% in 1986 to 70.4% in 1987. And since 1986 the average interest rate on this debt fell to around 3.2%, over a longer duration (32 years in 1987, compared with 30 years in '86 and 23 years in '85).

### 6.5.2.3 *The State budget*

The program negotiated with the IMF for 87/88 was predicated upon a strict control of State expenditure and continued efforts to reduce the budget deficit, which was supposed to drop from 1.5% to 0.3% of the GDP, on the basis of undertakings and gifts from foreign sources. This objective was not attained since the deficit in fact reached 1% of GDP, mainly because income was less than expected; the initial program predicated fiscal revenues totalling 212.2 Bn (up 8.8% over 1986), whereas in fact the total was only 202.9 Bn CFA.

The net position of the government and of external assets both deteriorated: the net government position dropped from 143.9 Bn in June '87 to 149.9 Bn in June '88, with external assets moving from -207.5 to -236 Bn CFA.

### 6.5.2.4 *The banking system*

The banking system is faced with serious liquidity problems mainly because of management difficulties and the volume of debt involved. Clearing up the financial situation of the banking sector is one of the elements in the program of re-adjustment of credit policy and the Senegal authorities began in 87/88 to lay the ground for a global restructuring. Certain measures have already been adopted; thus, the USB benefited in November 1987 from a consolidation of its frozen credits at the BCEAO, amounting to 21.9 Bn CFA. Within the framework of the special assistance program of the World Bank, France, the USA and the IBRD have expressed their willingness to contribute to this effort and an initial tripartite mission was sent out in May 1988, to examine the situation of the commercial banks and also of the public banking sector, whose situation is badly deteriorated, mostly because of the losses marked up by the BNDS.

## 6.5.3 *One of the pivots of the adjustment: the new industrial policy*

### 6.5.3.1 *Dismantling non-tariff protections*

The current system of protection introduces "serious distortion in the allocation of resources to industrial activities, favouring those activities which generate foreign exchange at high cost in terms of internal resources (or even with a net loss in foreign exchange)"<sup>1</sup>. Studies show, for example, that certain activities were responsible for net currency losses, as with the production of synthetic fabrics, sisal sacks, car assembly etc.

To these basic criticisms must be added the inevitable incoherences of a system of protection which was largely developed on knee-jerk principles and which depended on three different Ministries (Finance, Trade and Industry). The

<sup>1</sup> Study conducted using the concept of coefficient of cost in internal resources (CIR), showing the value of internal resources expended to save or acquire one unit of foreign currency.



incoherences related less to customs duties than to non-tariff protection (licenses and authorisations required prior to importing) and to the often outdated price lists which reflected but poorly the current values of the world market.

Both in Ivory Coast and Senegal, the principle followed was that of suppressing all quantitative restrictions: import licences and import prohibitions (except for reasons of public health and safety), prior authorisations and market price lists giving tariff minima were all abolished.

This dismantling has been applied ore or less progressively:

- In Senegal, over a period of 18 months and according to a calendar varying for different industrial sectors.  
It was a wrenching adjustment for the engineering and metal working industries, the first sector to be affected (July 1986), as local industry had only a few weeks in which to adapt. The shock was more cushioned in the textile industry, for example (January 1988).
- In Ivory Coast, suppression of non-tariff protection was accompanied by the installation of a degressive surtax spread over 5 years<sup>2</sup> and applying to manufactured products in the agricultural and food sector, fertilisers, textiles and clothing and transformation of wood.

#### 6.5.3.2 Reduction in tariff protection

In Senegal as in the Ivory Coast, the World Bank imposed an in- depth revision of customs tariffs, aiming at harmonisation of dues and above all a marked reduction in protection at frontiers.

Table 6.5. I

#### Main Trading Partners (% of total value)

Exports to :	1979	1984	Imports from:	1979	1984
France	44.5	30.6	France	38.2	26.2
UK	7.2	5.7	Nigeria	3.5	11.2
Ivory Coast	4.5	5.2	Algeria	30	8.2
Italy	4.7	4.1	Thailand	5.6	6.2
Mali	4.1	2.8	USA	4.7	5.1
Mauritania	4	2.7	Spain	2.4	4.6
Spain	0.6	2.7	West Germany	4.4	3.5
Netherlands	0.9	2.0	Ivory Coast	3.3	3.3
Cameroon	0.7	2.0	China	1.8	2.9
Japan	1.5	1.6	Italy	4.5	2.7

Source : BCEAO

<sup>2</sup> The rate is between 5% and 50% ; it falls each year and disappears at the end of the 5th year, i.e. in 1990.

The reform of transport dues was preceded by numerous studies in Ivory Coast, which was not the case in Senegal. This explains the simpler character of the new tariff grid in Senegal and the more "intellectual" character of the one used in Ivory Coast.

- In Senegal imported products are divided into 7 categories: social assimilated goods, strategic goods, equipment and raw materials, semi-finished products, products not made in Senegal, products made in Senegal and luxury products. Each category, except "social goods" is subject to a single customs duty of 15%, to which is added an entry tax which has 4 different levels depending on the product category. In all, entry dues run from 0% (social goods) to 80% (luxury products). A sliding scale allows for progressive reduction of rates so that maximum difference is 60%.
- In the Ivory Coast, the basis is the calculation of overall transport dues, product by product, so as not to exceed an effective protection rate (EPR) of 40%<sup>3</sup>, considered as sufficient to protect Ivory Coast businesses effectively but not abusively. This choice of method implies collecting for each product elements of international comparison which are sometimes difficult to obtain.

Note that the average effective rate of protection for Senegalese products shows that there is a slightly lower level of protection in Senegal (37%) than in Ivory Coast(40%).

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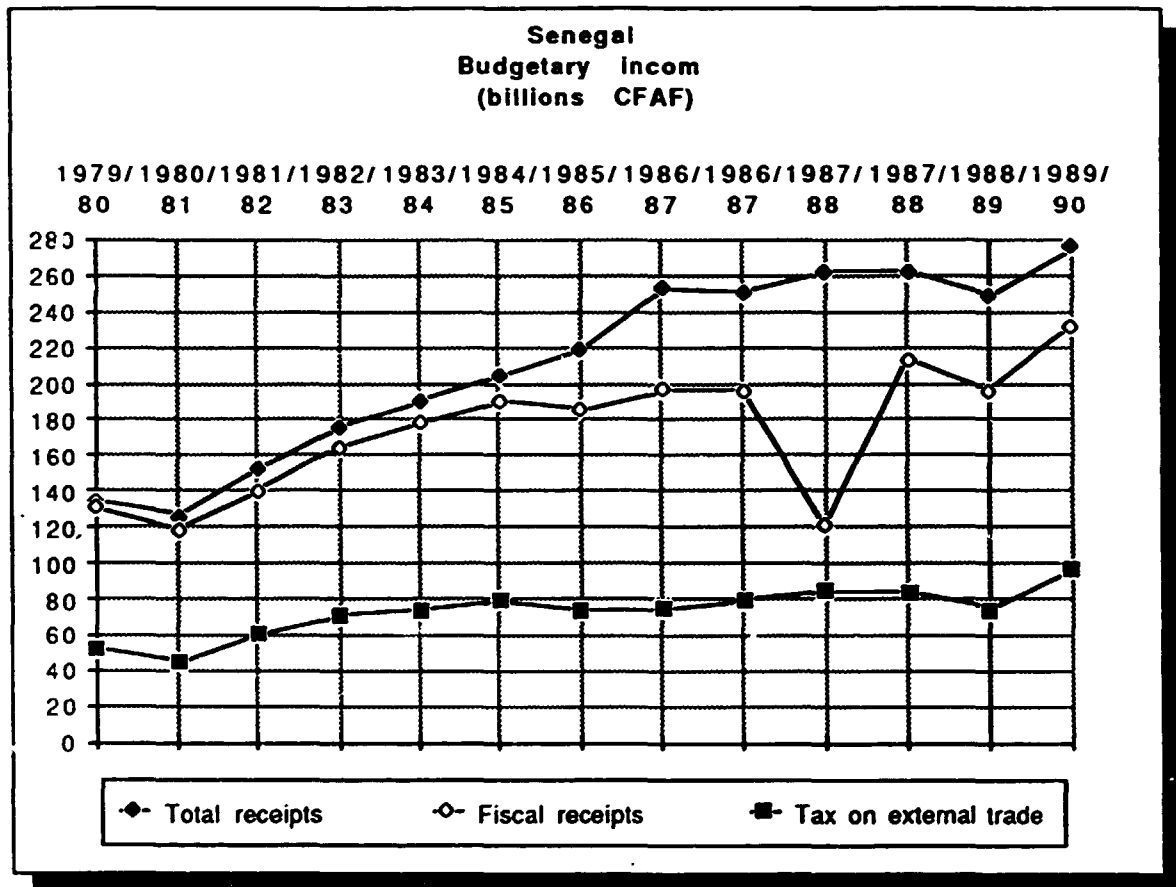
<sup>3</sup> The origin of this uniform rate of effective protection of 40% is not clearly established. It may have been suggested that this rate would compensate an over evaluation of the CFA of 20% on the one hand, of general overruns in the economy of 20% (translated particularly in the costs of production factors) on the other hand. We have found no trace of this breakdown in the World Bank documents. At all accounts, if such calculations were made in 1983, they would be distinctly different today, if only because of the devaluation of the dollar in relation to European currencies, to which the CFA is linked via the French Franc.

### 6.5.4 The consequences of NPI

#### 6.5.4.1 Effects on State receipts

The table below shows the fall in fiscal receipts and external trade taxes on the installation of the NPI. The drop in fiscal receipts, due both to business difficulties and to stagnating customs dues was to force the government to establish duties in certain sectors during 1989.

Table 6.5. II



#### 6.5.4.2 Effects on Industry

The following tables show the manner in which industry's share in the GDP by sector remained slack from 1984 to 1987. The development of the secondary sector was nevertheless stronger from '85 to '87 than growth of the GDP as a whole.

However, from 1987 industries suffered from the effects of weak internal demand linked with national and international economic difficulties, including the fall in cotton prices which penalised the textile industry and the problems facing large concerns, such as ICS or Dakar Marine, which remained in deficit.

As regards construction materials, engineering industry and food products, 1987 can be considered a bad year. The textile and especially the shoe industry (down 45%) had serious problems in disposing of their output because of weak external markets and competition from imported products, that was strengthened by the policy of liberalising external trade.

These problems were aggravated by fraudulent introduction of products competing with Senegal's limited range of industrial activities.

The leading industrial sector is the production of food products (43.1% of total industrial production), which includes sugar and soft goods (13.2%), oils (12.2%) and preserved fish (2.8%). Next come mining (18.5%), textiles (10%), clothing and leather (2.3%), and the chemical industry.

The workforce in the manufacturing sector is only a very small part of the total active population: about 1% of total, while around 1/3 of the workforce is found in the secondary and tertiary sectors. Four fields of activity cover 44% of the permanent manufacturing workforce: textiles, sugar and soft goods, fish preserving and the chemical industry. Seasonal workers are equal in number to one third of the permanent work force.

Table 6.5. III

SENEGAL						
Breakdown by sector of the Gross Domestic Product at market prices						
Heading	1982	1983	1984	1985	1986	1987
Secondary Sector	208,5	229,2	253,9	284,6	321,1	341,4
Industry	128,3	138,1	160,4	171,6	201,9	225,3
Breakdown by sector as a percentage of Gross Domestic Product						
Secondary Sector	24,7	24,4	25	24,7	24,8	24,7
Industry	15,2	14,7	15,8	14,9	15,6	16,3
Rate of Growth of Gross Domestic Product						
By volume	15,2	2,6	-4,6	3,8	4,6	4
Secondary Sector	15	2,3	-1,8	2	4,9	7,8

Table 6.5.IV

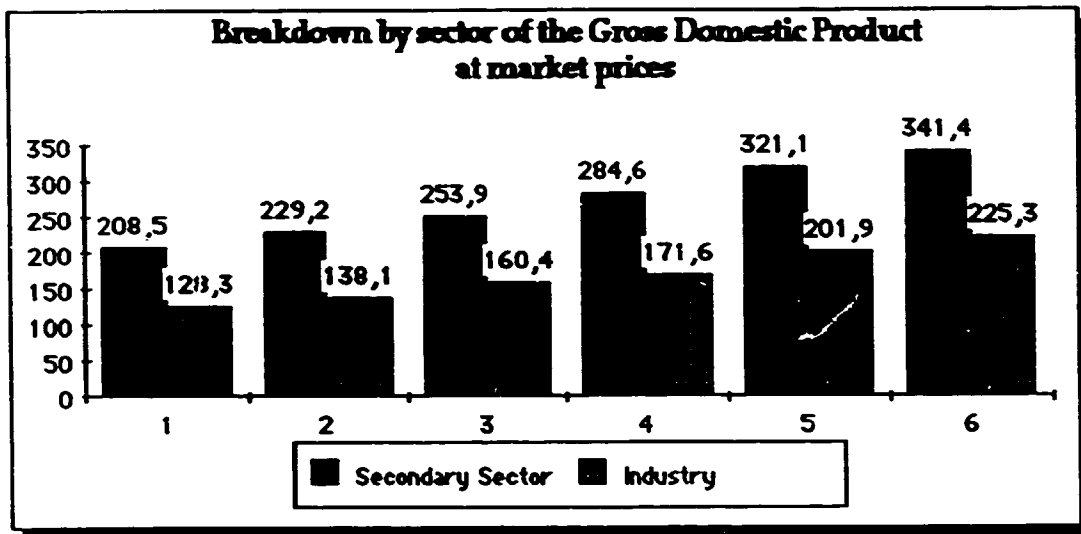


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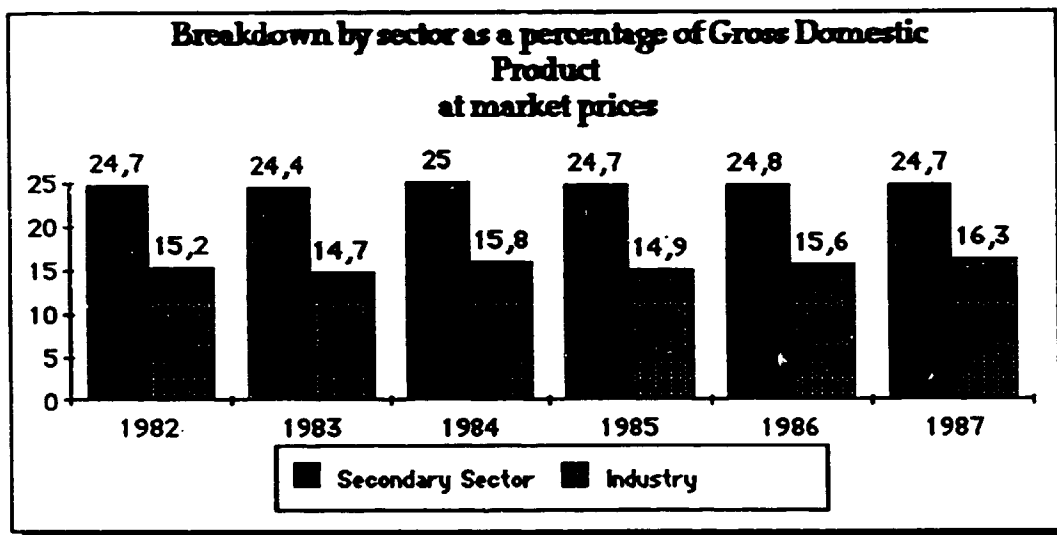


Table 6.5.VI

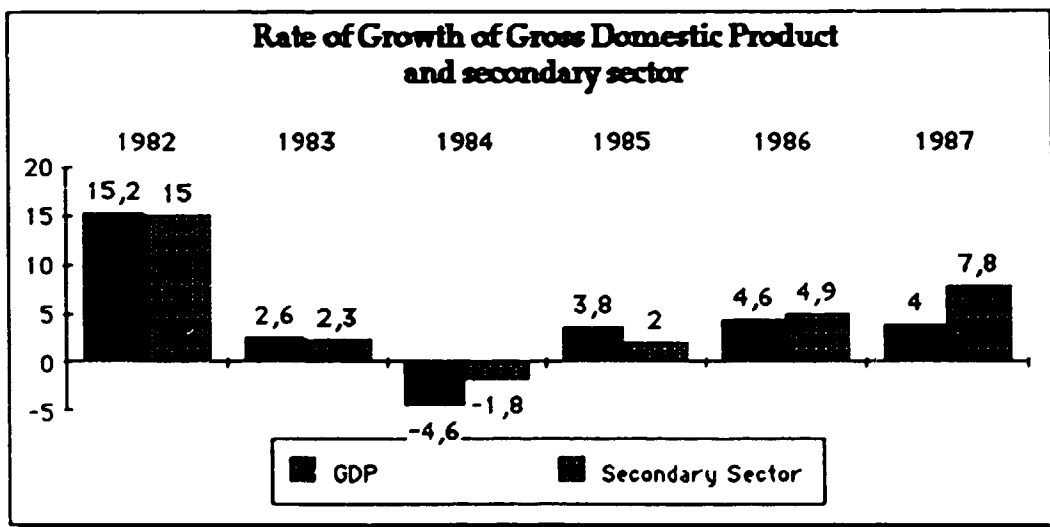


Table 6.5.VII

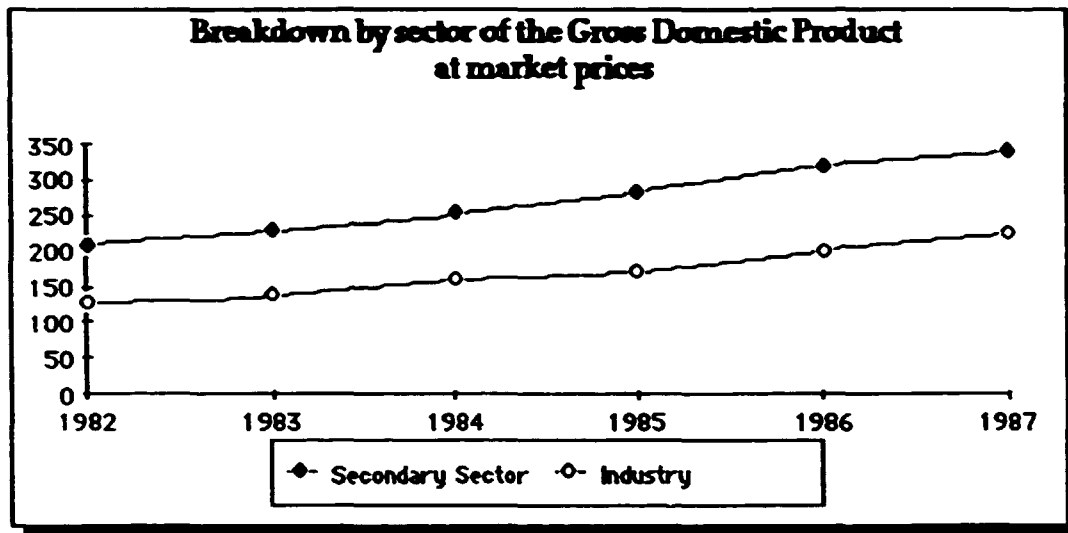


Table 6.5.VIII

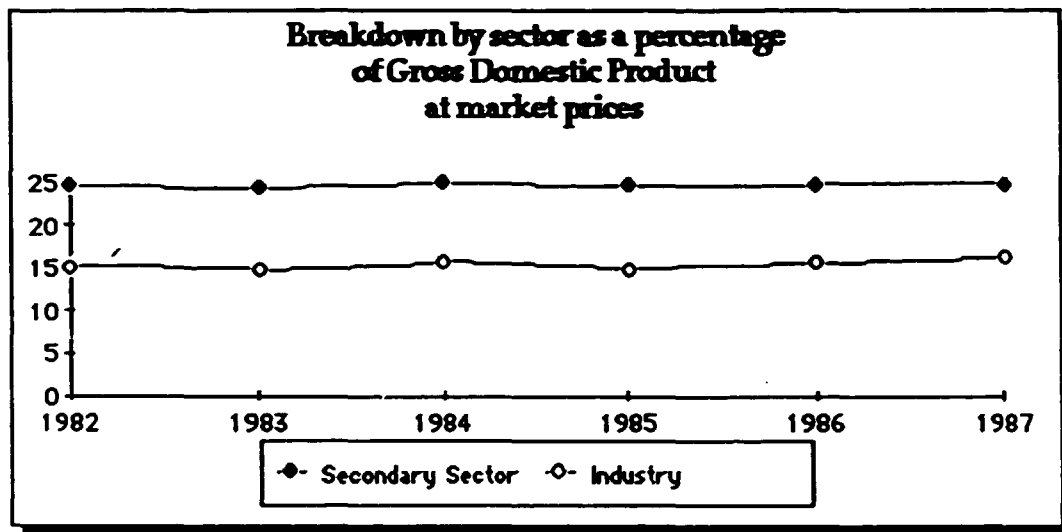
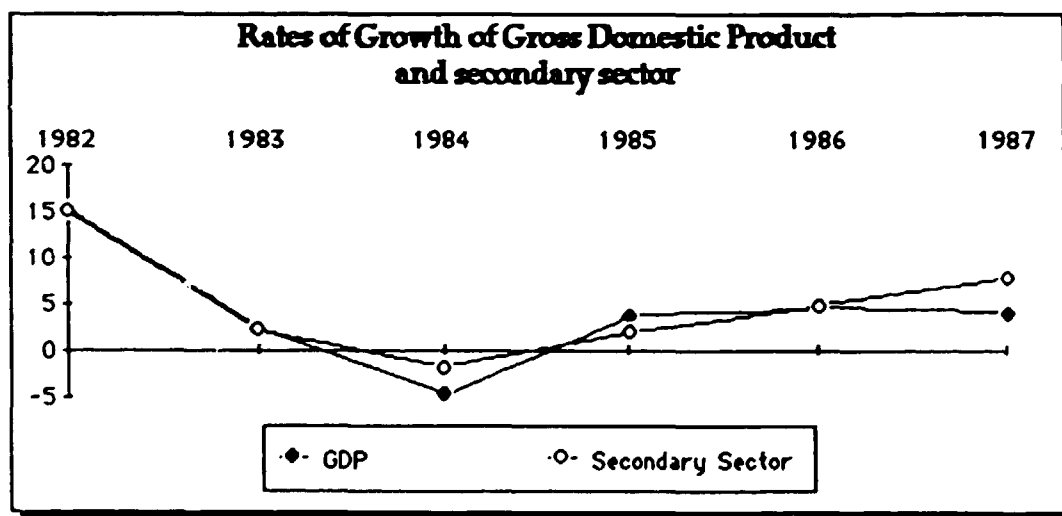


Table 6.5.IX



### 6.5.5 *The development of fraud*

The decrease in tariff and non-tariff protection creates increasingly permeable frontiers. It also implies reinforced value added and sales taxes to compensate for the stagnation of external trade dues.

The reaction of numerous commercial agents is to import merchandise without paying customs dues and sell it through parallel markets. Gambia, part of whose territory is surrounded on two sides by Senegal, naturally became a staging post for contraband imports.

The geographical boundary between Senegal and Gambia is extremely fluid, in spite of the need to use ferries to reach Banjul or the Transgambian road, while Gambia's liberal policies allow quota-free imports which are more lightly taxed than in Senegal.

By contrast, Senegal has a tradition of tariffs and quotas, and customs dues are an appreciable part of budgetary receipts. In addition, agreed prices are used to protect national agricultural and industrial production (groundnuts, rice, cotton, sugar, tomato paste, woven fabrics), which introduces distortions between similar merchandise offered on the Gambian and Senegalese markets. Rates of exchange also play an important role. The fall in value of the dalasi against the dollar since 1984 (tables 6.5 IX, X, XI and XII) while the CFA franc was appreciating against the dollar over the same period also proved to be an advantage for Gambian products, since it reinforced the purchasing power of the CFA with regard to products imported into Gambia and bought for dollars (see tables 6.5 X, XI and XII).

The structure of Senegal's imports was also modified during the early years of the current decade. Table 6.5 XIV shows how Spain (in fact, the Canary Isles), the USA and Asian producers began to supply Senegal. The sort of products they offered was similar to what was available through Gambia. The maintenance of market controls and import duties gave rise to goods ostensibly destined for Guinea and Gambia via Senegal; once across the frontier, the goods are returned to Senegal without paying port or airport entry dues in Dakar. In fact, part of Gambia's flourishing trade is based on the growth in customs fraud between Senegal and convenient destinations in Gambia.

The juxtaposition of a more liberal customs policy and an agreed price structure has struck severe blows at the heart of Senegalese industry. The type of product concerned - preserves, tomato paste, textiles - is not really susceptible to substantial improvements in productivity. It seems that price is the only factor that can increase consumer appeal. It would appear that the global economic strategy chosen is to enable these industries to improve their cost performance, and thus their sale prices.

Table 6.5.X

EXCHANGE RATES<sup>4</sup>

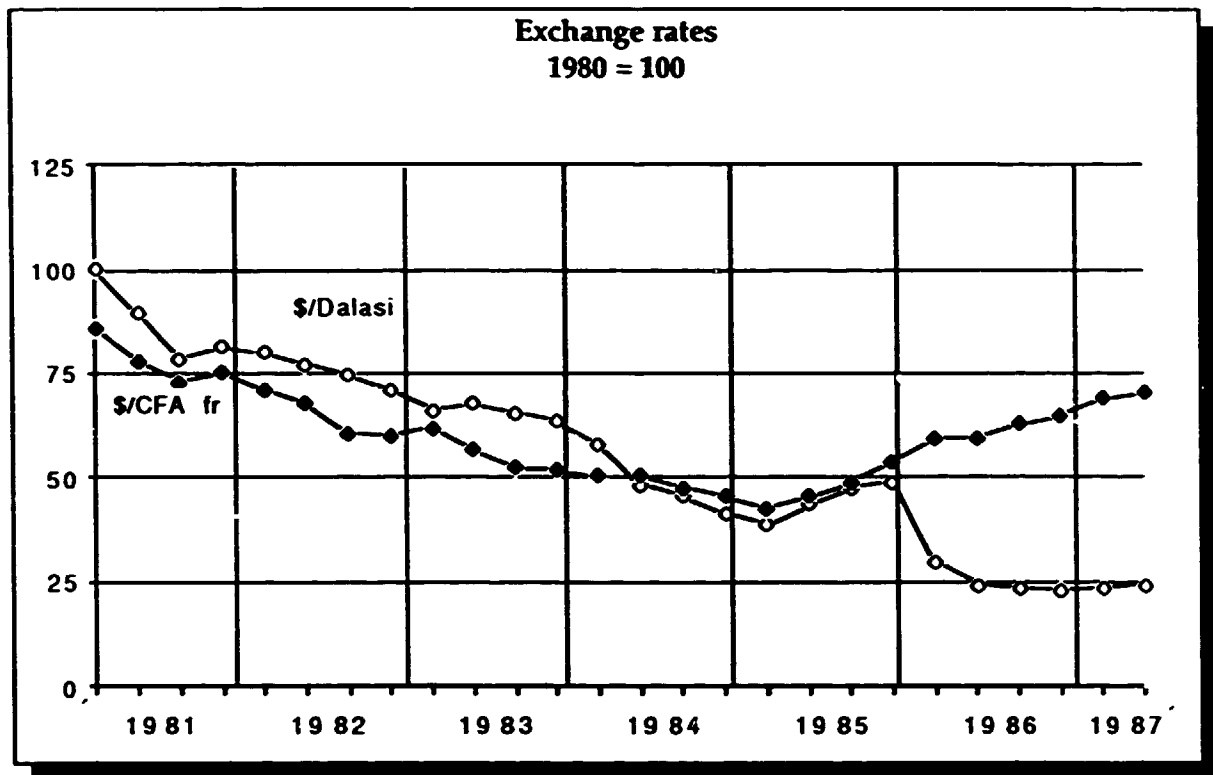


Table 6.5.XI

Gambia

Exchange rates \$US against dalasis								
1981	1982	1983	1984	1985	1986	1987	1988	1989
1,97	2,29	2,64	3,58	3,86	6,83	6,523	6,658	6,23
Exchange rates \$US against CFAF								
1981	1982	1983	1984	1985	1986	1987	1988	1989
336	417	479	378	346	322	267	302	314

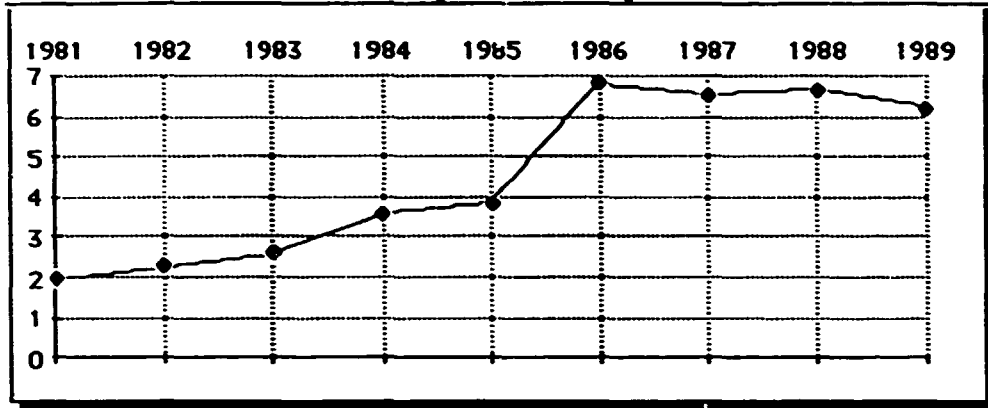
Source : IMF

<sup>4</sup> Source : Economist Unit Intelligence



Table 6.5.XII

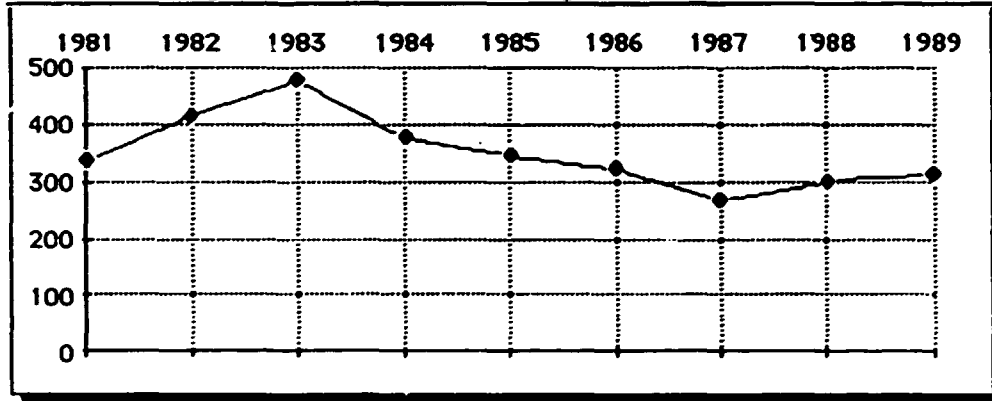
Gambia - exchange rates \$US against dalasis



Source : IMF

Table 6.5.XIII

Senegal - exchange rates \$US against CFA



Source : IMF

### 6.5.6 Business finance

Independent of the problems of CFA parity, Senegalese businesses are confronted with serious financing problems.

In the market place, banks have been suffering from a fall in business and private deposits since 1981, from the worrying situation of their clients and the weight of the liquidation of ONCAD (90 billion CFA shared between the State and the banks of Senegal, numbering about a dozen in all).

As a consequence of the bank's position, credit policy is very restrictive, and cannot satisfy the demands of the private sector. To get credits, important guarantees are necessary, sometimes exceeding the amount of the loan. Senegal's private sector suffers worse than the others, since it is not well regarded by the banking community.

Financial problems are also felt in the private sector abroad, where the situation has got steadily worse since 1980. The State of Senegal pays its suppliers approximately one year in arrears. The banks of Senegal, forced to contribute to the State's coffers, cannot finance the private sector as well.

The majority of banks are French, and find it difficult to adapt to local realities. Nor are they encouraged by the setbacks encountered by development banks and financial organisations for aiding business development, such as SOFISEDIT.

Financial institutions like the "Caisse Centrale de Coopération Economique" are examining initial steps towards a solution. They propose to assist the introduction of "Sociétés de Caution Mutuelle" in Senegal, which should enable the risks of payment failures to be limited through the guarantees of the members.

Restructurations envisaged by the NPI have an influence on financial needs. According to the Boston Consulting Group study, application of the measures in hand will cause a global requirement for 2 to 3 billion CFAF for the textile and agri-food industries. The financial effort to be made in order to improve the competitiveness of Senegalese industry should be of the order of 8 to 12 billion CFAF. These financial needs are explained by the effort to modernise equipment and by the necessary merging of businesses. The figures given above will be higher if the French private sector partially withdraws from Senegal.

### 6.5.7 Getting out of the crisis

The Industrial Action Plan envisaged setting up an Industrial Restructuration Fund. This is still not operational but should shortly become so. The restructuring of Senegalese business must start with the restructuring of the banking sector; allocation of funds is useless unless the means for managing them is effective. In fact the credit lines granted by the financial backers are allocated to financial institutions. Such a solution, which can only be avoided with difficulty, is the equivalent of transferring the risk to the banks. This risk is always great in the case of business restructuring. Banks cannot allow themselves to take risks which are too great and/or too poorly rewarded. They are therefore obliged to request strong guarantees and a high rate of remuneration, which are very probably incompatible with the real capacities of the businesses to be restructured. One cannot really see why, nor yet how, the banks would be able to abandon their classic attitude in matters of guarantee.

J.P. Barbier, in a study dated July 1988 for the CCCE: "New industrial policies in Subsaharan Africa, or the dangers of the High Seas", in addition to the necessary protection of the market and a plan for financial reorganisation of the manufacturing sector, insisted on the need for exports, based on exploiting the natural advantages of the region.

In this respect, attention should be paid to the relative competitiveness of local products in comparison with their foreign competitors, taking into account comparative advantages which may be technical, economic or institutional. One of the crucial factors in this comparison is the cost of labour. It is one of the most complex factors to analyse, since it far outreaches the simple problem of the "minimum salary" - assessing the scope of social charges, management costs (local or expatriate), labour productivity, organisational efficiency, business culture etc.

He also recalled that:

*"With reference to the NPI as it operates in Senegal, we have already had occasion to indicate that the export premium, the main instrument used by the Public Powers to encourage exports, has proved an effective means of supporting exporting industries. However, this premium does include, in the eyes of those industrialists concerned, a risk of precarity which is all the more real since, as its field of application enlarges, its long-term financing appears less than totally secure. To answer this legitimate anxiety, the system could be improved in two ways:*

- \* *by reserving the benefits of the premium to those manufactured products judged to have long-term export competitiveness, and to markets targeted as a function of an explicit export strategy. It is in fact necessary to avoid dispersing limited financial means on products or markets which offer only momentary opportunities, and to concentrate on more promising products and markets (cf strategies of certain SE Asian countries).*
- \* *by examining the possibility of substituting a system of tax credits for the premiums. This would have the double advantage of a faster and more direct liquidation of financial benefits for the industrialist, coupled with simpler book-keeping and control for the State. At the extreme limit, this system would set exporting businesses free of taxes,*

*dues and related payments, similar to enterprises operating in a free export zone."*

The Senegal employers' recommendations of November 1989 also illustrated the intricate confusion of inherited debt, budgetary deficits and difficulties in the banking sector, that were involved in any policy for rehabilitating the manufacturing sector.

We reproduce below the essential details of the recommendations made by the Secretariat of the CNP, published by the Syndicat des Industries de Sénégal (SPIDS).

The recommendations are based on six fields of action: fiscal and customs, financial, banking, commercial and social.

**The cost of technical factors:** the CNP recommends a general lowering of the tariffs enforced for electrical energy, water and telecommunications, the reduction of the cost of road, sea and air transport and in the services provided by the Port of Dakar. The CNP also calls for a reduction in fiscal deductions and taxes for all the above goods or services.

**Fiscal and customs levies:** the CNP proposes to reinforce the office of customs assessment for both businesses and households, to institute a fiscal credit, to improve fiscal yields, to limit the cumulative fiscal burden to 50% of the income drawn from a single activity and to encourage local production.

**Finance:** the CNP's recommendations are on two levels. As concerns the problems of the Treasury, it recommends instituting a new calendar of internal debt reform with regard to businesses, and the examination of all possible solutions for compensation and conversion of these debts by the Treasury, which should be forbidden to pay by cheque or bank order on banks undergoing restructuring.

As regards problems linked to the structure and functioning of the banking sector, the CNP recommends the encouragement of inter-bank competition, and contribution to and the rationalisation of their various capital resources, so that they can discount their rates or support productive activities and facilitate business access to different lines of credit from the development institutions.

**The commercial field:** As regards internal trade, the CNP advises codifying the laws and regulations covering trade, grouping them in a Trading Code and setting up a specialised tribunal to deal with trade matters.

In matters of external trade, the CNP recommends negotiations with CEDEAO partners to encourage exports of Senegalese products, to simplify procedures relating to export premiums and to revitalise the export assistance institutions. Specific observations were included, in particular about businesses directly affected by events between Senegal and Mauritius.

**The social field:** here the CNP recommends accelerating social legislation reform, and in particular the introduction of a system of productivity-linked remuneration, with payment by the job or by piece-work in export sectors and criteria for minimum output, while in sectors with seasonal activity, the concept of technical unemployment should be defined and clarified.

## ETUDE ONUDI

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### 6. COUNTRY CASE STUDIES

#### 6.6. MOROCCO

##### 6.6.1. *Recent Economic Developments*

Favorable exogenous development last year contributed to raising real GDP growth to 10 percent as the economy recovered from the severe drought of 1987 and locust damage. With population growing at 2.6%, per capita income soared. Favorable weather conditions boosted farm output to record levels, plentiful water supply for hydroelectric power sources reduced oil import needs, and improved world demand sharply raised phosphate exports.

Domestic demand, reversing the decline of 1987, rose by nearly 9% with strong increases in private as well as public consumption and recovery of gross fixed capital formation. The latter included increased government investment, after repeated cutbacks since 1983. Larger investment by the private sector, particularly in construction and manufacturing, was stimulated by liberalization of the economy, improved expectations and the provision of stronger tax and other incentives. Unlike the previous year, higher export volumes, especially of phosphates, and slower growth of imports, especially wheat and oil, provided a positive contribution to growth from the external sector.

Inflation measured by the official consumer price index fell from 2.7% in 1987 to 2.3% in 1988. This decline, despite gradual but steady liberalization of controls on domestic prices in recent years, was helped by increased food production and slower growth of bank credit relative to real output. Costs have been reduced by productivity gains in manufacturing coupled with moderate nominal wages increases, as well as a slight appreciation last year in the dirham's exchange rate.

The trade deficit fell by \$335 million with a strong gain in export volumes and slower growth of import volumes. Continued improvement in the terms of trade, despite higher wheat and sugar import prices, arose from the sharp fall in oil import prices and rise in phosphate export prices. The relative importance of phosphate rock exports has fallen since the mid-1980s and they now account for about 14% of total export earnings. Sales of phosphate products, i.e., phosphoric acid and fertilizers, expanded sharply last year with improved world demand, stronger market diversification efforts and the coming on stream of additional production capacity. Increased exports of farm products reflected the record harvest.

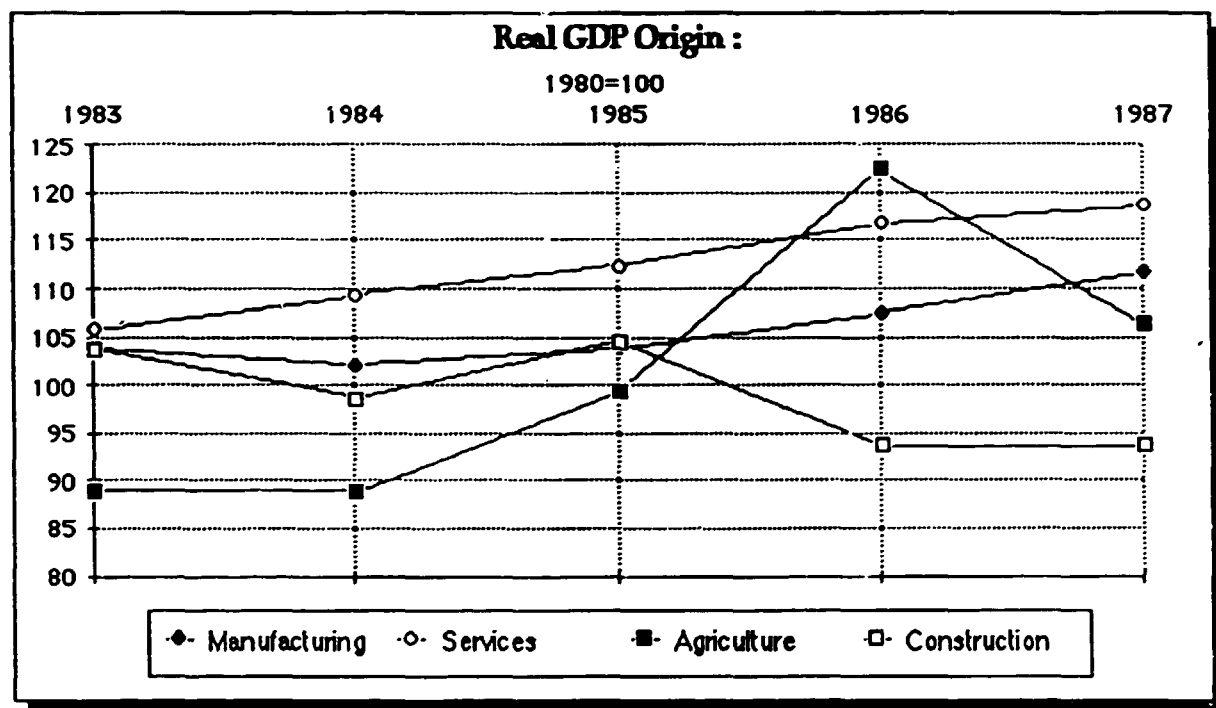
Exports of other manufactured products, not only processed foodstuffs but especially textiles and clothing, also exhibited continued growth stimulated by export incentives. Incentives included the dirham's real effective depreciation in recent years; allowing exporters to retain foreign exchange for raw material needs; the removal of export credits from overall bank credit ceilings; and the provision of export insurance. However, growth of manufactured exports slowed in 1988 due to increased domestic consumption and slower real effective depreciation of the exchange rate.

## 6.6.2. The manufacturing sector in Morocco

### 6.6.2.1. Actual situation

The manufacturing sector in Morocco compared well with the performances of Sub-Saharan Africa as a whole. Manufacturing for Morocco represents 17.2% of economic activity. The role for Africa is only 11%. The table below shows the regular growth of manufacturing sector from 1983. One can see also the moderate share of services in GDP (24%). In Africa, services account for 40% including a large share of the public sector.

Table 6.6. I



"Manufacturing is mostly centred on the processing of export commodities and the production of unsophisticated consumer goods for domestic consumption. Many of the factories were established in the boom years in the early 1950s. However, since the promulgation of a new investment code in 1982, investment has risen and new plant is being slowly established. Although this was hindered by the recession of the 1980s and the government's own austerity policies after debt rescheduling in late 1983, recent government increases have been designed to stimulate investment. This has been focused less than in the past on industries designed to provide import substitution, for official policy now is to encourage export oriented industry. As a result, there has tended to be a

*relative loss of interest in sectors such as vehicle assembly and sugar refining. The other notable development - also due to World Bank encouragement and IMF pressure - has been a move away from government dominated investment towards the private sector. In addition, investment interest has been directed towards small and medium sized businesses as a result of a revision of the industrial investment code on January 17, 1983. The principal manufacturing activity, the transformation of phosphate into phosphoric acid and fertilizers, continues to be state run, however. This is followed, in order of importance, by oil refining, cement production, food processing, textiles and chemical manufacture.*

*Under the 19836 investment code, the "Office de Développement Industriel" (OPI) may assist industrial decentralisation as well as encourage small and medium sized enterprises. It has also been involved in preparing 25 industrial sites on 952 ha which are to be complete by 1990, with 200 ha prepared in 1984 and 400 ha ready by 1985. The sites are located close to major population centres other than Rabat and Casablanca and are provided with services and access".*

*(Source : EIU)*

### **Food processing**

Apart from the chemicals sector, the most important branch of the manufacturing sector is still the food processing industry, which produces both for export (canned fruit and fish) and for domestic consumption (flour, vegetable oils, etc.)

### **Textiles**

The textile industry, which employs over a quarter of the industrial workforce, suffered from overstocking in the mid-1960s, but in the 1970s its turnover grew at an annual rate of about 10%, and by 1981 the clothing sector employed 55,000 workers. However, in 1977 the EC imposed quota restrictions on Moroccan textile exports, and this move has to some extent undermined future growth prospects for the industry. A new agreement signed in early 1985 has improved conditions. It is now anticipated that, once a new association agreement is signed with the EC in the wake of Spanish and Portuguese entry to the Community, manufactured goods' access to the EC will be unrestricted. The textile sector is expected to be at the forefront of export led industrial growth, and 1985 saw exports rise by 30% to Dh 2.5 bn.

### 6.6.2.2. *The future challenge*

But the Moroccan industry is facing several constraints it has to lift to escape the fall of its productivity in the coming years:

- the low size of the most of enterprises: more of 80% of them have a workforce below 100 labourers;
- the lack of industrial experience; 85% of enterprises have begun to work after the Independence and more of 56% after 1972.  
Most of them do not have a scientific and technological basis. They cannot really improve industrial processes or change their production methods;
- the gap for skilled labour; the high skilled labour accounts only for 2.5% of total workforce;
- the manufacturing industry is split between four insulated industrial groups:
  - \* export oriented industries which convert a local raw material (13% of manufacturing industry): agrifood, gross leather, paper;
  - \* export oriented industries but import dependant for the raw materials: textiles, electronic, subsidiary of international companies;
  - \* inward looking industries with imported raw materials: food, vegetable oils, paintings, plastic;
  - \* inward looking industries with local inputs (44% of gross manufacturing industry); cotton, paper, sugar, leather.

The different groups are not interlinked. Their import dependance for raw materials and equipment goods had to be reduced and the performances of the export sector had to be improved. This challenge is the aim for the Moroccan industry facing the constraints of debt and balance of payments adjustment.



6. COUNTRY CASE STUDIES

6.7. CAMEROON

6.7.1. External trade

During the past three years, Cameroon has had to face a massive fall in its exports (-500 bn CFAF, or -46%), as a result of the fall in world prices for raw materials and the changes in \$US/CFAF parities.

This fall in receipts was not accompanied by a parallel decrease in imports. In consequence there has been a considerable reduction in the trade surplus, a loss which, added to the traditionally negative invisible trade balance has resulted in a fall in the positive balance of the current account.

Capital movements have likewise developed unfavourably, so that the overall balance of payments is now in net deficit.

6.7.1.1. External trade: serious depreciation but a positive balance.

6.7.1.1.1 The effect on exports of the fall in prices

Cameroon' export sales peaked during 84/85 when they exceeded 1000 Bn CFAF. Since then the fall has accelerated from -23% in 85/86 to -30% in 86/87. All told, export receipts have been cut by 46% in two years.

Table 6.7. I

	83/84 (1)	84/85	85/86 (2)	86/87	(2) / (1)
Exports in Bn CFAF	772	1 064	815	575	- 46%

NB. Corrected figures for real oil exports, corroborated by OECD.

6.7.1.1.2 Oil accounts for 90% of this fall

While the volume of exports was more or less maintained (-5% between financial years 85/86 and 86/87), the fall in dollar. CFAF parity (-33%), coupled with the fall in price per barrel in terms of dollars have resulted in a fall in exports of 65%, a loss of earnings totalling 450 billion CFAF.

Table 6.7. II

	83/84	84/85 (1)	85/86	86/87 (2)	(2) / (1)
Exports					
Volume Mtons (million)	5,3	7,3	7,5	7,1	- 5%
Price 10 <sup>3</sup> CFAF/t	86	93	60	34	- 63%
Value Bn CFAF	465	694	457	243	- 65%

## 6.7.1.1.3 Other export products were also affected by the fall in prices

Between financial years 84/85 and 86/87 the fall in world prices expressed in CFAF was particularly evident in cocoa (-40%), coffee (-30%), cotton (-50%) and rubber (-20%).

All told, the fall in raw material export revenue was over 50 Bn CFAF.

Table 6.7. III

Bn CFAF	value 84/85	value 86/87	Bn CFAF	value 84/85	value 86/87
Cocoa (beans)	95	72	Timber	25	18
Coffee	110	82	Bananas	7	11
Cotton	9	7,5	Rubber	7	4,5
			<b>TOTAL</b>	<b>253</b>	<b>195</b>

## 6.7.1.2 Sectorial and geographical distribution of Cameroon' exports

While Cameroon' total exports fell heavily, sales of semi-finished products held up. Since then, the relative proportion of base products and oil products in Cameroon exports has remained down.

Table 6.7. IV

	84/85	%	86/87	%
Base products	253	24	196	34
Oil	695	65	242	42
Semi-finished Products	62	6	67	12
Other products	54	5	70	12
Total	1 064	100	575	100

The geographical distribution of Cameroon' exports seems to be dictated by the destination of oil exports and exchange rate movements.

Table 6.7. V

Exports (all products) SUS million	1985		1986		1987 (6 months)	
	value	%	value	%	value	%
USA	324	13,7	305	17,9	188	21,3
E.E.C	1 954	82,7	1 320	77,5	650	73,7
France	809	34,2	463	27,2	200	22,7
W.Germany	228	9,6	195	11,4	137	15,5
Benelux	120	5,1	87	5,1	39	4,4
Italy	161	6,8	122	7,2	77	8,7
Netherlands	232	9,8	297	17,4	115	13,1
U.K.	96	4,1	15	0,9	13	1,5
Japan	17	0,7	42	2,5	12	1,4
Other	69	2,9	37	2,1	2,1	3,6
TOTAL OECD	2 364	100%	1 704	100%	882	100%

Source : OECD Series A

### 6.7.1.3 Imports did not fall so heavily and new competitors arrive

During 86/87 Cameroon' purchases abroad were almost as high as in 84/85, having peaked in 85/86.

Table 6.7. VI

	83/84	84/85 (1)	85/86	86/87 (2)	(2) / (1)
Imports in Bn CFAF	463	482	585	497	+ 3%

There is little sectorial development of change. During the last financial year, shrinkage was evenly distributed over the range of product categories. Import structure thus remains largely unchanged.

Table 6.7. VII

Bn CFAF	1985/86		1986/87	
Food and agriculture	58	9,9	49	9,9
Consumer durables	87	14,8	74	14,8
Intermediate products	264	45,0	224	45,0
Equipment	173	29,6	147	29,6
Miscellaneous	4	0,7	3	0,7
Total	586	100%	497	100%

France remains Cameroon' principle supplier although its share of the import market is slightly down. The table below (6.7 VIII) shows the development of Cameroon' purchases from the OECD, which remains the source of 95% of its imports.

Table 6.7. VIII

Imports (all products) (\$US million)	1985		1986		1987 (6 months)	
	value	%	value	%	value	%
USA	68	5,7	48	3,5	32	4,7
E.E.C.	986	83,1	1 159	84,0	562	82,5
France	603	50,7	718	52,0	342	50,2
W.Germany	108	9,1	137	9,9	68	10,0
Benelux	55	4,6	69	5,0	36	5,3
Italy	62	5,2	76	5,5	39	5,7
Netherlands	39	3,3	47	3,4	22	3,2
U.K.	58	4,9	50	3,6	24	3,5
Japan	71	6,0	103	7,5	52	7,6
Other	63	5,2	70	5,0	35	5,2
TOTAL OCDE	1 188	100%	1 380	100%	681	100%

Source : OECD Series A

### A shrinking surplus

Cameroon' external trade balance is still positive but its progress is worrying.

Table 6.7. IX

	83/84	84/85	85/86	86/87
Balance of trade in Bn CFAF	+ 309	+ 582	+ 229	+ 78

Another phenomenon which should be stressed is the increased share of Asiatic suppliers in Cameroon. This phenomenon can be found elsewhere in Africa. In Cameroon, the influx of Asian products largely accounts for the "Others" heading in the OECD statistics. A French commercial source states that the share of Cameroon' import market won by Asia excluding Japan is not inconsiderable.

The importance of Asia's role is further reinforced by the increasing number of Asian immigrants contributing to both commercial and industrial sectors. Countries such as India, Pakistan, Thailand, Indonesia, Singapore, China, South Korea, Taiwan and even Hong Kong play a remarkable part in the Cameroon economy, all the more so since the majority of traditional suppliers to Cameroon are losing ground in this period of crisis and shrinking imports.

### Asia has a positive trade balance

Less hard hit than Cameroon' other trading partners because of its commercial structures, Asia as a whole has a trade surplus with Cameroon. In 1988, in spite of a drop in absolute value of nearly 20% over 1987, Asia's market share was 5.7%, mostly textile products (43%), electrical goods and machinery (16.5%) and rice (15.1%).

Table 6.7. X

	Imports (in million CFAF)			
	1988	1987	1986	1985
Pakistan	5 863	4 521	3 454	1 526
India	592	1 058	470	215
Thailand	1 986	1 579	1 057	3 508
Indonesia	137	27	15	22
Malaysia	170	73	374	20
Singapore	412	573	376	512
China	2 842	4 236	4 604	3 705
South Korea	2 911	4 593	5 795	3 049
Taiwan	5 089	7 722	8 897	8 116
Hong Kong	1 694	1 956	2 244	1 690
<b>Total ex. Japan</b>	<b>21 696</b>	<b>26 338</b>	<b>27 286</b>	<b>22 363</b>
% total Cameroon	5,73	5,09	4,62	4,4

The improvement of Asian countries' share of Cameroon' import trade can be explained by the fact that, while overall imports are shrinking, Asian products are mainly essential goods such as rice and textiles, whose demand is inelastic and for which there are no local substitutes at equivalent prices. The absence of effective customs protection for competing, g products and the predominance of newly industrialised countries in electronic products has ended by opening up Cameroon to Asian products.

Thus, in 1988 South Korea's exports to Cameroon were largely electrical machinery and apparatus (42%) and textiles (31%, worth 911 million CFAF), while 69% of Pakistan's sales were unbleached, unmercerised cotton goods worth 4 Bn CFAF, and 27% were whole-grain rice. Thailand likewise sold Cameroon rice to the value of 1.3 Bn CFAF (67% of sales), and 48% of Taiwan's sales to Cameroon were textile products worth 2.4 Bn CFAF.

Table 6.7. XI

	Exports (in million CFAF)			
	1988	1987	1986	1985
Pakistan	2	66	5	--
India	190	--	206	--
Thailand	--	22	35	--
Indonesia	10	--	2	--
Malaysia	--	--	--	--
Singapore	349	107	39	1 941
China	726	--	9	5
South Korea	82	572	144	--
Taiwan	2 097	920	1 846	1 208
Hong Kong	--	--	9	--
<b>Total ex. Japan</b>	<b>3 456</b>	<b>1 687</b>	<b>2 295</b>	<b>3 154</b>

Cameroonian exports to Asia are very low - see table 6.7 XII, and consist entirely of unprocessed raw materials. Cameroon total exports to Asia excluding Japan reached 3.4 billion CFAF in 1988, of which more than 60% were taken by Taiwan (cotton for the most part, which was re-exported to Cameroon after processing). The People's Republic of China took 21% of the total (cocca). In view of the specific nature of Asian exports to Cameroon and of the fall in world prices of raw materials, it is not surprising that Asia should have a positive balance of trade. Individually, every Asian country trading with Cameroon shows a positive trade balance (see table 6.7 XII).

Table 6.7. XII

	Trade balances (in million CFAF)			
	1988	1987	1986	1985
Thailand	1 986	1 557	1 022	3 508
Singapore	63	466	337	-1 429
South Korea	2 829	4 021	5 651	3 049
Taiwan	2 992	6 802	7 051	6 909
Hong Kong	1 694	1 956	2 234	1 689
Pakistan	5 683	4 454	3 454	1 526
India	403	1 508	264	215
China	2 116	4 236	4 595	3 700
Indonesia	127	27	14	22
Malaysia	170	73	374	20

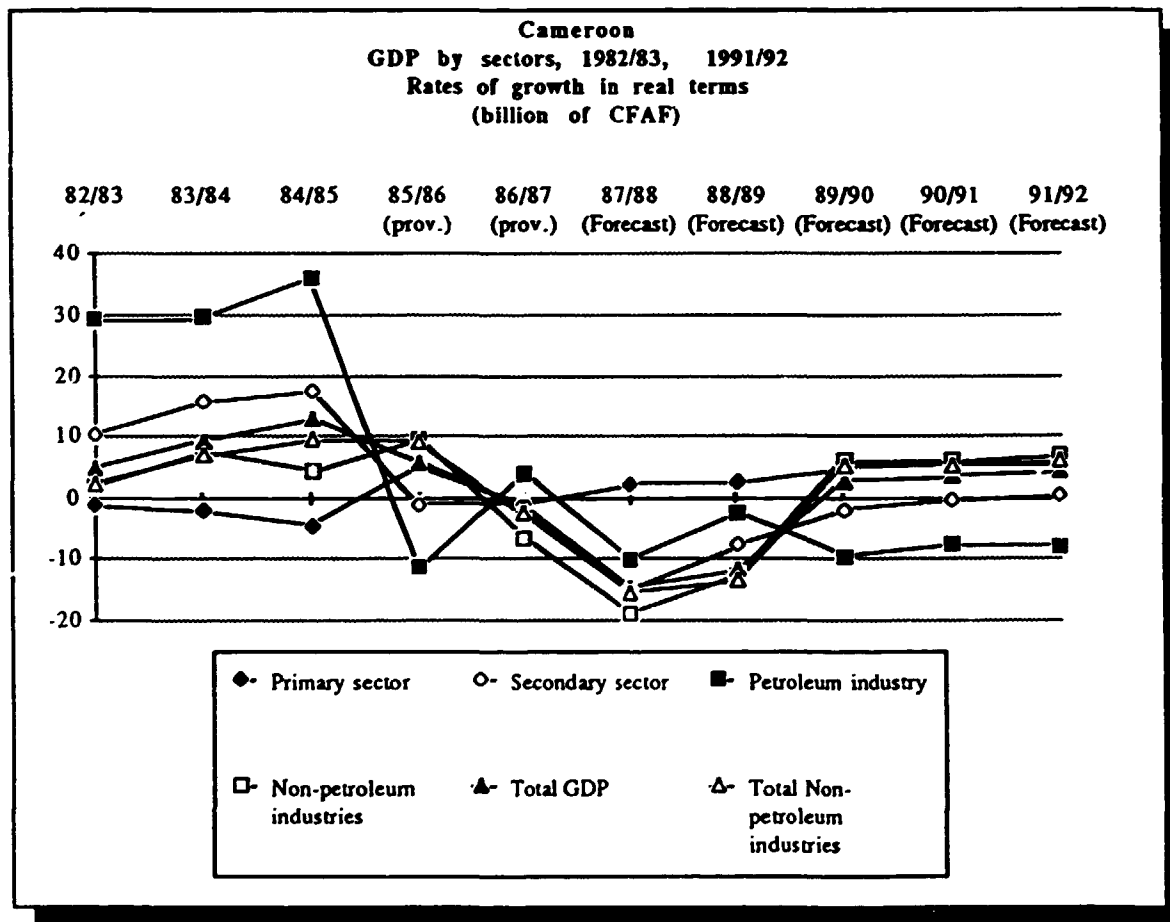
It can thus be seen that a new challenge faces the Cameroon manufacturing sector, and indeed the whole economy. Cameroon, dependent on external suppliers for capital equipment, is increasingly vulnerable to Asian countries, from which are imported goods which Cameroon could well have processed itself from its own raw materials.

6.7.1.4. Global performances

The graph below shows the feeble growth of the primary sector between 1985-88. The non-oil secondary sector had even worse results from 1985-89, while the growth shown for 1989 is a projected estimate. Overall (graph 2), the GDP and the non-oil sector have shrunk during 1986, 87, 88 and 1989.

This shrinkage in both exports and national wealth is analysed in the next chapter, together with the effects of increases in imported goods that are directly competitive with national production.

Table 6.7. XIII



Source : IMF

## 6.7.2 Industry and commerce

### 6.7.2.1 Industrial Production

If we except oil and the petroleum industry, industrial production is maintained, according to the National Accounts Office, by 20 areas of activity, of which 13 account for one-quarter of the total. This can be more clearly examined by regrouping these areas in different industrial and productive sectors:

Tobacco and drink production (in which breweries predominate) accounts for 25% of this sub-total; activities concerned with food and timber account largely for a further quarter - this includes food processing, fishery and agricultural activities, forestry and timber processing. All, in short, are activities closely dependant on the primary sector, or included in it. The following sectors account *grosso modo* for one-eighth or one-tenth of the sub-total we are examining:

- metal production, in which aluminium predominates;
- the textile industry, including clothing, leather-working and shoemaking;
- activities concerning electricity, water and gas.

Growth in these various sectors is uneven. Building materials lead by a long way, followed by drinks and tobacco, metal, chemicals, rubber and plastics, all of which have growth rates above the mean.

Table 6.7. XIV

<i>Indices of industrial production by major sectors of activity in 1983/84 (base 1974/75 = 100)</i>		
	Weight	Index
Production of building materials .....	26	386,7
Drinks and tobacco .....	262	250,9
Primary metal working industries, mechanical engineering, transport equipment, other industrial production .....	125	243,1
Paper and paper products, chemicals and chemical products, rubber and plastics .....	73	227,5
Electricity, gas and water.....	105	197,3
Food, agriculture for industry and export, fisheries, cereals, vegetable flour production, food processing, bakery etc, other food industries.....	221	191,5
Forestry, timber processing industries.....	64	177,8
Textiles and clothing, shoe and leather industries .....	124	151,5
Total.....	1 000	216

Source : *Statistics and National Accounts, passim.*



Further behind are the other sectors, with textiles, clothing, shoes and leather in last place (mainly because for 1983/84 the shoe and leather industries, with an index of 95.8, had dropped below their 1974/75 level, the only case of a fall in absolute value over a decade).

Industry, still counts little for exports. Leaving aside oil, industrial exports account for just one-quarter of known exports (figures for contraband are notoriously unreliable), as against 20% at the end of the Seventies.

Table 6.7. XV

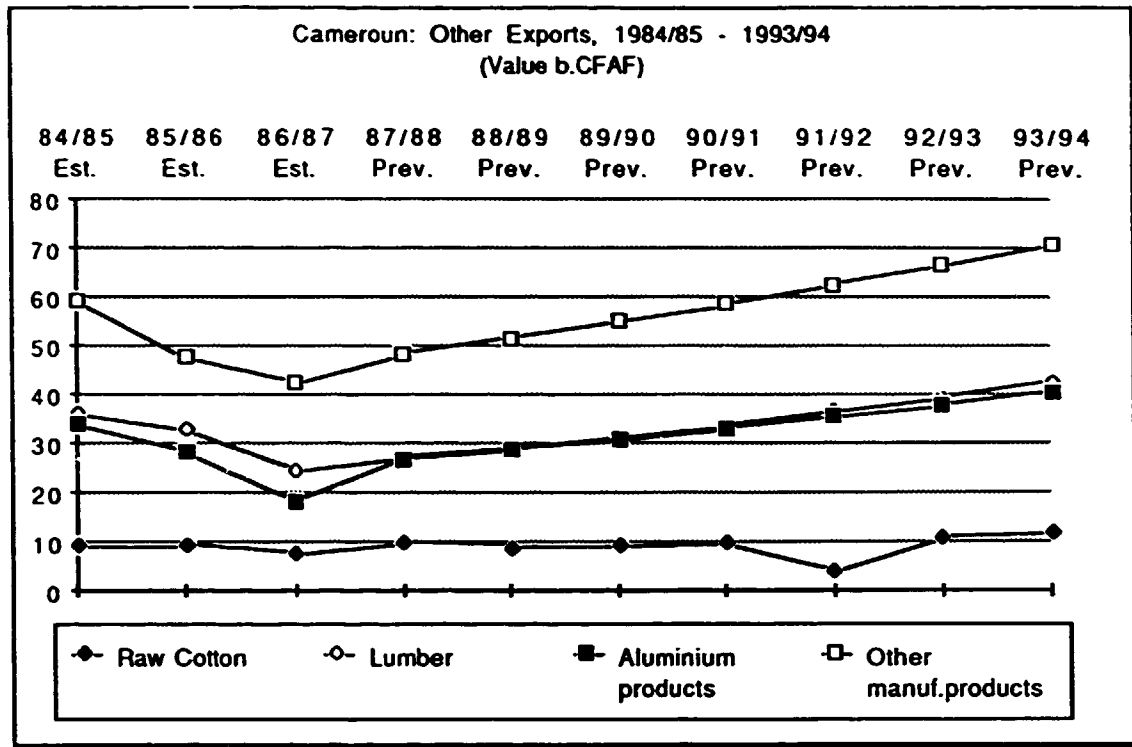
	<i>Industrial product exports</i>	
	million CFAF	% of total (excluding oil)
1976	27 840	21,9%
1977	40 617	22,6%
1978	41 655	22,8%
1981	48 184	26,3%
1982	57 231	28,0%
1983	61 292	24,5%
1984	83 377	24,1%

Source : *Statistics and National Accounts, passim.*

Exports of food products should, however, be treated separately, since they are closely linked to the national agriculture (cocoa and chocolate, sugar), with the exception of beer, which uses malted barley and maize and imported hops, and timber products which remain close to the raw material.

The following table (6.7 XVI) shows that the small part played in exporting by the manufacturing sector has recently grown thanks to the modernisation of the Edea plant; in 1983, Edea produced 83,800 tonnes of aluminium as against some 50,000 tones p.a. during the 70s (see graph following table 6.7 XVI).

Tableau 6.7. XVI



Source : FMI

In fact, sales are essentially generated under three headings: aluminium (crude metal, sheet, plate and household items), textiles (fabric, household linen and furnishings, clothes and millinery) and soaps and perfumes (perfumes and perfumery products, soaps). While the proportion of aluminium and aluminium products increased, that of textiles and clothing dropped, largely due to increased exports from newly industrialised countries (see section 6.7.1), but soaps and perfumes advanced, in part linked with agricultural production. These three groups accounted for more than 85% of sales of industrial products (except for food, timber and oil) during the 70s, and now account for more than 95% of such sales (97% in 1983).

Table 6.7. XVII

A/ *Exported industrial production excluding food products  
and processed timber*

	million CFAF	% exports (except oil)
1976	12 752	12,0%
1977	15 169	8,5%
1978	11 366	6,2%
1981	22 022	12,0%
1982	36 993	18,1%
1983	40 381	16,1%
1984	59 023	17,1%

Table 6.7. XVIII

B/ *Proportion in the above exports of major product group*

	Aluminium (a)		Textiles (b)	Perfumes & soaps (c)
1976	56%	(31 918 t.)	28%	4%
1977	58%	(31 724 t.)	25%	4%
1978	51%	(17 595 t.)	23%	5%
1981	61%	(32 944 t.)	23%	9%
1982	72%	(67 819 t.)	16%	8%
1983	72%	(62 173 t.)	15%	10%
1984	60%	(60 554 t.)	17%	6%

(a) : crude metal, sheet, plate and household articles

(b) : fabrics, linens and furnishings, clothing and millinery

(c) : perfumes and perfumery products, soaps.

Source : *Statistics and National Accounts, passim.*

Aside from these three headings, all that can be mentioned are small quantities of paint, leather travel goods, enamel household goods, hand-held agricultural implements, rickshaws and a very small amount of cement. It doesn't go far.

The list of exports has remained unchanged for a long time, with the exception of petroleum products. New and expanding industries seem to pay little attention to external markets, priority going to the satisfaction of internal demand.

Since the development of the oil industry, there has been little investment of note in Cameroon industries, considering the possibilities open to the country, albeit the international situation has not been favourable to the construction of large factories, especially in Africa where the internal market requires more small and medium businesses, whose lack is sadly felt.

### 6.7.2.2. *The heavy industrial sector*

In Edea, Alucam was subject to a radical transformation during 1979-82. The manufacturing plant brought into service in 1957 was old; the construction of the Song-Loulou hydro-electric plant was an opportunity to expand. Maximum capacity was enlarged from 50,000 tons of aluminium per year to 84,000 tons p.a., which explains the revival of aluminium exports in spite of somewhat unfavourable world market conditions.

Similarly, the production capacity of Socatral was doubled to 39,000 tons pa of finished products (corrugated aluminium sheet). Socatral, the Société Camerounais de Transformation de l'Aluminium, exports a certain amount to other African countries, as for example Alubassa at Douala, which makes household and other aluminium items.

Cimencam's two cement works were also enlarged, bringing their combined capacity up from 620,000 tons pa to nearly 1 million tons in 1983 - 900,000 tons pa at Bonabérie, on the Wouri river opposite Douala, and 70,000 tons at Figuil in the north, site of the country's only marble and limestone deposits. At Bonabérie, the raw material - clinker - has to be imported, and is mixed with pozzolane (trass) from the quarries near Moungo, which doesn't improve the quality of the product.

Cement made in Cameroon is inadequate for national requirements in both quality and quantity. Cement imports, which were long modest (144,485 tons in 1976) have grown in erratic leaps (1980: 229,534 tons, 1981: 542,519, 1982: 186,714, 1983: 632,323, 1984: 274,277 tons). National production grows but cannot replace imports.

Cameroon sells little sugar abroad (328 t in 1976, 11,993 t in 1979, 11,263 t in 1981, 13,848 in 1983). The two producing companies, Sosucam and Camсуco, have no problem in distributing their output on the protected national market, where demand is increasing steadily. The location of these companies on the Transcameroon (Highway) is a geographical advantage enabling them to sell to Central Africa and Chad.

The agro-industries satisfy their expanding national market first. As with sugar, so with palm-oil: we find palm-oil refineries acting more and more to make up the insufficiencies of local production. At least palm nuts can be used in secondary sector production of perfumes and soaps for export markets.

New rubber plantations are now mature and coming into production. Latex exports will increase; this is a partially-finished product (with little added value). There has been heavy investment in rubber trees; at Niere in the back country of Kribi the national giant in this field, Hevecam, is planning a yield of 30,000 tons per year during the 90s. This is an audacious effort, which is by no means assured of success.

Textiles and the national clothing industry make heavy use of a nationally produced raw material: cotton. These activities are show little growth. Sales abroad are stagnating in the face of strong competition from rapidly industrialising third world countries (especially 2nd generation NICs). Cape tobacco from Cameroon is appreciated world wide; unfortunately, you cannot make cigars directly from these leaves, which are used as the wrapping for produce from elsewhere.

Dense forest covers 34% of the country and 43% of the country can be considered as woodland. All together, this gives 20 million hectares of thick forest of which 16 million are exploitable, with more than 300 tree species of which only 40 or so are currently utilisable.

The dense forests of the inter-tropical zone are far poorer in immediately usable wood than forests at medium and high altitudes, where the growth of homogeneous woodland enables almost all the timber to be used for construction, fuel or paper pulp. In the tropical regions, the mixed growth provides a certain amount of construction timber, the rest serving for firewood of which one has little need - and then only after drying the soft spongy woods that grow there.

This is not to question the qualities of certain tropical hardwoods in demand the world over; but these are rare and hard to extract. Nor is their renewal assured, in these hot and humid climates where controlled forestry is still at its first beginnings.

In Cameroon, wood has to be fetched from farther and farther away, notably in the south-east, which has few roads and relies on waterways running into the Congo river. Wood from Cameroon is thus forced to transit more and more via the Brazzaville-Pointe Noire railroad, which has recently been modernised and partially straightened.

In relative values, wood brings in less than of yore. It accounted for 11% of total official exports in 1978/79, 9.8% in 1980/81 and only 6.1% in 1982/83. Wood is usually exported in bulk, as sawn or undressed timber; a small quantity is transformed into plywood or veneers, of which a part goes for export. Obviously, this wood could be processed and worked to create greater added value before it is exported.

The relative decline in exports is due to the fall in prices and strong competition from South-East Asian countries, which benefits from easier extraction, with logging camps close to the sea and skilled work-forces.

### 6.7.2.3. *Capital structure*

#### *The growth of the national share*

From foreign beginnings and management, Cameroon industry has gradually become more autonomous, but through the influence of the State, present in all sectors and many businesses, rather than through the efforts of private or individual enterprise.

At the end of 1976, foreign interests stood for 57.5% of the share capital of Cameroon's 100 leading modern businesses (not all of which are industrial). French interests accounted for 45% of the total. By the end of 1979 foreign investment had been reduced to 48% and French interests to 34.5% (see appendix 3).

Since then, the processing industries have continued to evolve in this direction, but it is difficult to reach accurate conclusions about Cameroon industry as a whole because of the very important role played in the building and public works sector by large companies whose capital is mostly or entirely

foreign; these holdings are for the most part French, with some Italian (COGEFAR), Greek and German shareholders.

Foreign interests are thus still majority shareholders in large organisations. Examples include:

- Food industries including drinks and tobacco: Les Brasseries du Cameroun, Guinness Cameroun, Chococam, Sic-Cacaos, Bastos.
- Wood: Alpica and Ecam-placages (Italian capital).
- Oil: Elf Serepca, Bouygues Offshore Cameroun.
- Metal industry: Alucam, Socatral, Alubassa, the SCDM and Socomecam.
- Textiles, clothing and shoes: among others, Cicam, Sicabo, Solicam, and, until recently a Bata factory.

Foreign minority interests are to be found in many other enterprises, including Sosucam, Sonara, Sodecoton, Pilcam etc.

It is also known that foreign interests are dominant in Pamol and Safacam, two leading Cameroon agro-industrial companies.

In the processing industries, Cameroon interests are now in the majority, at least in terms of share capital. It is the State which has the lion's share, individual or associated private shareholders coming a long way behind, in proportions which are difficult to disentangle, since accurate information is often incomplete, and complete information usually inaccurate, at least in the media.

Nonetheless, Asian interests already referred to are growing stronger and compete both with Cameroon's own traditional manufacturing activities and with older foreign interests.

The review "Marchés Tropicaux" of 17 November 1989 presented the growth of Asiatic commercial and industrial activities as follows:

*"Parallel to the exemplary style of its direct trade with Cameroon, Asia is also represented in this country's economy through its expatriates. The success of Indian or Pakistani communities in retail trade can be put down to minimal organisational overheads, limiting operating costs by restricting infrastructure and using few employees who are virtually autonomous. In addition, Indian and Pakistani retailers seem to buy in their goods through parallel networks that ignore the usual channels and thus escape from a variety of controls and constraints. Thus, popular mass-market products such as soap, beauty products, perfumes, detergents, rope, fishing line, hurricane lamps and enamel-ware are imported from neighbouring Nigeria at highly competitive prices thanks to the depreciation of the Naira and the permeability of the Cameroon-Nigeria frontier. In the shoe trade "suitcase imports" are likewise very frequent.*

*In the electronics field (TV, high-fi and radio equipment from Se asia), the same retailers benefit from a form of organisation based on networks of correspondents - frequently an extended family - installed in supplier countries (mostly Singapore, Hong-Kong, South Korea, Thailand and*

*Indonesia). Merchandise is obtained at very low prices (unsold stock and seconds) and orders are grouped, so that substantial reductions can be obtained. By under-billing these products and by using advantageous customs indications, the importer is further able to reduce import duties on entry to Cameroon.*

*In this manner prices are some 15% to 40% lower than those found in more official distribution circuits, which creates unease not only among local shopkeepers, but also among foreign companies whose local representatives are unable to match such low prices.*

#### **Development of industrial sites**

*Parallel to commercial developments, a number of industrial plants have been developed. Here too the Indian sub-continent is predominant, in companies such as Camsteel (Indian, steel sheet and tube), Camelcab (Indian, electrical cable), Sicabo (Indian, textiles), SICCIP (Hong-Kong, plastic shoes), Metropolitan Plastics (Pakistani, plastic products), and Ranbaxy (Indian, pharmaceuticals). These industrial developments, however, unlike commercial installations, are not without their share of problems. Businesses based on Indo-Pakistani capital have taken advantage of the favourable conditions granted by the State, which wished to attract foreign capital and develop its industrial fabric, to install themselves in Cameroon, so that the traditional Cameroon textile industry, represented by Cicam, is faced by competition from Sicabo, which manufactures loincloths from unbleached cotton imported from Pakistan at a world price some 50% lower than the price of Cameroon cotton used by Cicam. No concrete measures have yet been taken by the authorities to constrain Sicabo to buy at least part of its raw materials from local producers.*

*Camelcab, for example, has been fortunate enough to obtain total customs protection for its welding rods, and is as a result empowered to deliver certificates of need to allow the import of this class of product which cannot, so it appears, be manufactured in the Camelcab factory in Cameroon. This situation allows Camelcab to control the import of products falling within the scope of this category of customs duties and gives the company an appreciable weight with regard to Saticam Camoa, its direct rival".*

Next to public and foreign capital, comparable in terms of subscribed share capital in Cameroon processing industries, private Cameroon capital counts for little. It is associated as minority partner with foreign or State capital in numerous enterprises. It is a majority shareholder in few businesses worthy of mention. The following may be mentioned:

- Food: International Brasserie, Camlait (milk), Selcam (salt), Supermont (mineral water).
- Chemicals: Complexe Chimique Camerounais, Unalor (matches), Pilcam (domestic batteries).
- Metalwork: FAEM (domestic electrical goods), Le Mobilier Camerounais (metal furniture).

- Textiles, leather and shoes: Safil (thread), MCV (shoes and briefcases), Le Chausseur (shoes).
- Miscellaneous: Socarto (paper processing).
- Tobacco: Sitabac (cigarettes).

The high proportion of State involvement in Cameroon industry shows a will to industrialise, to develop economically and to become independent of foreign aid. Which in no wise prevents the Cameroon government from remaining faithful to a certain free market credo which is apparent in the country's five year plans.

Without State intervention, Cameroon industry would have remained a long way below the level it has in fact attained.

Foreign capital would not have been significantly more plentiful, and private capital would have been lacking.

The State's net participation in industry has not, however, brought advantages only; there are also inconveniences, which the public power is the first to acknowledge.

A young Third World State like Cameroon does not have all the means necessary to play its role to the full. Thus, its financial participations are often more costly than they would at first appear, having been covered by burdensome foreign borrowings - especially burdensome in view of the predominantly high rates inflicted by inflation and the giddy rise of the American dollar. Furthermore, the State does not always dispose of sufficient competent managers, but has to turn to executives drawn from public administration, which is everywhere renowned as an inadequate preparation for business management. Finally, the State, as ultimate recourse, is too frequently confronted with trading deficits which it is asked to make good, and which, in the case of private enterprise, would have lead to bankruptcy.

The current reorganisation will have its work cut out to disengage the State from certain constraints now before it; and for this to be possible, it will be indispensable for the private sector to take on at least part of the burden.

#### 6.7.2.4. Orientations

##### 6.7.2.4.1. Privatisation

The stakes are high: the State holds an important percentage of shares in some 170 companies which play an essential role in the field of capital formation and employment. They differ widely as to their activities, their management and their resources. Some need to be completely restructured before they can be put on the market, in particular the agro-industrial companies whose global deficit in 1987 reached 29 billion CFAF. By comparison the companies in the secondary sector could easily be privatised, since they produced a global profit of 10.7 billion CFAF for 1987, equal to the dividends of the SNI. The problem is that these companies contribute 35% of the Gross National Product (GNP) and the majority are already controlled by foreign capital. It remains to be known if the moment is opportune to return so strategic a sector to private control, when official policy is for the national economy to be independent.



Furthermore, the authorities are altogether aware that certain foreign companies invested in Cameroon solely because the companies in which their money has been invested were associated with the State. These foreign interests could well withdraw if privatisation is too brutally abrupt. At the same time, other multinationals impatiently await the opportune moment to take control of companies such as Sosucam (sugar), Cimencam (cement) or Crevecam (prawns), either using a nominee to buy put in bid for shares or by repurchasing the shares which the SNI offers to private interests in Cameroon.

#### 6.7.2.4.2. Industrial specialisation and finance

The UNIDO, in collaboration with the services of the government, has set out an industrial policy which establishes a number of priorities falling broadly within the guide-lines of the IMF. Priority is given to "encouraging an environment within which a dynamic and efficient private sector will be the prime source of new investment". To this end, a coherent pricing policy is recommended that will ensure more effective use of available resources in those areas where Cameroon has an obvious comparative advantage. This policy also recommends "the development of a Cameroon financial market (Treasury bonds, issuing of debentures or stock by banks and large businesses, public offers of shares in national enterprises) and "the study of the economic impact of a fixed CFAF/FF exchange rate on the balance of payments. A certain flexibility must be envisaged at this level to facilitate adjustments".

Some 30 industrial projects in sectors and for products offering sufficient comparative advantage have been defined accordingly (see table 6.7 XIX below), and their inception between now and the end of the century should allow at least partial compensation of the drop in oil production and provide the initial steps in improved economic integration (notably links between agriculture and industry and between industry and mining resources). It is only afterwards that the UNIDO advises the development of vertical integration in industry.

At this present stage, and in accordance with the IMF's directives, the experts advise a swift break with the industrial policy of import substitution in favour of an export led policy which will depend on reform of the country's institutions and economic policy.

Table 6.7. XIX

#### Industrialisation of Cameroon - Priority projects

Branches	Number of projects	Total M.CFAF investment	Period of activity
Food processing	8	11 231	1988-1989
Curde aluminium processing	1	175 000	1995
Chemical industry	6	19 205	1988-1995
Forestry	4	31 280	1988-1995
Wood processing	7	26 425	1991
Steel	3	47 000	1988-2000
Electrical and mechanical products	2	612	1988
Oil and gas	3	297 850	1989-1997

### 6.7.3. Finance and industrialisation

#### 6.7.3.1. The Central Bank, the banking network and exchange legislation

Cameroon has been part of the Franc Zone since independence in 1960. The country is a member of the BEAC (Banque des Etats de l'Afrique Centrale). The BEAC is the central banking organisation for Cameroon, Congo, Gabon, Equatorial Guinea, the Central African Republic and Chad.

The basic principles of the "Coopération Financière en Afrique" are:

- The use of the same monetary unit (the CFA franc), issued by the BEAC, whose head office is at Yaoundé;
- Centralisation of monetary reserves;
- Free circulation of capital and freedom of transfer within the CFA zone;
- Free convertibility without limit into French francs at a fixed parity of 1 CFAF = 0.02 FF;
- Harmonised monetary, banking and exchange legislations.

Although the rules for BEAC intervention are the same for all six countries, and while certain operations are performed jointly, the accounts for each country are kept separately. The monetary reserves of the various countries are grouped by statute and deposited with the French Treasury. The convertibility of the CFAF is guaranteed by France via the operating account that links the BEAC and the French Treasury. The BEAC is obliged to keep 65% of its external credits in the operational account in French francs, the remainder being freely convertible in to other currencies. Insofar as concerns the credits held in French francs, the French Treasury guarantees their exchange expressed in terms of SDR.

The total statutory advances of the BEAC to each member country is limited to a ceiling set at 20% of the ordinary budgetary receipts of the previous financial year.

The BEAC controls the liquidity of the zone and each country by providing rediscount facilities. The interest rate structure is common to all members of the zone. The different loan rates are linked to these base rates and vary according to the operations being financed, within a range of 7.5% to 13% p.a. Credit rates are linked to a base rate of 2% p.a. for time deposits. The remuneration of sight deposits has been abolished since 30 June 1984. Depending on the deposit total and their duration, margins vary between 1% and 7.25% p.a. Credit rates for deposits over 75 million CFAF are freely negotiable within a range which is currently between 7.25% and 12%.

The BEAC acts on credit to the economy by providing rediscount facilities and direct advances for the commercial and development banks. In addition, commercial banks must regularly inform the BEAC of the total they have advanced to their clients.

## **Internal banking system.**

### **Structure**

the BEAC, the Cameroon banking system consists of a development bank, ten commercial banks and nine private and public financial institutions specialised in consumer credit, property financing, leasing operations, loans to the agricultural sector and to the small and medium business sector.

The "Banque Camerounaise de Développement" (BCD), created in 1960, had as its main objective the encouragement of economic development through medium and long term investment loans.

BCD shareholders are the State (82%), the Caisse Centrale de Coopération Economique (CCCE, 10%) and the BEAC (8%). The BCD has been liquidated.

Commercial banks established in Cameroon are:

- Société Camerounaise de Banque (SCB), affiliated to the Crédit Lyonnais, the Générale de Banque and the Belgolaise; it has been closed and a new structure created in which the Crédit Lyonnais is predominant;
- Banque Internationale pour le Commerce et l'Industrie du Cameroun (BICIC), subsidiary of the Banque Nationale de Paris (BNP) and affiliated to the Société Financière d'Outre-Mer and Barclays Bank;
- Société Générale de Banques au Cameroun (SGBC), affiliated to the Société Générale, la Banca Nazionale del Lavoro, le Crédit Suisse and the Bayerische Vereinsbank;
- Banque Internationale pour l'Afrique Occidentale-Cameroun (BIAO-C), subsidiary of the BIAO; it has serious liquidity problems and a doubtful portfolio;
- Cameroun Bank Ltd. (Westbank), entirely held by Cameroon public interests; closed.
- Chase Bank Cameroon, subsidiary of the Chase Manhattan Bank;
- Standard Chartered Bank Cameroon (SCBC), subsidiary of SCB;
- Banque Paribas Cameroun, affiliated to Banque Paribas and now in liquidation;
- Bank of Credit and Commerce-Cameroun, subsidiary of the BCC International;
- International Bank of Africa-Cameroun, entirely held by private and public Cameroon interests; serious problems of compensation and recovery.

In addition to the banking system described above, there also exists an informal network of credit creating tontines. These tontines normally consist of socially homogeneous groups of 15 to 20 members and play the role of credit cooperatives. Loans granted by the tontines are generally short term; the system functions well and arrears are infrequent. It is appreciated for its simplicity and informality.

## Currency

parity of the CFAF is fixed in terms of the French Franc: 1 CFAF = 0.02 FF.

## Exchange control

control comes under the responsibility of the minister of finance, through the directorates of economic control and external finances.

All foreign exchange transactions must be carried out through authorised banks or the fiscal authorities.

### 1 - Imports

All imports over 500,000 CFAF require a licence from the ministry of trade and industry. Import licences must be obtained at the latest before goods are loaded; the licence makes it possible to obtain foreign exchange from authorised banks.

The domiciliation system is the rule: customs and freight documents must be presented to a bank before the export can be paid. Advances and payments on open account require prior authorisation. Purchasing commissions paid locally in foreign currency must be remitted to the Central Bank within eight days.

Insurance for cargoes over 500,000 CFAF must be bought locally.

### 2 - Exports

for exports must be effected within 30 days of arrival at destination.

Receipts in foreign currency from these exports must be lodged in their entirety with an authorised bank, in exchange for local currency.

### 3 - Capital transfers

Capital outflows are limited and are subject to prior authorisation. Control of capital imports is minimal.

4 - *Relations* with members of the franc zone are far less restricted than with non-member countries.

#### 6.7.3.2 Problems of the banking sector

The restructuration of the BEAC in 1973, followed by the influx of oil wealth after 1977 resulted in a certain degree of development of the country's banking structures. Nonetheless, banking development in Cameroon, measured in terms of bank positions per thousand inhabitants is quite unrelated to the country's per capita income. Banking development is in fact less advanced than in countries like Nigeria and Ghana, about on a level with Tanzania.

we except Cambank, today bankrupt de facto, and the State financial institutions, the Cameroon banking system can be seen to consist of 9 establishments whose capital in every case is held at least in part by foreign banks.

The BIAO-Cameroun, the BICIC, the SGBC and the SCB, respectively subsidiaries or associates of the BIAO, the BNP, the SG and the Crédit Lyonnais, together account for 90% of the agencies and 85% of the loans and

deposits. The oligopolistic structure of the Cameroon banking system could, according to certain observers, explain the poor quality of client service provided.

It is not certain, however, that this is the only valid explanation.

Coming to Cameroon to benefit from the newly revealed oil wealth, BOAC (Bank of America-Cameroon), CBC (Chase Bank Cameroon) and the BBC (Boston Bank Cameroon) all had a more or less ephemeral existence. Late arrivals, the American banks were only lightly touched by the obligation to make "political" loans which would be difficult to recover; nevertheless the deterioration of the business climate encouraged them to fold their tents and fall back on more familiar terrain. The BOAC was taken over by the State, and the ONOBIONO group came under the new flag of the International Bank for Africa Cameroon.

The banks installed in Cameroon are faced with four types of problem, illustrating the difficult context within which they have to work:

**a) Poor quality assets**

The leading Cameroon businesses are almost all subsidiaries of international groups with solid financial bases; they are, of course, first class banking clients. If we except the oil companies (Shell-Pecten, Elf-Serepca), the two main enterprises in the country are the Brasseries du Cameroun, which belongs to the BGI group, followed by Alucam, a subsidiary of Pechiney.

The fabric of small and medium businesses remains insubstantial, and small businessmen often have recourse to informal structures (tontines) to obtain credit. But apart from loans to local small and medium businesses, whose financial structure is often precarious, the portfolios of the banks are weakened by the obligation to make loans of a "political" nature.

These fall into two categories:

- On the one hand, the white elephants of the Ahidjo regime: the influx of oil wealth resulted after 1978 in the construction of vast and ill-conceived industrial projects which were very costly and even in the best of cases still operate far below their profitability level. The most spectacular example is the Cellucam paper pulp plant, which stopped working in 1984 after swallowing up 120 billion CFAF.
- On the other hand, loans to the great Muslim merchant houses of the north, the Alajis, to whom the banks loaned over 100 billion CFAF, considered for the most part irrecoverable (this is notably the case for the SCB).

It is estimated that if the banks wished to exercise the guarantees made in regard of these loans, they would own most of the buildings in Maroua, Garoua and the other towns of the northern Cameroon.

**b) Low profitability**

If the banks have been forced to accept assets of dubious quality for reasons outwith their field of activity, the actions of the State have weighed equally heavily on the profitability of loans which the banks made through the medium of an ill-adjusted fiscal system.

To begin with, taxes on deposits are such that client remuneration is negative in real terms, while at the same time relatively expensive for the banks, so much so that they do better by seeking refinancing from the BEAC than by encouraging savings. The immediate consequence of this situation is a certain reluctance of the banks to provide credits which cannot be re-discounted.

In addition, taxes on loans are such that they are a high cost element for borrowers while providing the banks with a minimal or even negative profit margin.

Finally, the banks are obliged to devote 10% of the total of their deposits to buying equipment bonds, intended to finance the "Société Nationale d'Investissement", at 4% interest.

**c) From over-liquidity to evaporation of deposits**

The increased power of oil exploration from 1976/77 resulted in the rapid expansion of State revenues. Part remained abroad, in the USA (ex-budget account) violating the French Treasury, according to the rules of the Franc Zone. Some of the surplus was put on deposit in the banks, with the result that the public funds, in the absence of an active savings policy for reasons outlined above, represented around 60% of deposits with commercial banks.

This proportion is currently shrinking because of the large withdrawals the State has made on these deposits.

In addition, the banks, because of the economic and regulatory context, are having difficulty finding gainful employment for their money. In spite of the recent installation of FOGAPE (Fonds de Garantie des Petites Entreprises), the development of credit for small businesses remains largely the domain of the tontines.

**d) Under-capitalisation**

Feebly capitalised and unprofitable, without sufficient funds of their own, the commercial banks remain at the mercy of repeated negative results. To which must be added a notoriously under-evaluated rate of provision. In this context, the controlling companies hesitate to provide injections of fresh capital.

Paribas has nevertheless increased participation in its subsidiary, while the SGBC has benefited from a participatory loan from the SG. Increased participation by foreign - and especially French - banks nevertheless remains subordinate to the evolution of a more encouraging aspect in banking and above all fiscal regulations.

The fragility of the banking system, due in large part to badly drawn up regulations, results in credit availability being highly restricted. However, first-rate borrowers have relatively easy access to rediscounts from the BEAC and are therefore quality assets for Cameroon bankers.

### 6.7.3.3 *Future prospects*

The broad lines of action to be taken in the banking sector.

The Government's policy will be based on the fundamental principles of a progressive withdrawal of the State in favour of the private sector, of liberalisation of banking conditions and strengthened means and rhythm of controls and of sanctions.

With a view to re-establishing the solvability of the banking system, the Government intends to take fiscal measures to encourage the formation of reserves and to improve the judicial procedures and regulatory environment in order to facilitate the recovery of doubtful or compromised bank loans. Commercial banks and their partners will be encouraged to maintain close financial and technical relations.

Encouraging profitability essentially requires greater liberty and increased responsibility for the banks with regard to rates and margins and the redimensioning of their networks.

The credit development and the liquidity of the economy must be supported by action to improve the situation of the external accounts. In this respect, a positive differential must be established over external market rates in order to maintain stable internal liquidity, block the flight of capital, stimulate the entry of capital and encourage better allocation of resources.

A new structure of banking conditions will be established, in close coordination with other BEAC member States. Debit rates in this new structure will hinge upon four time dependent end rates depending on short or medium term and the character (privileged or not) of the operation to be financed. These end rates, which will be only elements to be made public, are intended as the maxima applicable to the clientele, including all commissions. The normal BEAC rediscount rate will then be the client minimum.

For credit rates, the principle to be followed is one of liberalising as far as possible, while retaining guaranteed fixed maximum rates for small savers. Thus, rates will be fixed by decree by the Minister of Finance:

- Savings account interest will rise from 7% to 8%;
- Minimum rates for vouchers and time deposits of not more than 3 million CFAF;

In the immediate future government policy will concentrate on:

- restoring bank liquidity;
- re-organising credits and administrative debts;
- resolving the unsound debt problem.

Restructuring the financial landscape will be completed by a progressive transfer of the burden of financing the \*SNI from the banks to savers, through the creation of negotiable equipment bonds. These new equipment bonds will be added to the Treasury bonds in order to facilitate the constitution of an embryonic financial market, while the distribution of liquidities injected into the banking system in accordance with the needs of each establishment will imperatively require the existence of a money market.

### 6.7.4 A difficult regulatory, fiscal and monetary environment

#### 6.7.4.1 *The State's voluntary delay in agreeing new prices*

State intervention in tariffs and prices is a general rule. No public enterprise in Cameroon (and one knows how extensive this sector is) can increase prices without the authorisation of the tutelary Ministers. The procedure once started can easily take six to twelve months to produce a result. Because of this delay, the State agrees the prices required by the enterprise when they are no longer profitable, and therefore subject to a new request for an increase; and so the procedure begins again.

Between times, the business concerned cannot fail to suffer from serious problems of liquidity and profitability.

There are many examples: we shall cite the case of Camsuco, whose losses in June 1983 had risen to 9,416 billion CFAF, due in large part to the fact that the State refused to revalue its sale prices, static since their agreement in 1981/82. Now, by 1983, taking into account annual inflation estimated at 20%, these sale prices represented only 59% of the production price in June 1983.

#### 6.7.4.2 *The fiscal burden is crushing*

All business complain of the weight of taxation, but this fiscal regime operates both visibly and invisibly.

##### - *Visible taxation*

This concerns mixed economy enterprises which have to pay different taxes for the various operations they undertake; these may be registration fees, conveyancing fees, transfer fees, tax on credit distribution etc.

These businesses are furthermore required to pay company tax (38.5%, as against 35% in Ivory Coast), a tax on company capital and a tax on industrial and commercial profits.

Law n°. 84-03 of 4 July 1984, concerning the investment code, nevertheless distinguishes certain exonerations for companies in categories A, B, C or D.

##### - *Invisible taxation*

This concerns all exporting businesses. It is not directly felt by the consumer since it is applied at dockside when the products are shipped.

In addition to a myriad little transit taxes, handling charges etc., there is a single exit tax, the Droit Unique de Sortie, which is applied to all exported products without distinction.

#### 6.7.4.3 *Insufficient protection for local industry*

Local business complains that the government allows free entry to foreign products which are in competition with local industries.

It is indeed an alarming situation for the latter, especially when you know the psychology of the Cameroon consumer, for whom the foreign product is always better...



It is a paradoxical situation since the businesses concerned were for the most part originally created to manufacture products on the spot which had formerly been imported.

And yet, in almost every protocol between the State and foreign investors agreeing to the creation of a business, the accent is always on the cessation of imports which the new plant will produce, to enable it to start on a firm footing. But once the activity of the new factory has been launched, it becomes apparent that the State has had to be hounded to fulfil the undertaking it gave freely - to whit, to suspend or limit the exports of the competing products.

Why this frequent change of heart, so often fatal to certain enterprises?

The reason is that there exist certain business circles capable of imposing their own short term interests over the longer term interests of the nation. To achieve their ends, they spare no material or financial means to obtain waivers or illicit privileges.

The Cameroon sugar companies make losses because they cannot sell their sugar on the market, although the State allows certain businessmen to import thousands of tons of sugar which they distribute easily.

The same situation exists for flour and noodles, although the Cameroon flour mills make heavy losses.

Graver still is the case of the Huraca (Huile et Raffinerie du Cameroun)<sup>11</sup>, which has simply had to close down two years after it started because imported oil, sold at a low price, had completely flooded the market. In spite of many appeals by the management of this PE to the Ministry of Economy and Planning, no action favourable to their request was taken.

Insufficient protection of local industry is demonstrated by customs fraud, which the Cameroon authorities are powerless to stop. When the Nigerian currency (the Naira) has a low exchange rate, Nigerian businessmen who want to import goods from Europe have no choice but to furnish themselves with CFAF in Cameroon, by selling off their products illegally to their opposite numbers in Cameroon, thus penalising the local Cameroon industry. Statistics for trade between the two countries do not appear on any official document, although there is incontestably a strong trade flow between Nigeria and Cameroon.

#### 6.7.4.4 *The legal investment framework*

- a) The new code of investments of 4 July 1984 provides for a 5%

customs duty on imports and exemption from taxes for local produce when the investment involved is over 500 million CFAF.

This prerogative also exists in certain area which are difficult to reach, for projects with high added value or a high rate of employment of local

<sup>1</sup> Huraca, Huilerie Raffinerie du Cameroun, has 650 million CFAF capital, of which 65% is held by Cameroon public interests and 35% by foreign investors. PE; Public Enterprise

labour. This derogation is also allowed in the case of installations of less than 500 million CFAF, provided the capital is held at least 65% by Cameroon interests.

The new code opens up tax exemptions for investments in priority sectors and for investments of more than 2.5 billion CFAF.

Small and medium business are not subject to tax on capital (1.5%) for eight years, nor to the tax on credit, to registration fees, nor profits tax.

- b) Personal regulations: foreigners must request a visa and a residence permit. The establishment of a business is subject to approval by the Ministry of Trade and Industry. The exchange regulations outlined below apply equally to businesses with foreign capital.

### *6.7.5 Membership of the Franc zone*

Membership of the Franc zone Cameroon membership of the Franc zone and its oil revenues have caused to be forgotten that a local liquidity crisis would inevitably be transformed into a slow-down in transfers to the rest of the world, both in the form of payment to suppliers and in the form of new orders. The famous unlimited convertibility of the CFAF, guaranteed by the operational account, is only valid if there exists a local currency equivalent.

But we are neglecting other dimensions of Cameroon, as a nation, in the divisions of the world (North-South) in terms of development and in geographical terms.

As with all developing countries, Cameroon is faced with a drop in its comparative advantages through the multiplication of cash crops throughout the world and the diversification of energy resources in physical and technical terms. A dead-end appears to have been reached over the necessity of a better balance between exports of agricultural, mining and manufactured products. And yet Mexico, Brazil, Thailand and Mauritius owe the lightening of their external burdens to the increased added value of their production. This has also made them more reliable for their bankers, their external investors and their suppliers.

The situation of Cameroon in the Central African region offers it the possibility of regional sales of manufactured products, in particular to countries attached to the Franc zone.

These two characteristics of Cameroon position, the regional and the global, seem to have been overlooked.

The public powers themselves have not encouraged changes in the structure of the country's external trade structure, nor have they emphasised its role as a regional centre.

They have not reacted to the aggressive trading of their Nigerian neighbour, stimulated by the devaluation of the Naira, nor to the generalised smuggling which is parasitic on the local economies of the country, and a fortiori on its ability to expand regional sales of Cameroon products.

The current Structural Adjustment Plan returns to a number of these orientations.

In addition to the re-establishment of the major equilibria,

which can only remain fictitious without a change in the production system, the Plan is centred on vertical industrial development offering greater scope for exports both in food and agricultural products, and in manufactures.

But the success of this evolution is dependent on the support, not only of financial backers, but also of commercial investors and operators.

Their intervention in the installation, the operation and the output distribution of production facilities is indispensable.

Not only because of their know-how, but also so that there shall be a reduction in the conflicts of interest that exist between a strategy based on sales and one based on production. In numerous domains, from assembly work to textiles, from pharmaceuticals to furniture, from food processing to cattle breeding, it is necessary to choose between imports menaced with strangulation by falling liquidity and local manufacture that can be the source of a Fordian type of cycle with extensions of the market and regional outlets, conditional upon new approaches to sales.

The American multinationals were initially simply American companies who were in a sense responsible for the unification of the American continent as a market, through the expansion of their subsidiaries. Competition between sales by FECC (Foreign Export Commercial Companies) and national industrialisation can certainly be calmed through sector-sensitive policies.

There will always be Caterpillars and other tractors to sell in Cameroon, but one may well ask if it is necessary to bring in frozen European chickens, school exercise books or plastic packing materials.

Not through a desire for import substitution, but simply because the facts are there to be seen: the revenues from oil, coffee and cocoa are not going to be able to provide them for 10 million inhabitants who are going to increase rapidly between now and the year 2000.

A limited protectionism is necessary for a range of products necessarily restricted by the level of development, and still remains to be organised, but would offer opportunities to companies which could then install themselves in Cameroon.

Local insertion already offers a way of spreading the financial risk, since it can be accomplished in association with local capital.

It is a question of being willing to allow the revision of an outdated economic plan based on exchanging primary products against anything that can be bought or sold. A more realistic approach can be seen in the development of local capacities and the production of a limited number of exports by the Caribbean islands: the population of this regional grouping is clearly smaller than that of Central Africa, as are its natural resources.

The support which multilateral organisations, from the SFI to the BAD, including the MIGA and the UNIDO, seem resolved to give the private sector, could well help to redress the external accounts and dynamise the manufacturing sector of Cameroon too.

## 6. COUNTRY CASE STUDIES

### 6.8. IVORY COAST

#### 6.8.1. *Economy outlook*

##### 6.8.1.1. *Economic developments*

Pressure on the government budget and deterioration in the balance of payments led to a contraction in economic activity last year. GDP, which fell by 1.7 % in 1987, is estimated to have declined by an additional 3.4% in 1988. Domestic demand fell further with a moderate decline in real fixed investment by the public sector which was held constant in nominal terms. The uncertain outlook adversely affected private investment which fell more sharply in real terms. The government's financial difficulties also contributed to the weakness in private consumption as payroll checks for the civil service have evidently been delayed in recent months. Reports have persisted, moreover, of farmers being offered substantially less than the official support price of CFAF 400 per kilo for cocoa from some private sector buyers. Despite lower merchandise import volumes, which are estimated to have declined by about 7% in 1988, the internal sector's contribution to growth was negative. This was the result of the government's embargo on cocoa sales until late last year, which largely accounted for a 14% drop in the volume of merchandise exports.

Output declined in most non-agricultural sectors. Falling investment hurt construction, while the services sector suffered from lower public and private consumption. High guaranteed producer prices for cocoa and coffee as well as favorable growing conditions accounted for an estimated 7% jump in agricultural output, an increase which has had the paradoxical effect of worsening the country's fiscal deficit.

The current account deficit, which rose sharply in 1987 to an estimated \$1.25 billion due to lower exports receipts from cocoa and coffee as well as an increase in external interest payments due, widened further last year to an estimated \$1.35 billion or 14% of GDP. The deterioration was attributable to both a smaller trade surplus and a larger deficit in the services account. Despite a 7% decline in import volumes, lower cocoa and coffee revenues produced a \$350 million drop in the trade surplus.

The external financing pattern in 1988 was similar to the previous year's. Official bilateral creditors provided most of the net financing, about \$0.8 billion, in the form of new disbursements, accumulation of additional interest arrears and recourse to the French Treasury's overdraft facility. Commercial banks provided estimated financing of nearly \$200 million, mostly in the form of additional interest arrears. Banks received relatively small principal payments on unguaranteed public enterprise debt and from private sector debtors. A similar amount of net financing, came from other private creditors, including suppliers and financial support to local enterprises and joint ventures from parent company head offices abroad. It is estimated that total payments arrears rose from \$0.4 billion at the end of 1987 to about \$1.0 billion at the end of last year; the \$600 million increase in arrears during 1988 included

\$185 million in interest and \$208 million in principal arrears to commercial banks.

Total external debt is estimated to have risen by about \$500 million in 1988 to \$14.6 billion, with about \$350 million of the increase accounted for by interest arrears. This increase understates the volume of net financing, as the higher value of the dollar at the end of 1988 caused a downward valuation adjustment of more than \$900 million in the non-dollar share of the debt stock.

### 6.8.1.2 The burden of adjustment

The table below shows the modifications in the principle variables of the economy between 1981, when the adjustment began, and 1987.

Tableau 6.8 .I.

	1981	1987
GNP	1350\$ per capita	730 US \$ per capita
Industrial employment	100.000 jobs	72,000 jobs
Customs dues and duties	40 to 50%	70 à 90% avg; certain rates up to 120-150%, with 220% peak
Public investments	200 Bn CFAF	approx 100 Bn CFAF
Private sector investments Business turnover	+ 2%/year since 1981	Stagnation and risk of by numerous entrepreneurs - 10% en 1987; - 15% (estimation des entrepreneurs estimates) in 1988).  - Considerable anxiety expressed by business for 1989
Interest rates	11 to 15%	17 à 19,5%
Overall imports	772 Bn CFAF in 1985	600 Bn (1988 forecast) Fall of 20% in 4 years
Capital goods imported	180 Bn CFAF in 1985 23.4% of total imports	149 Bn in 1988 21.5% of total imports Fall in value of 17% in 3 years

The proliferation of quantitative restrictions at the start of the 80s inclines one to think that the anti-export bias grew more pronounced up to the reforms of April 1985.

### 6.8.1.3 The limitations of industry during the adjustment

Elaborated on the completion of the World Bank studies, the overall plan for industrial development produced by the Ministry of Industry noted the weaknesses outlined below.

- **First observation: Ivory Coast industry has remained unintegrated for a long time.**

While each enterprise in an industrialised country buys an important part of its intermediate materials from other branches of the national industry, the table of industrial exchanges in the Ivory Coast shows that the list of branches buying more than half their raw materials and , components from abroad is much longer than the other two lists ( imports of less than 10%; imports of 10 to 50%).

Only the branches transforming local raw materials (coffee, cocoa, oils, wood, sugar, textiles etc.) have a good coefficient of integration. However their share of added value (textiles: 5.9%, wood: -3.3%) is sometimes less than that of other branches which are more concerned with assembly work than true production (transport equipment and other mechanical and electrical industries).

- **Second observation, linked to the previous: the degree of local transformation of the main Ivory Coast raw materials is low.**

If we except two very specific sub-sectors, wood (whose integration has been considerably accelerated recently) and palm oil (80% of agricultural production is transformed locally), transformation appears as follows, in percent of total production:

Table 6.8 .II.

	1980	1981	1982	1983	1984	1985
Coffee	5,3	3,2	5,1	5,8	-	5,0
Cocoa	18,3	19,2	14,9	20,0	20,0	20,0
Cotton	30,7	32,3	34,8	25,4	30,3	21,0
Rubber	2,9	1,5	1,5	0,2	0,4	0,5
Pineapples (fresh)	60,8	57,3	45,3	31,3	26,5	25,0

Of course local transformation of raw materials must not be considered a universal panacea. The unhappy experience of the pineapple canners, brought to bankruptcy because of changes in the tastes of European consumers and forced to fall back on sales of the fresh fruit, demonstrates what could happen in other cases.

- paper pulp
- the entire chemical industry except for essential oils and perfumes (for which the market is merely insufficient)
- clinker for cement works
- refractory products
- plate glass, glass fibre and technical glass
- steelmaking and furnaces
- major naval and aeronautical construction
- the automobile industry
- agricultural machinery, machine tools and gears
- public works equipment
- equipment for the production, transformation and control of high and medium tension electric current
- professional electrical equipment and electronic components.

Even outside these branches, many existing Ivory Coast factories are today over-dimensioned in relation to the internal market. The search for an abstract profitability (economies of scale) has led promoters, sometimes on bad advice, to design plant whose production capacities are considerably in excess of the local market's potential.

Since export marketing has not been studied as thoroughly as it merits, many enterprises are today running at less than half their capacity. As a result the profitability of invested capital is low, as is productivity per employee, although this does tend to improve.

In several branches, industrial over-capacity has grown with the crisis, notably in those industries operating most directly in the building and public works sectors. It can nevertheless be seen that the efforts made to increase export turnover figures at the beginning of this decade have resulted in some fine performances.

From 202 Bn CFAF in 1981, Ivory Coast industrial exports rose to 457 Bn CFAF in 1985. In current francs they increased by 16% in 1982, 25% in 1983, 37% in 1984 and 14% in 1985, a rate always greater than inflation. Export turnover as a percentage of total industrial turnover increased from 21% in 1981 to 32% in 1985.

Branches participating most in this development were (1981-85):

- Fats and oils	+ 633%
- Extraction industries (mostly oil)	+ 357%
- Leather and footwear	+ 200%
- Chemical industries	+ 240%
- Cardboard and miscellaneous packaging	+ 100%
- Flour and cereal products	+ 108%
- Textiles	+ 88%

The agro-industries nevertheless remain the principle exporters, even if their recent performances have improved rather less in this field than those of other branches, which for the most part started from a lower level.

**Fourth observation: the low level of investment since the beginning of the crisis has aggravated the rate of wear of equipment**

From 1981 to 1985 gross annual investments fell overall by 56%. This development is explained in large part by serious disinvestment in oil extraction and the sugar sector. But a more detailed examination shows that the structure of annual investment deteriorated with an abrupt drop in the funds allocated to productive equipment as such: buildings, tools and equipment. It further appears that such investment as there was created scarcely any new employment.

Industry's ability for self-financing deteriorated seriously from 1981 to 1984, dropping from 79 billion CFAF to 35 billion. The annual cash-flow fell sharply in 1982, which led to a heavy fall in theoretical levels of self-financing (capacity for self financing over real investment in the financial year), which went from 29% in 1981 to 13% in 1982 and 17% in 1983.

**Fifth observation: the financial health of the Ivory Coast industries is fragile**

During the first years of the decade, businesses tried to increase the productivity of their employees. Calculated on the basis of the relation between "gross added value" and "total employees", this rose from 3.4 million CFAF in 1981 to 5.6 million CFAF in 1986, an increase of 65% in current francs. The most remarkable productivity increase occurred in the non-agricultural sector, where it climbed from 7.1 million CFAF in 1981 to 13.4 million in 1985 (+89%). This is explained by stronger growth in the added value and a relatively larger decrease in the number of employees (-13%) in this sector.

In value terms, the highest productivity increases were recorded in the following branches: mineral extraction (76.8 M CFAF in 1985 - mostly oil), construction materials (12.9 M CFAF), and energy-gas-water (11.7 M CFAF).

Less than average productivity was recorded in the rubber industry (1 M CFAF), wood (2 M CFAF), fats and oils (2.9 M CFAF), other foodstuffs (4 M CFAF), cereals and flours (4.5 M CFAF), leather and footwear (4.5 M CFAF).

From 1981 to 1985 businesses also tried in a more general manner to reduce their overall running costs. An improvement in absolute value can thus be observed between 1984 and 1985 (3%). It should nevertheless be pointed out that the fall in financial costs in 1985 is mainly due to the state's payment of its interior debts... Hence a very noticeable slowdown in the recourse to bank overdrafts. Since 1987 the situation has once again deteriorated sharply.

With regard to the heading "Amortissements and provisions", the drop recorded between 1984 and 1985 is explained both by the low rate of amortissements and by the fall in provisions made for doubtful clients at



the start of a sure and certain market upturn. Here too, it can be seen that since 1987 the clear skies clouded over once more.

Apart from the improvement observed in 1985, the situation with regard to running costs has continued to deteriorate since the beginning of the decade in noticeable and continuous fashion. From 1981 to 1985, operating costs have increased by 47% in current francs, a growth rate of some 7% in constant francs.

**Sixth observation: the national character of Ivory Coast enterprises depends largely on state intervention**

Although they should be read with caution, the statistics for 1985 show a level of national capital involvement of 81%. But private Ivoirean investment counts for only 10% of this total, the remainder - over 70% - being state participations in the agro-industrial and energy sectors.

The central authority's attempts to encourage the development of an Ivoirean industrial middle class have not, therefore, met with much success. Certainly a social status of businessmen has been called into existence, thanks, notably, to the allocation of important export quotas for coffee, cocoa and wood to companies with strong private Ivoirean participation. But the capital thus constituted has hardly moved at all from the sectors in which it was formed (import-export, trade, some real estate) to invest in industry.

More recently, the Ivory Coast authorities have not hesitated to exert pressure at the highest levels on this business bourgeoisie to encourage participation in privatisation operations decided on by the state. In this manner public participations in numerous industrial enterprises have been ceded to private Ivoirean and foreign investors - SONACO, ABI, UTEXI, COSMIVOIRE, SOTROPAL, etc.

It is, however, very difficult to establish exactly these capital movements, for they remain confidential (often operating under the aegis of the DCGTX). For the most part, these transactions have been a matter of private agreement, without publication of invitations to tender and therefore without competition between potential buyers.

Increases in Ivoirean personnel are easier to check. At industrial business management level, three-fourths of executives are Ivoirean. This percentage is lower than in other sectors (especially the administration), but has increased considerably over the past twenty years.

Seven industrial branches show an Ivoirean executive level over 80%, including brick and particle board manufacture, Ivoirean 100%. The lowest levels are found in car repairs, electrical windings and miscellaneous industries.

**Seventh observation: Industrial installation remains centred on Abidjan**

Half the salaried employees and two-thirds of the added value of the "modern" sector are concentrated here.

New investments realised since independence have only reinforced this already existing tendency; thus, out of 144 agreed projects, 102 have been set up in the Abidjan area, nine near Bouaké, seven around San Pedro and 28 in the other regions...

**6.8.2 Why is Ivory Coast industry handicapped?**

**6.8.2.1 An incomplete model**

At independence Ivory Coast industry was principally concerned with the local market and was mainly composed of textile manufacture and agro-forestry transformation units. Today the manufacturing industries alone account for 15% of the GDP, in a secondary sector supplying 24% of the GDP.

The food and agricultural industries remain decisive, since they provide more than a third of industrial production and employ 22,000 people. Chemicals and rubber follow with 22% of production while mechanical and metalworking industries account for 15% of the whole. Textiles, clothing and leather are still the most labour-intensive sectors after food and agriculture, with 15,000 employees, but they supply only 13% of total production.

The rapid development of the Ivoirian industrial sector, until recently unrivalled in French speaking Africa, had two priorities:

- to transform local raw materials before exporting them,
- to substitute local products for imports.

In fact, these two axes of industrial growth turned out not to be the sources of the expected changes. The value added to the raw materials remained low. International competition, difficulties of access to modern technology, the rapidity of variations in demand and its sophistication, and finally irregularities in local production combined to hold back the performance of industrial exports. The role of organisations such as the Caisse de Stabilisation et de Soutien (agricultural price support), which took large contributions before transformation in the name of the state and ensured the (relative) control of stock levels, must also be included in the explanation of this phenomenon.

In addition, import substitution strategy placed particular emphasis on the consumer goods sector and did not enable upstream coordination of industrial activity. As a result, imports of raw materials and capital goods caused heavy expenditure in foreign exchange to achieve a relatively low level of induced added value.

### 6.8.2.2 *The early 80s*

However, even if external markets controlled distribution of value added agricultural products, Ivoirian potential allowed the expansion of existing units and the development of new factories; tomato concentrate production, fish and meat preparation and packing, edible oils, cold storage depots etc.

Effectively, the evolution of food fashions, the cost of imports and growing demand in spite of the vagaries of growth in income seemed to argue for the reinforcement of the food and agricultural sector

In order to reduce upstream dependence, efforts were made to integrate or coordinate related activities. Thus, it was planned to expand the existing rolling mill and construct a mini-steel works.

Alongside the growing success in exporting food preparations such as coffee extract and Maggi cubes - become an indispensable adjunct to African cooking - in 1982 engines and mechanical equipment appeared for the first time among the ten top exports, even if 25% consisted of re-exported drilling equipment. Export values of cement, iron, cast iron and steel products had doubled in 2 years, while fertiliser began to show interesting results.

### 6.8.2.3 *Energy advantages?*

At this point, it was energy which seemed destined to take over from the manufacturing industries as the motive power behind the 7% growth in the secondary sector called for by the 1981-85 Plan, improving the added value / production ratio.

However, hydrocarbons, on which were based a part of this projected growth, were not to give the Ivory Coast its expected self-sufficiency.

The Soubré Dam project, which was to be the greatest project ever undertaken in the Ivory Coast ( 220 billion CFAF) and which would have been a fundamental step towards the electrical independence of the country, ran into trouble. Damming the Sassandra river in the west of the country, it was to create a head of water that would produce 1.6 billion kW/h of electricity per year, or 3/4 of the actual production.

The drought, which reduced the level of the dams to below operational level, caused a drastic fall in hydro-electric production. The EECI had to revert massively and rapidly to thermal production. These costs and the country's hydrological situation leave room to suppose that the search for a hydrocarbon based electricity supply will win out over the Soubré project.

### 6.3.2.4 *Investments*

The industrial apparatus benefited from an exceptional investment effort during the period 1975-80, thanks to transfers of resources from the primary sector. Endebtmnt and capital inputs also contributed, and the need for repayments today involves a clear slowdown in industrial investment. In addition, the drop in certain agricultural outputs such as wood production accentuates this drop in the rate of capital formation.

### 6.8.2.5 *Financing*

The question of industrial investment in the Ivory Coast leads to an examination of its financial evolution and therefore of its banking system. This is characterised by a certain anti-transformational nature, in that banks make short-term loans with longer-term resources.

However, this is a very relative form of anti-transformation, in that sight deposits have the edge over savings in spite of all, and it is finally the weakness of long-term credits which is notorious.

One can deduce from this that part of business investment is financed by short-term credits, leading to a certain vulnerability in the system. This generalisation of short-term credit is matched by a corresponding lack of long-term resources which could act as the basis for rationally amortisable investment. Lack of household savings is the chief cause, but also the irregularity of deposits by organisations in the public sector.

The state's budget deficit, which forces it to heavy on the receipts of public sector enterprises and call on external sources of capital, therefore weighs heavily in the irregularity and poor availability of resources in the banking system.

In addition, the stock exchange at Abidjan does not seem to have succeeded in accumulating sufficient weight, while since 1982 private capital has preferred to emigrate in search of more remunerative rates of interest. The decision of the BCEAO to raise interest rates from 8% to 12% may limit this flight, leads to doubts as to the attractiveness of the Ivory Coast market for local capital.

## 6.8.3 *The impact of the adjustment on manufacturing industry*

### 6.8.3.1 *The context surrounding adjustment*

- . Increasing public finance deficit linked to personnel costs growing more rapidly than budgetary resources (poor adaptation of the educational system).
- . Weak growth in agricultural production for industry and for current consumption (combined result of agrarian policies since Independence and climatic conditions).
- . Public enterprise deficits due to inefficient management and/or constricting regulations.

- . Difficulties in maintaining subventions for essential products needed to hold back increases in salary scales.
- . Difficulties in absorbing external stocks (changes in energy prices, abrupt variations in effective exchange rates and overseas interest rates).

If one were to pick out, in no particular order, the increasing difficulties which the Ivory Coast has had to face, one would find the following principal points:

- . Problems in maintaining the import substitution sectors of industry at a competitive level in a narrow market (subventions), and in constituting an industrial exports sector.
- . Problems in increasing the level of protection of the economy, already at a very high level and partially breached by contraband.
- . Increased cost of servicing the public debt, arrears of payment by the state and external debt, coupled with diversification of the currencies in which external debt is written (increased overall exchange risk).

#### 6.8.3.2 *The responses of the adjustment program*

Faced with these problems, the instrumental variables at the service of the state are well known and relatively limited:

- . Budgetary expenses (civil service recruitment, civil service salaries, administrative consumption, investment by the state or national underwriting of development projects).
- . Budgetary receipts (customs dues, tax bases, rates of taxation); fixed agricultural production prices and fixed prices for essential goods and services; fixed minimum salaries; fixed public tariffs.

Even so, it must be stressed that the range of effective use of these variables is limited, and that there are thresholds beyond which these variables become inoperant (too great an increase in customs dues, for example, leads to an increase in contraband and a loss in fiscal revenues). One particular problem is that of monetary policy, since control of credit, monetary mass, and exchange rates does not lie directly in the hands of the authorities because of the way in which the CFA zone operates.

The successive reschedulings which have been introduced since 1983 illustrate very well that releasing internal blockages has only been possible with the aid of a financial escape route based on a repositioning in time of external repayments and the injection of capital supplied by the rest of the world. The growing burden imposed on the balance of payments and on the growth of national wealth by the transfers to the exterior necessitated by heavy indebtedness, has led to the impasses we have seen. The downturn in world prices of the principle primary products exported by the Ivory Coast intensified the difficulties of external adjustment by shrinking the trade balance and reducing the economy's available revenue.

Confronted by these challenges, the Ivory Coast authorities are quite rightly preoccupied by the benefits they can find in the flow of imports, both by

limiting them to reduce the outflow of financial resources and by deriving from the purchases of the nation a customs product which shall benefit the state.

### 6.8.3.3 *The installation of an import policy*

#### 6.8.3.3.1 *The Ivory Coast's position*

Under the wing of M. Diabaté, the government has also been keenly interested in the impact on local industry of the liberalisation of customs dues on imports. Losses in customs revenue were estimated at 180 billion CFAF per year following the principle World Bank recommendations concerning the partial suspension of customs dues. Included in these losses are the losses in earnings caused by unregulated competition, which afflict branches of Ivoirian activity such as textiles, footwear, mechanical engineering and others.

The absence of customs dues or temporarily duty free imports would have encouraged evasion of the legislation with severe consequences for the Treasury and the nationalised industries. A consultative evaluation committee is to revise the nomenclature of deregulated products, their prices and the terms governing import contracts. Using a data bank of information on prices in the supplying countries, the committee will work with representatives of the public and private sectors. A centre for customs training will also be created and the number of customs officers raised from 2,400 to 6,000 with a system of bonuses to motivate them to detect fraud. To aid local enterprise resist fraudulent imports, various taxes will be abolished, from tax on low salaries to the TPS on bank credits. An issue of the magazine Africa (August 1987) insisted particularly on the impact of deprotection on the fabric of the Ivory Coast economy.

#### *"Does the IMF encourage fraud?"*

*As everyone knows, fiscal and customs fraud is particularly serious in many third world countries, and is not without effect on these countries efforts towards development. The Ivory Coast is no exception to this rule, and President Houphouët-Boigny has frequently expressed his preoccupation in this field. But, since the application of the plan for liberalising imports insisted upon by the World Bank, there has sprung to notice - particularly in the Ivory Coast - the spread of a particularly effective form of fraud: under-billing. The systematic installation of this system began in the country's most sector, the textile industry. It was, then, in this internationally sensitive field that the fraud took root. After a test period during 1985 and the first 8 months of 1986, the phenomenon suddenly became general with the disappearance of the last of the Ivory Coast's customs barriers.*

*This between 1984 and October 1986 textile imports - mainly synthetics - increased by 80% in volume and decreased by 12% in value.*

*After this time of trial runs, the machine gathered speed. A comparison of customs evaluations of imports from the EEC during December 1986 with the values shown on certain import documents presented to the Ivoirian*

*administration for the same period revealed rates of under-billing ranging from 65% to 95%. It is evident that this system, against which the Ivory Coast administration seems so far helpless, will result in a series of reactions diametrically opposed to the objectives which the IMF had dangled enticingly before the country's authorities.*

*In point of fact, while the IMF's structural adjustment plan was supposed to relaunch and dynamise the entire industrial sector of the Ivory Coast; At the first test unrestricted liberalisation of imports sees the local industry put out of action and its turnover melting away in the face of masses of cheap and effectively untaxed imports.*

*Numerous sectors are already in the grip of severe unemployment and notably enterprises hitherto considered technically sound, such as Uniwax and Bata, while the phenomenon even affects giants such as R. Gouffrey and Utexi. These bloodlettings followed the closures of Icodi, Blue Bell Ci, Sofitex, Allibert Maroquinerie as a result of restructurations due to the world crisis added to the uncertainties of the climate on the Ivory Coast during 1983-84.*

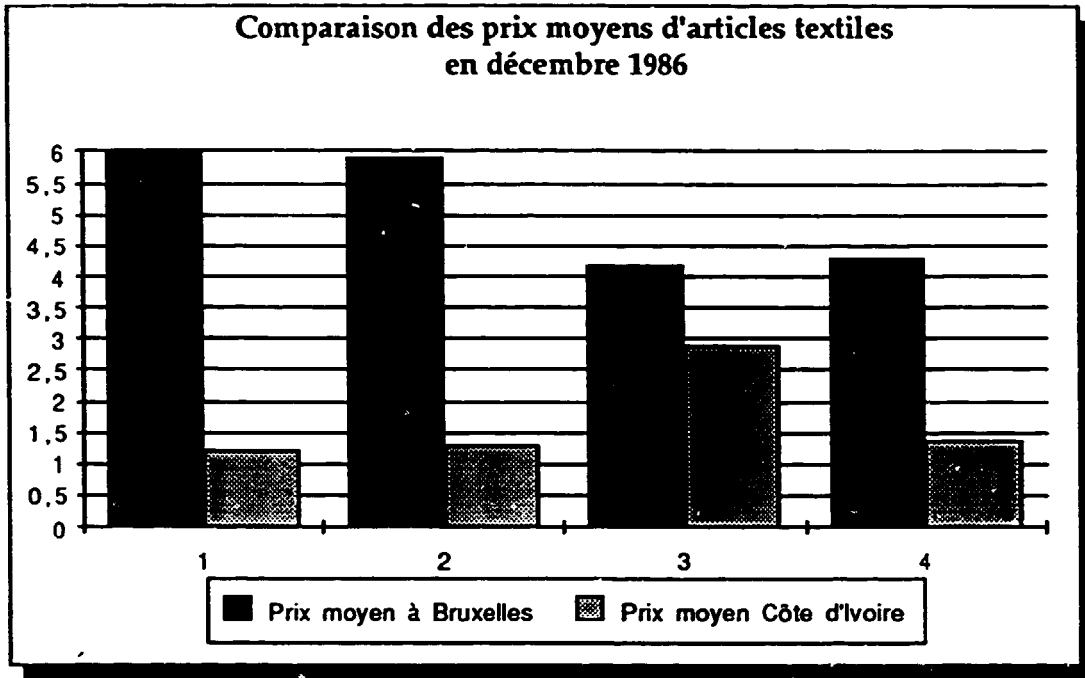
*The unmitigated application of the IMF's technocratic theories, whose authorities refuse the evidence of local realities, could well reduce to nothing the twenty-seven years of effort of an entire nation on the road to development".*

This journalistic résumé of the impact of the "liberal" reforms of import mechanisms is exciting reading but does not in fact reveal the underlying philosophy and goals of the experts from the IMF and the World Bank.

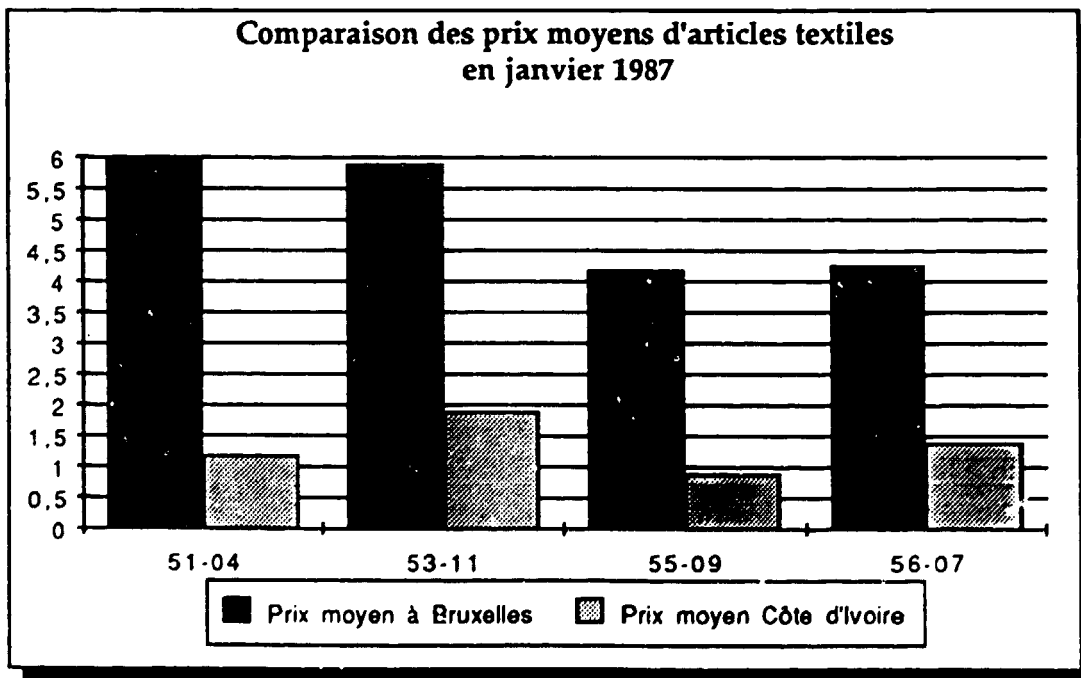
Table 6.8 V and 6.8 VI

In Bn CFAF

Comparison of average prices of textile articles in December 1986



Comparison of average prices of textile articles in January 1987





### 6.8.3.2 The position of the IMF and the World Bank

#### **Their diagnosis**

The conviction of the authorities of the two great international financial institutions with regard to the Côte d'Ivoire starts to become perceptible: only a devaluation of an overly strong currency, the CFA Franc, can bring about an internal and external adjustment.

The rate of exchange of the CFA franc explains, for the IMF and the World Bank, the unruly behaviour of imports and the feeble competitiveness of exports, particularly manufactured products. This conclusion is drawn from the evolutions of the effective exchange rates between the Ivory Coast and its suppliers and clients, the dominant figure among the latter being the Netherlands, who absorb 18% of Ivory Coast exports. The rate of exchange is supposed to reflect the purchasing power of a currency, which itself varies as a function of the monetary mass related to the gross national product and the price levels.

The effective rate of exchange<sup>1</sup> shows a noteworthy increase in the real effective rate of exchange of the Ivory Coast at the very moment when the country should reduce the value of its exports and imports. Some competing African countries have adopted measures aimed at reducing or eliminating the increasing over-valuation of their rates of exchange (Ghana, Nigeria).

### 6.8.3.4 Reforms and their limitations

Rather than playing on the rate of exchange, the objectives of the World Bank and the International Monetary Fund were to establish conditions for a devaluation, with the unmistakable pre-occupation of wishing to make the industrial fabric more coherent ready for the important changes of the end of the decade.

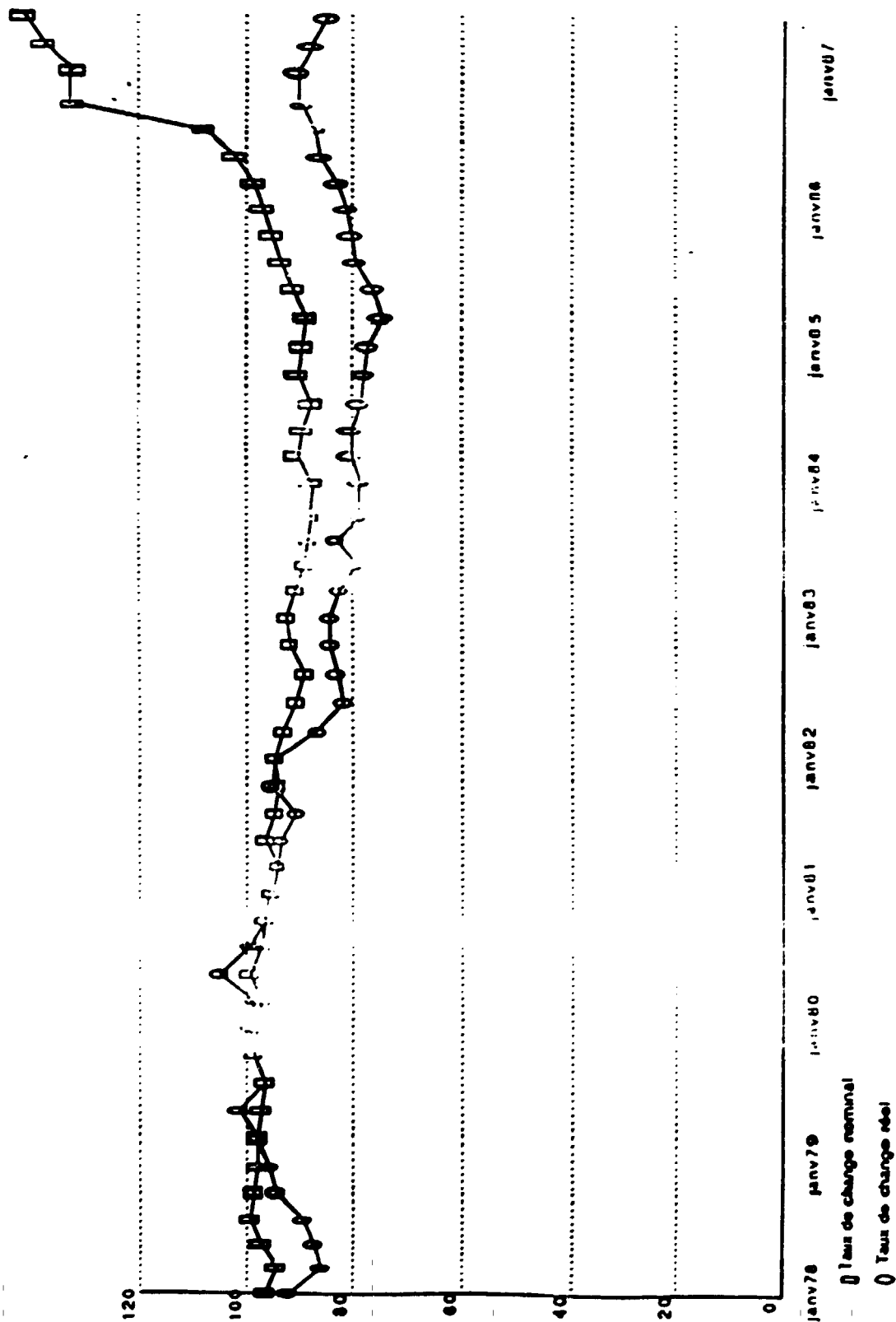
Thus, under the aegis of the IMF and the World Bank, the government has undertaken a number of actions to encourage exports towards the development of a national industry.

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<sup>1</sup> The effective rate of exchange of a currency is defined as a synthetic rate resuming all of its bilateral exchange rates. It is a weighted average of the percentages of depreciation or appreciation of a currency (in this case, the CFA franc) in relation to those currencies with which it is being compared. This indicator is only usable in time based series in the form of an index.

Table 6.8 VI

Nominal and real rates of exchange



### **Reform of the export incentive system**

The Ivory Coast government has progressively installed a system of export incentives for manufactured products:

- . A subvention to the added export value which compensates exporters for the average tariff protection given to sales on the domestic market. The law in favour of generalising the export premium to all manufacturing sectors after 30 September 1985 was adopted. However its effective application is slow and if the Special Treasury Account opened for these premiums is already primed, the premiums themselves have not yet been paid out.
- . A system of credits for exports (being studied)
- . A system of export insurance (being studied)

Finally, the cost of the system led to its being abandoned...

### **Reform of the system of protection against imports**

The first leaf of the reform consisted of a revision of customs tariffs. The new customs tariff, brought into effect in 1985, resulted in effective protection of 40% for all manufacturing sub-sectors except mechanical and electrical industries, capital goods and certain activities in the chemicals and plastics sectors. A temporary surcharge on imports was imposed for products for which the new customs tariffs resulted in a severe drop in the level of effective protection. This surcharge decreases linearly over five years, to allow an adjustment period for all the enterprises concerned.

Under the third structural adjustment loan, the 40% effective rate of protection was applied to all manufacturing activities. A degressive surcharge will be introduced where necessary; in the cases of fertilisers, insecticides and pesticides, the tariff modification necessary to achieve 40% effective protection will be accompanied by appropriate measures to compensate the impact on agricultural products. The second leaf of the reform bore on quantitative import restrictions. The law aiming at the suppression of quantitative restrictions and their replacement by degressive surtaxes over five years has been applied since 12 March 1985. A decree fixes surtaxes for the products concerned in the textile, clothing, footwear, wood products and agro-industrial sectors. The decree also anticipated the establishment of taxation minima to replace the system of daily market prices as an anti-dumping procedure for the majority of the above products.

Within the bounds of the third structural adjustment loan, decrees should be adopted to replace all quantitative restrictions by surtaxes.

### **Revision of the Investment Code and common law fiscality**

The projected new code of investment eliminates automatic exoneration from import duties on intermediate consumer goods for priority enterprises, in order not to penalise potential local producers or these intermediate products. It also introduces a subvention for added Ivorian value and encourages small size enterprise and new installations outside the Abidjan region.

### **Reform of institutions responsible for industrial promotion**

Two organisations endowed with both independence and the flexibility of action necessary to ensure the success of the industrial promotion policy should by now be in place:

- the first, to take charge of promotion and technical assistance for small size enterprise (CAPEN reorganised).
- the second, to regroup different funds (guarantee, participation, gratification, studies) and provide financial support.

### **Other measures**

Within the bounds of the third structural adjustment loan, the government could undertake to accelerate reimbursement of TVA to exporters and to set up a system of permanent checks on the efficiency of administrative procedures and of the impact of reforms.

## **6.8.4 Conclusion**

### **6.8.4.1 The evidence**

The actions undertaken have produced the undesired effects already evoked. The suppression of quantitative protection and the rise in customs surcharges have stimulated imports that compete with national production. The fall in customs receipts in a period of economic depression has accentuated the deficit in the public finances. The improvement in the trade balance sort by the experts of the World Bank does not seem to be developing in either the short or medium term because of the necessary link between development and imports.

All together, the simulated devaluation recommended, which consists in cheapening exports and making imports more expensive, has run up against distortions which are compromising its effects.

For many of the Ivory Coast's entrepreneurs there is an underlying flaw in the policy of liberalised imports recommended by the World Bank.

The reform which it recommends would have the effect of only allowing industries transforming local agricultural base products to exist in the Ivory Coast, thus accentuating the division of labour between North and South.

The management of international companies likewise evoke the prospect of closing their downstream production units in the Ivory Coast and transforming them into distributors of finished goods imported by the head office.

In a general way, all assembly-oriented industry is brought in to question by the dispositions of the structural adjustment loan relating to imports.

The premiums for exports, which ought to stimulate the efforts of transformation industries, also pose problems which are essentially technical in nature but still have an influence on public finances. The first problem is, of course, the exclusion of numerous activities from the export incentives.

The export premiums are intended to compensate surcharges on Ivory Coast production in relation to the international market. To determine thisq overcost, it is initially supposed that international prices, that is to say the CIF import prices and FOB export prices, are tied to internal market prices by port dues. But the world reference price remains difficult to determine in many cases.

For products involving local raw materials bought at less than world price, meaningless taxes are granted (very low or even negative values).

It has been decided tyhat for companies which export the totality of their production, that the local price equivalent will be conventionally taken as the FOB price augmented by entry duties on the finished product. The automatic operation of these coefficients has resulted in several cases in taxes of less than 50%; the products were thus excluded from the benefits of the premium. This is economically absurd; the industrialists concerned cannot operate with excessive local margins since they do not sell their product on local markets.

To remedy this situation, there are two possible solutions:

- either to encourage a symbolic local market and have the local price agreed by the Ministry of Trade,
- or to demand a reform of the customs tariff by the Commission on Tariff Reform. One and the other solution are both heavy and long to put into practice. The delay will prejudice these industries and create distorsions with regard to their competitors.

#### 6.8.4.3 *The underlying distorsion*

By reason of the close correlation between imports and general economic activity, in particular investments, the deflationist policies of the period of adjustment have had a considerable effect on the volume of imports. These had increase by 78% between 1975 and 1978. A fallback began in 1979 under the influence of a drop in investments and has since increased under the influence of the shrinkage in volume of the GDP. Globally, the volume of imports has decreased by more than 29% since 1978.

This retreat would seem to have reached its maximum in 1984, concurrently with the end of the recession, and a light resumption would seem probable during the course of the next five year period, as is shown by the projections carried out by the Ivory Coast authorities with the aid of the model of the economic budgets.

But, aside from the fact that the trend in imports is no longer downwards, it is necessary to remember the impact of prices on the structure of imports even when they reduce in volume. When imports decrease, it is not under the influence of diminishing costs, but because of a decrease in quantities, when what the country actually needs is more goods from outside to pursue its development. The maintenance of a high import price level is added to the incidence of exchange rates on the cost of imports (cf. table below).

We arrive at this paradoxal situation when the World Bank upholds the thesis of an over-estimation of the rate of exchange of the CFA Franc and hence of

the exaggerated purchasing power of the Ivory Coast. One forgets that the terms of exchange of the country have deteriorated since 1981, and faster than in other countries.

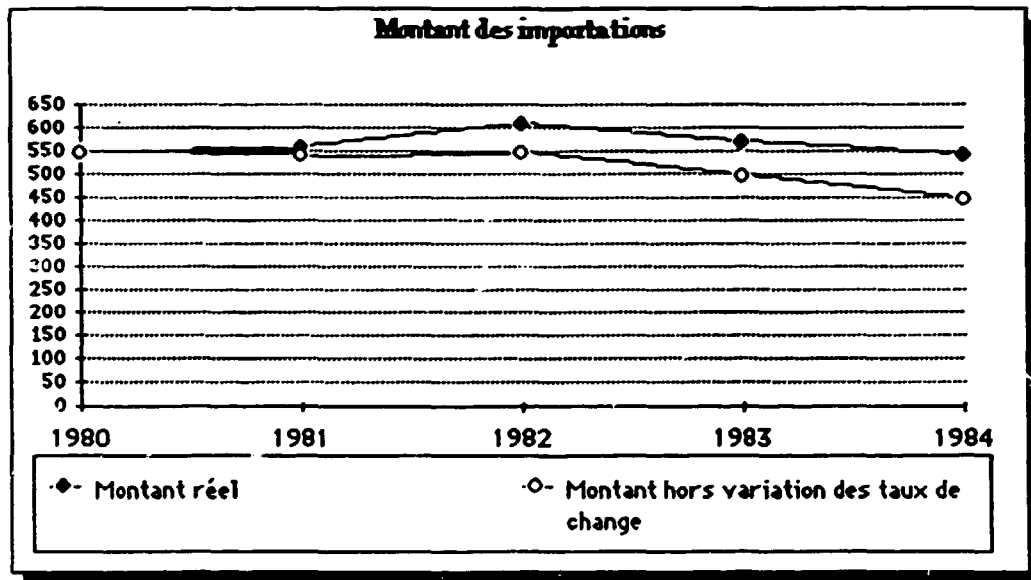
The statistical services of most countries publish an index of the net terms of exchange. It is the simplest and also the most frequently calculated index. The formula for it, developed from the relationship of two other indices, is as follows:

$$\text{Index of net terms} = \frac{\text{Index of export prices}}{\text{Index of import prices}} \times 100$$

The export prices are obtained by dividing the overall value of exports during each year by the volume of exports, this calculation evidently being carried out by product groups for reasons of homogeneity.

Table 6.8 VII

Total of imports



Development of CIF imports (growth rate in %)

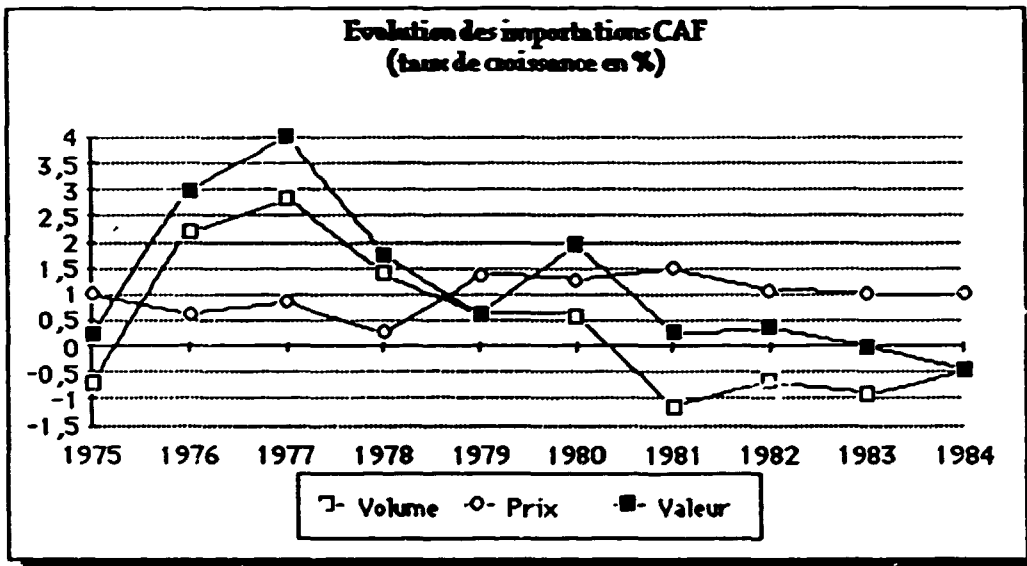
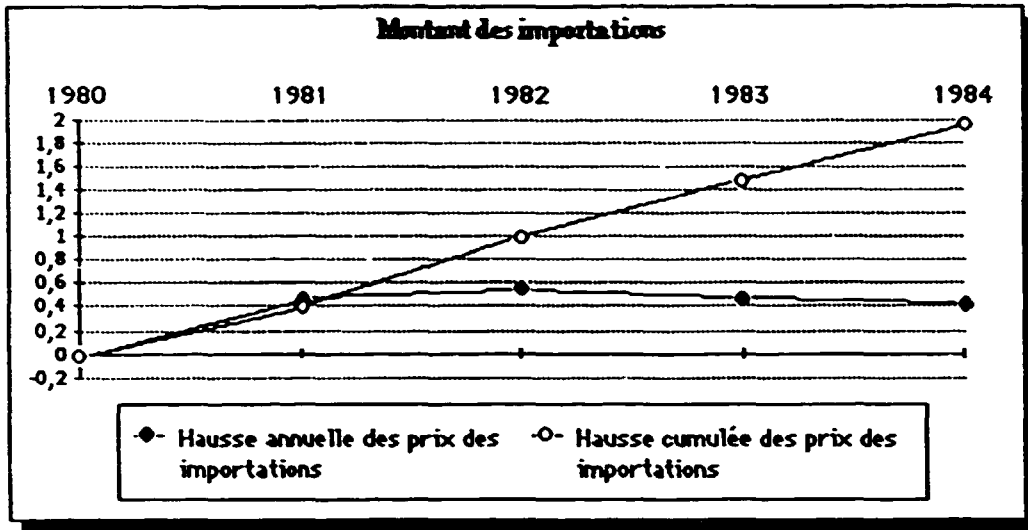
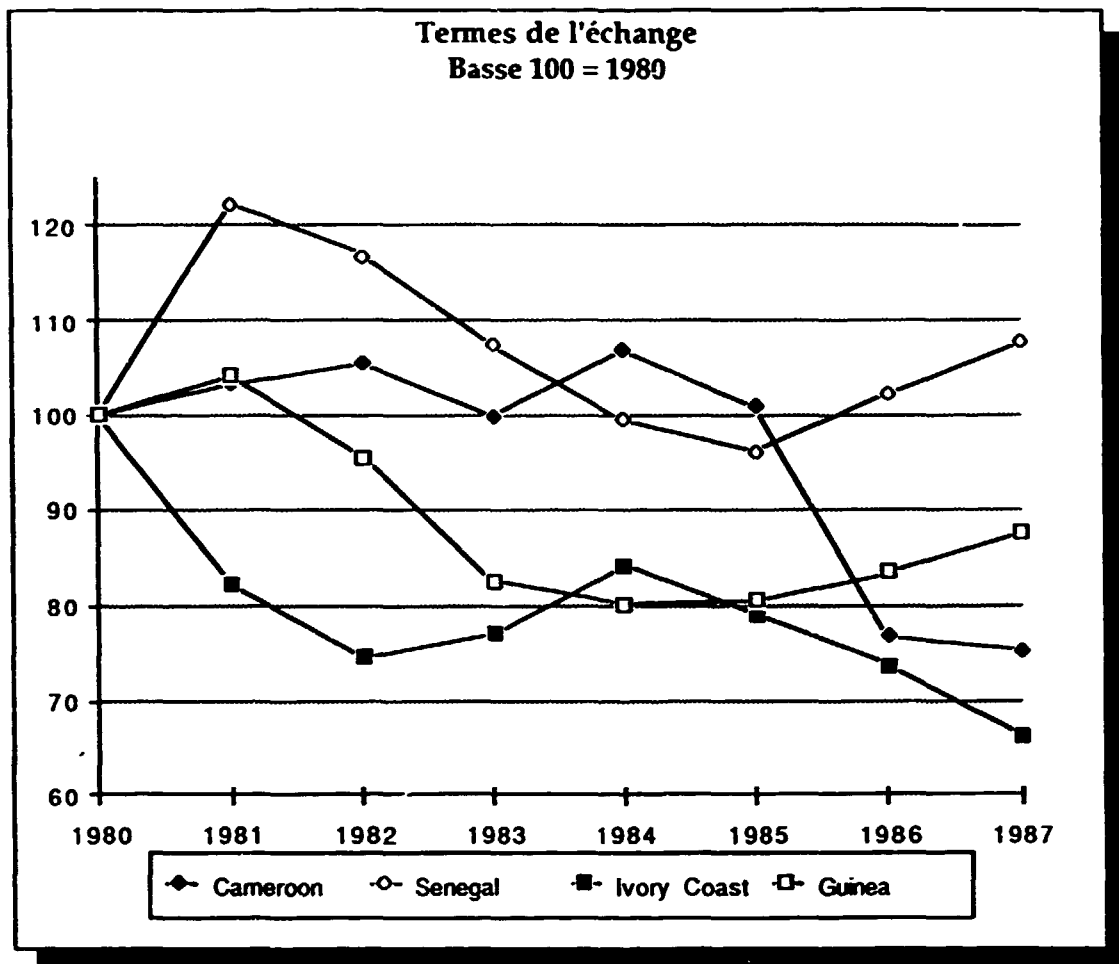


Table 6.8 VIII

Terms of exchange - base 100 = 1980



The method of calculation is the same for import prices. In itself, the relationship has no significance, since there is no optimum value to serve for comparison. By contrast, the evolution of this ratio provides useful information on the way in which the purchasing power of the exports of a country is changing in terms of goods from one or several other countries.

A rate above 100 thus shows an improvement in the terms of exchange by comparison with the base year; since export prices have increased in relation to import prices, one sells abroad more dearly than one buys; it is considered that there is a gain in external exchanges. On the contrary, a rate of change of less than 100 indicates a deterioration in the terms of exchange.

It is certain that the fall in coffee and cocoa prices plays a role in the deterioration of the terms of exchange. But the good years (1984) for these products have not sufficed to improve the Ivoirian position in relation to other African countries already mentioned. However, the dependence of the Ivory Coast on these principle base products is less pronounced than that of the other African countries with which we have made comparisons (cf. table below).



*6.8.4.3 These analyses enable us to reach an initial conclusion:*

- . The incidence of import prices on the cost of purchases outside the Ivory Coast is an unanswerable fact.
- . Quantitative liberalisation and tariff surcharges do nothing to reduce this factor, but contribute to the deformation of the Ivory Coast's economic fabric.
- . The diversification of exports is already a reality but can be held back by incoherences in the export premium system and by the increased level of protectionism, in particular on all products outside GATT.

It therefore seems desirable to reply to these constant threats to the Ivory Coast trade balance.

*6.8.4.4 The replies*

Our attempted demonstration concludes by excluding the unrestricted opening of the internal market. The raising of import tariffs and the restoration of the system of VAT to encourage transformation and the creation of added value in primary domestic products are steps in this direction. These measures cannot have their full effect except in harmony with a control on both the nature and cost of imported goods.

Support for effective import controls is accompanied by a strong export drive. The increased competition between raw material exporters is expressed in prices.

The quality of exported products will also be a determining factor and the Ivory Coast authorities have understood this.

Quality gives a premium on the external markets where competition is ferocious. The study of freight and transit circuits can also illustrate the gains to be made in the chain of price formation.

Lacking which, competitive activity risks:

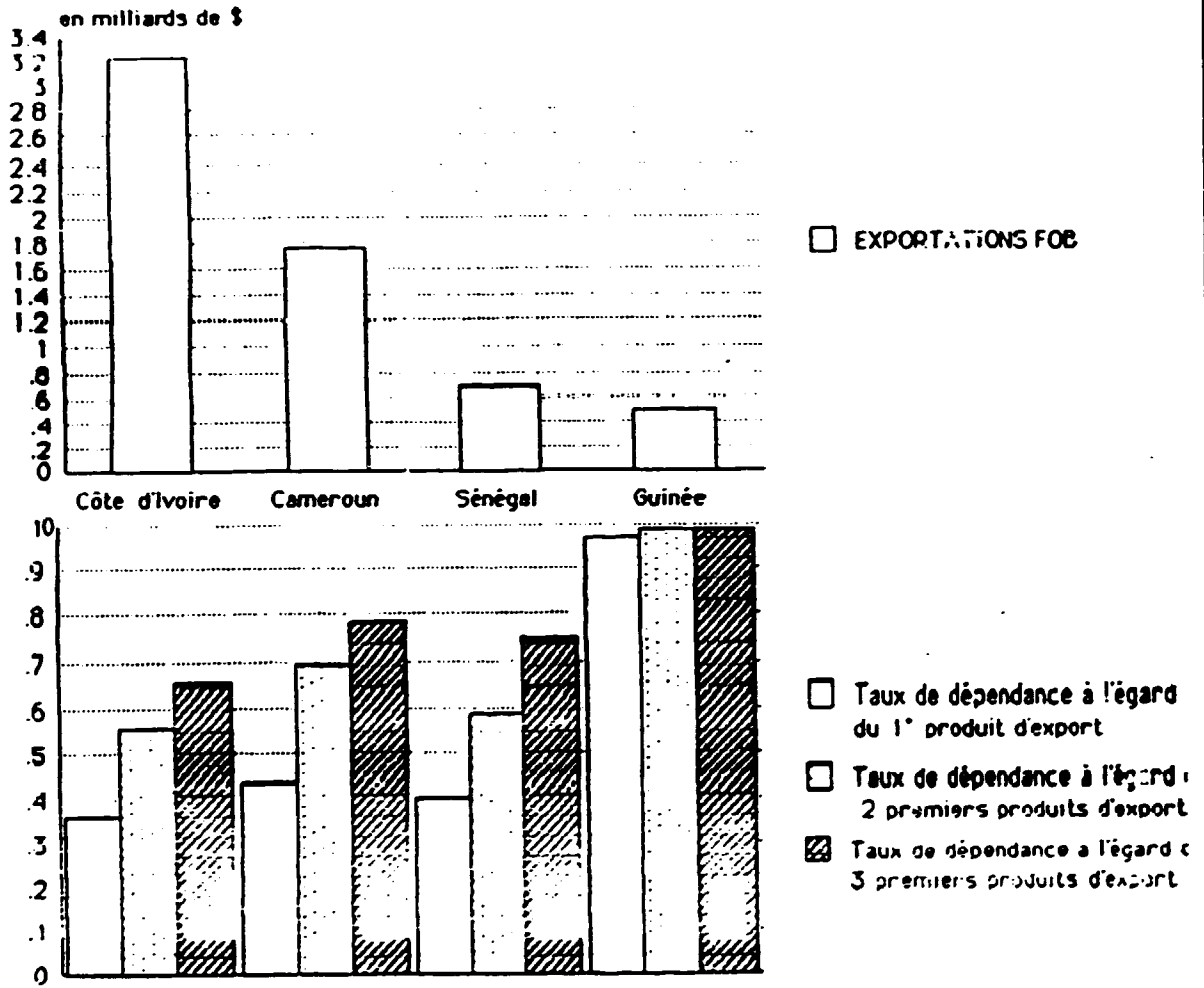
- harming the fabric of import substitution industries,
- reducing to zero the investment efforts made during the preceding periods and perhaps even discouraging all potential investors in this country, - continuing to weaken the country's residual capacity to withstand the pressure of external changes in the situation.

Insofar as concerns the country's budget, market liberalisation as currently practiced (liberation of imports, followed by import restrictions and paralleled by an exaggerated growth in dues and taxes) has resulted in a relatively high loss in earnings. This situation is the result of a degree of import fraud (lack of customs receipts) and of a shrinking market for Ivory Coast businesses (reduction in receipts from profits tax and VAT).

Table 6.8 IX

Structures of external trade and economic vulnerability in 1986

STRUCTURE DU COMMERCE EXTERIEUR ET VULNERABILITE DES ECONOMIES EN 1986



**ETUDE ONUDI**  
**Part III - African industrial regeneration strategy**

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**7. FOCUS ON COUNTRY LEVEL REHABILITATION**

**7.1. APPROACH TO REGENERATION**

The nature of the colonial experience has played a role in the uneven development of manufacturing industries in each country (cf. World Bank technical document N° 25 "Industrialisation in Africa south of the Sahara. Strategy and realisations", William F. Steel and Jonathan W. Evans).

The markets which were enabled to develop through settlements of colonists or powerful exporters have thus given East Africa certain advantages for the creation of a manufacturing base. In West Africa industries have been polarised around port or administrative developments. The development plans after Independence were based on other considerations; the choice of industrial structures or orientation towards heavy industry for the exploitation of raw materials (usually minerals) or other comparative advantages were preponderant.

However, although the strategies and policies of industrialisation in Sub-Saharan Africa may have corrected certain dispositions inherited from the past, they have frequently introduced new distortions and have not attained the objectives of sustained industrial growth, low-cost production and productive employment. The slowing of growth during the 70s was accompanied by an incapacity to go beyond the initial stages of import substitution and the persistence of a heavy overall dependence on imported capital goods.

The country by country industrial regeneration of sub-Saharan Africa must take account of a group of factors including:

- the specific industrial history of each country,
- the distortions of macro-economic policies which often had other objectives than successful industrialisation,
- the slowing of world growth, which should have provided the pull for the manufacturing sector through developing demand and investment,
- the neglect of the regional dimension of the centres of African industry and of their outlets.

## 7.2 ADJUSTMENT OF ECONOMIC STRUCTURES AND INSTITUTIONAL MECHANISMS

The report "Industrial Adjustment in sub-Saharan Africa (IBRD 1989, ed. Gerald M. Meir and William F. Steel) diagnoses the conditions necessary for an improvement in industrial performance as follows:

*"The first and major change needed to improve industrial performance and lay a sounder base for long-term development is a reform of the incentive structure for industry. The essential requirements are to increase the incentives for industrial exports, to reduce protection for import substitution, to reduce the extreme variation in protection among industries, and to phase out direct controls. The methods and pace of reform will be different for each country, but the direction of change needed is clear enough.*

*Second, procedures for selecting projects should be strengthened. The most important measure that can be taken here, too, is a change in the incentive system. The amount and duration of incentives available for new investment in each sector should be spelled out. Some promotional devices - lengthy exclusive production rights, bans on competing imports, and tariff waivers on inputs - should be ruled out. Discriminatory concessions among firms should be eliminated".*

The goal of these recommendations is the achievement of unprotected industry and an absence of distinction by sector. By contrast, the introduction of incentives for export manufacture is recommended. Market signals would then become the true guides for entrepreneurs. But this principle cannot be adopted wholesale in an approach to the regeneration of African industry. The real problems of this manufacturing sector are as follows:

- insufficient resources to provide capital and sustain the production cycle,
- lack of innovative technological capacity,
- breakdown of the production cycle through lack of spare parts or raw materials,
- competition from imported finished goods,
- taxation of imported capital equipment and raw materials,
- poor distribution policies.

The importance of these obstacles in the regeneration of the industrial fabric forbid by a sole and unique reliance on the market. The depth and extent of the questions to be resolved render obligatory an initial stage in which certain sectors are privileged.

### 7.3 IDENTIFICATION OF PRIORITY INDUSTRIES

Section 7.2 describes the global dimension of the structural reforms and institutional modifications undertaken under the adjustment policies. The interest of a country by country approach to industrial regeneration is precisely to stand aside from generalised models. The preliminary steps in such an approach necessarily include an assessment of the industrial history of each country, of the impact of specific adjustments on the industrial fabric, and of the internal and external opportunities available. A country by country study led by UNIDO would bring out the link between the existing industrial apparatus and a general economic redressment. Discrimination will remain necessary between those industries which are to receive investment and reorganisation and those which are not. In fact, assembly-oriented activities in certain sectors and over-investment in others have resulted in low added manufacturing value in these sectors. Efforts to regenerate these branches do not seem to be indicated. The feeble growth of these branches noted in the UNIDO Industry and Development report of 1989/90 demonstrates their inadequate contribution to industrial production.

The advantage of the world market and the reinforced position enjoyed by certain suppliers in these sectors adds weight to this analysis. But this does not make it any easier to pick out the industries which should receive priority. This depends on a grid of criteria:

- the link between manufacturing industries and agriculture,
- the satisfaction of the local market and the advantage derived from this by the trade balance and the balance of goods and services,
- the degree of technological dominance which can be achieved in the privileged branches of industry,
- the improvement in costs and efficiency which can be achieved in these branches,
- the export dimensions which can be achieved,
- the level of available resources,
- the entry of private capital into these activities, which presupposes the quality and level of their profitability,
- the regional outlets which can be found for these sectors.

These criteria for the selection of priority industries cannot be validly analysed other than by reinforcing diagnostic capacities based on industrial observatories.

## 7.4 IMPROVING DIAGNOSTIC CAPABILITY

The capacity for diagnosis must be improved on two levels:

- national industrial orientations,
- business management.

### 7.4.1 *Improving national industrial orientations*

The majority of sub-Saharan African countries, whatever their political options, provided themselves with development plans which included an industrial segment. This left heavy investment in the hands of the state and seemed to reserve an underdefined area of activity for private investment, which did not facilitate either inter-industry liaison nor the structuring of the manufacturing sector.

The orientations which emerge today appear to pass the problems of industrial choice either to the market or to the development of industrial inter-dependences.

This latter notion, while apparently helping structure inter-industrial relationships, is not without dangers. It leaves the state with the power to decide on projects which may be costly and not necessarily suited to an efficient private sector, if it has to bear the cost of inputs supplied by the public sector.

It is therefore necessary to elaborate a country by country approach which will reduce the distortions and privilege regeneration of existing industrial apparatus. Comparison of inter- and intra-branch added manufacturing value and the costs and handicaps of certain units would provide warning lights. The UNIDO should lead the study for the installation of these industrial observatories and assist mixed national teams in which both public and private sectors are represented. The observation teams would provide reports for the government and professional unions to encourage them to take the necessary measures of industrial policy, of technical change, of expansion and diversification.

### 7.4.2 Improving business management

The attention paid to external constraints and internal problems is often exceedingly scanty in sub-Saharan Africa, even in units in the modern sector. One of the UNIDO activities in each country would be to intensify the aid given to businesses or professional organisations for surveillance of their working environments, their operation and their management.

World Bank technical paper N° 47, "Guidelines for Evaluating the Management Information System of Industrial Enterprises", by Edilberto L. Segura, presented the objectives of a management information system as follows:

*«For purposes of the guidelines, a MIS can be defined as a system to provide relevant information to the appropriate persons in the enterprise at the right time. The information so provided should help managers at all levels of the organisation:*

- *plan its activities in the short - and long - term;*
- *organize the tasks necessary for the plan;*
- *monitor the execution of the tasks and activities to compare and control actual results with the plan;*
- *take any necessary corrective measures or replan the activities.*

*In this way, the MIS helps the enterprise manage its various activities and coordinate the goods and activities of the finance, manpower, marketing, and manufacturing functions, so that the overall enterprise objectives are met.*

*Every enterprise requires some form of MIS, but the degree of sophistication needed depends on such factors as :*

- *the business environment and its complexity;*
- *the size of the operation;*
- *the management and organisational structure*
- *the volume of data to be handled;*
- *the extent of data analysis required;*
- *the response time required from the MIS.*

*In general, a management information system is designed to :*

- *collect data;*
- *record and store data;*
- *provide for retrieval of the data;*
- *process the data;*
- *transmit and present relevant information.*

*In this context of a business enterprise, the MIS may comprise a number of sub-systems, each providing a different type of information.*

*Regardless of the concept used to define the boundaries of an MIS, the use of the information may be categorized in terms of the business processes of :*

- *strategic planning;*
- *tactical planning;*
- *management control;*
- *transaction recording system».*

## 7.5 ENHANCING EFFECTIVENESS AND COST EFFICIENCY IN INDUSTRY

The report "Industrial Adjustment in Sub-Saharan Africa" (op. cit.) gives the following objectives and approaches for industrial restructuring:

*"Firm-level restructuring is needed to make firms more competitive in a changing policy environment by lowering product cost, raising quality, improving marketing, and strengthening the capital base (sections 5.2. and 10.5). This may involve changes in production techniques, equipment, personnel, organisation, management, and financial structure. Additional incentives and funding may be needed to replace outmoded equipment and to train management and staff - as, for example, in Ghana and Mauritius. To improve competitiveness in the public sector, financial and economic performance must be used as a basis for managers' firm-level decisions and for the evaluation of managers' own performance".*

The global solution of structural adjustment programs has been to achieve these objectives by altering the exchange rates. The elimination of administrative and regulatory obstacles to true pricing or sectorial investment choice, complements this mechanism, recognising in the market as a means of determining the allocation of resources. While it is certain that in general terms the possibility of finding a solvable market with an appreciable level of profitability determines the operation of manufacturing industry, specific constraints must not be neglected. Among these, maintenance needs, poor servicing, the search for production scales, market penetration and adaptation to demand are picked out by the majority of studies. Deregulation of the entry into an activity is a stimulating factor; the level of added value and the greater or lesser degree of autonomy enjoyed by the industrial process must, however, be taken into account. While it is unhealthy to forbid new business creation, aid in detecting the structural production costs in existing apparatus and the search for improved performance are concrete means of enabling industrial activities to regenerate themselves and withstand competition.

Private initiatives are supposed to answer this challenge. The lack of information and the poverty of the financial resources available for manufacturing investment do not always allow this to occur. The conjunction of real capacities to diagnose production bottlenecks or other negative economic factors with funds for regeneration, on a country by country basis, should remove this temporary incapacity from the private sector.



## 7.6 INCREASING INDUSTRIAL EXPORT CAPACITY

The World Bank's long-term forecast, 'Sub-Saharan Africa, from crisis to enduring growth' estimates that African industry needs to be associated with foreign partners and encouraged to export vigorously (p. 132-3).

The reality of industry's minimal vertical integration is a powerful nudge in this direction - whether the end product is knitwear or computers, it can only be partially manufactured in one country. Here too, monopolies must be edged out, costs reduced, training, market adaptation and the choice of flexible technologies must be increased. The Economist of 23-29 September 1989 recounted the beginning of technology and market share transfer between two southern countries:

*"At the end of 1979 Desh's 130 trainees returned from South Korea with three Daewoo engineers to install the machines. Production began in April 1980, with 450 machines and 500 workers. That year the company produced 43,000 shirts with a value of \$56,000, by 1987 sales had risen to 2.3m shirts and a value of \$5.3m. That is a growth rate of 92% a year.*

*Meanwhile an interesting thing had happened. Desh began to do well so quickly that it cancelled its collaboration agreement with Daewoo in June 1981, just 18 months after the start-up. It started to do his own marketing and bought its raw materials from other suppliers. So it has achieved most of its success on its own. Better still, so far as Bangladesh is concerned, the company has suffered heavy defections of its Daewoo-trained staff. Of the initial batch of 130 who visited South Korea in 1980, 115 had left the company by 1987. Why did they leave? To start their own businesses.*

*From nothing in 1979, Bangladesh had 700 clothes-export factories by 1985. They belong to Desh, to Desh's graduates or to others following their example. Clothing has overtaken jute products as the country's biggest export, so much so that in value terms it now rivals the sales of Uncle Daewoo itself."*

Could this scenario be repeated in sub-saharan Africa? No doubt, but only with export incentives and a degree of industrial development to dynamise investment and export choices by African businesses.

In its 1989 report preparatory to a conference on the Less Developed Countries in 1990, the UNCTAD estimates that among the 32 countries studied that had followed trade liberalisation policies, there were many that shared the lowest growth rate.

In addition, the secretariat of the UNCTAD does not foresee any noteworthy improvement of these countries' exports in the immediate future, for the conditions to rapid industrial growth have not been realised, nor to the increased investment which is indispensable for strong long-term expansion of manufactured exports. Numerous heavily indebted countries have been managed to increase their exports, by producing less for the internal market and more for foreign markets, rather than by creating new production capacity.

In almost all countries whose production and exports have increased rapidly, the application of appropriate rates of exchange has been complemented by vigorous export promotion policies. Strong incentives to export are necessary because the internal producers are very badly informed on the subject of foreign markets and the

possibilities of access to them. In particular, almost all developing countries which export successfully many have instituted systems of reimbursing customs dues and other measures aimed at ensuring that internal producers can have access to foreign production facilities at world market prices.

Good examples in this regard are set by Malaysia and Thailand, whose manufactured exports have increased at above average rates, in part thanks to selective trade measures. These two countries have had intensive recourse to fixed customs dues on a case by case basis, linked to export promotion measures, including fiscal aid (for example, income tax concessions) and other non-fiscal assistance (for example, access to credit guarantee systems).

However, the tariff incentives and other measures for encouraging exports have been more moderate than in other developing countries. An important measure of fiscal aid to exporters is the reimbursement of duty on imported raw materials and components used for export-directed production.

While stressing the extreme importance of investment growth, the report published by the UNCTAD suggests that in several countries it has become extremely risky to invest with a view to export because of the instability of the real exchange rate due to the current adjustment programs.

Coordination of improved approaches to export opportunities, support for investment for export - as undertaken in Morocco over the past few years - and quality control of the products and production processes are indispensable. The choice of the requisite approach country by country is one of the missions which UNIDO can fulfill in liaison with the specialised international trade organisations.

## 7.7 FINANCING INDUSTRIAL REHABILITATION

The choice of outward or inward oriented industrialisation depends on comparative advantages, existing capacity and geographical location for each country. But the constant in these different modes of industrial regeneration remains the inevitable recourse to sources of finance. This is difficult because of the financial crisis which hangs over the African continent.

The crisis being experienced by African financial institutions is often the consequence of shrinking revenues based on exports of raw materials, the ultimate motive power of economic activity. Public sector pressure to print more currency is weakening because of the resulting devaluation of instruments of credit, whether backed by the state itself or its dependent satellites. It is mainly trade which continues to make money available by playing on its speed of circulation, but largely outside banking circuits. This results, for the banks, in compromised assets, a decrease in deposits and a diminution of receipts. The negative results absorb their capital funds and the ratio of resources to utilisation falls. Fiduciary currency, which is convertible, maintains its value. Printed currency, which is necessary over short and medium term, must once again become a trustworthy instrument.

This necessarily calls for mutations in the banking institutions of Sub-Saharan Africa. It will be necessary to examine closely specialised organisations such as Export-Import banks, building societies who extend credit to individuals, and investment bank systems which link capital and investment for industrial investment, remunerating the funds thus allocated and encouraging synergies. Of the few African groups to emerge, none dispose of financial vehicles adequate to centralise their resources. add extra capital and find profitable employment for these funds.

It seems that the few examples of successful industrial reorganisation (Zimbabwe) and stabilisation (Mali) could not have occurred without strongly integrating the financial element into the equation.

Chile's response to the crisis is part of the story of its financial reform. Unlike Argentina's approach to a crisis at about the same time, Chile did not dismantle the basic reforms by setting interest rates or allocating credit, for example, even though the government did manipulate prices and take over big and small troubled banks temporarily. It sold the banks back to the public within a few years. The central bank took the banks' bad loans and refinanced many at lower real interest rates to banks and borrowers clear the decks. The government briefly helped borrowers ' foreign currency by subsidizing the exchange rate at which they serviced the debt and permitting prepayment below face value. The regulators set stronger requirements for capital adequacy and bad debt provisions.

In short, the government put in place the regulatory system that had been lacking earlier.

When some privatised banks collapsed, the Central bank retook their portfolios and manage their loans. Even in Chile, liberalism does not exclude the final responsibility of State facing the industry's finance.

In Ghana, to deal with the massive problem loans, the government took several tacks. Using foreign technical assistance, it would study each bank's position in depth (including projections ahead for five years). Each bank's account would be

restructured: taking loans off the books, liquidating the bad ones, and recovering whatever was possible. New lending would be de-politicized by giving the banks autonomy from government and making the managers accountable for their bank's performance.

Finally, to remedy the borrowers' insolvency, the government would analyse the companies' needs and help only those firms with a chance to return to profitable operations.

An intractable problem was that bankers were unaccustomed to competition. They lacked the concepts and tools to formulate bank strategy. They were unfamiliar with managing assets and liabilities. Ghana's government believed that they needed professional standards, modern systems, and good internal training. The solution was to be technical assistance to the central bank and the national bankers' association, so that both could develop courses for bankers, at home and abroad.

Ghana learned from the first phase of reforms that simply freeing interest rates would not create vigorous financial markets. It became clear that reformers would have to pay careful attention to the structure of financial firms and markets.

To conclude, the financial system must give good price and return signals to allocate investment well. A country's circumstances determine the appropriate breadth, depth, and diversity of its financial system. How complex is decision-making? How decentralized is it? As Fry has pointed out, a simple agricultural exporter needs no complex financial system. The more an economy specializes, decentralizes, and interacts with foreign finance, the less effective is control and the greater the need for reform.

Liberalization of macroeconomic policy alone is inadequate; governments must attend to reform at the microeconomic level as well. At the firm level, as the story of Ghana suggests, reform requires training capability over a long period of time, incentives for profitable activities by bankers, and a solution to the massive troubled loans on the banks' books.

In the Sub-Saharan African countries, a financial system can have a harmful effect if it is mismanaged or distorted. The malfunctioning financial system harms economic development in the following ways:

- a. It discourages financial savings, reducing domestic and foreign resources available to fund growth.
- b. It raises the cost of intermediating between savers and investors, reducing the incentives to save. This raises the cost of investing, which reduces the resources available to fund economic growth.
- c. It concentrates financial resources in a narrow range of investors, increasing risk in the economy as a whole. This reduces the flexibility needed to respond to changing conditions, forcing the government to use major shocks when it becomes essential to adjust. The higher level of systemic risk increases uncertainty, which undermines economic growth.
- d. It distorts risk and return. Unable to make choices based on accurate information, savers avoid intermediating institutions while investors, cut off from savers with

similar risk profiles, have access to fewer financial resources, so their cost of capital rises.

- e. It undermines pressures for efficiency and rewards the politically powerful or unethical. Investors choose non-productive opportunities. This reduces the volume of financial resources available for development and raises their cost.
- f. It fails to reward efficient and capable financial managers, so the cost of intermediation rises, a tax on savings for productive purposes.

The work for UNIDO would be to link financial reforms in Sub-Saharan Africa and industry incentives. The pure financial approach risks to miss the aims of industry regeneration defined above.

## 7.8. ROLE OF THE PRIVATE SECTOR

### 7.8.1. *The operational environment*

Firstly, the actions pertaining to industry and investment should be taken in the following sequence:

- replacement of a priori by a posteriori price control;
- introduction of export incentives;
- strengthening of the investment incentives structure;
- abolition of non-tariff protection and gradual elimination of price control.

The head of any business considering substantial investment in Africa must calculate carefully the risk being taken, as opposed to alternative investment opportunities. Of necessity, he must be cautious and conservative in his estimate. He looks at local and export market possibilities, long-term political and financial stability of the government, and, above all, an iron-clad guarantee that foreign exchange will be made available to repatriate profits. The prior presence of other investors is a plus. In the final analysis the decision to invest becomes a matter of judgement and a leap of faith.

### 7.8.2. *Constraints on the African Private sector*

The African private sector lacks skilled and experienced management at the top executive level and trained technical staff (such as auditors) at lower levels. African exporting firms face the problem of securing up to date market data and knowledge of new developments in product technology.

The absence of capital markets in many African countries acts as a limiting factor to private sector expansion. Mobilization of local capital resources is hindered by reluctance to join with strangers outside the extended family in any venture, limiting the ability of businesses to expand. Commercial banks prefer to make only short term loans with very high collateral requirements. The trader mentality is difficult to overcome; a very short term return of 100% on a small transaction is often of much greater interest than a lower but more enduring return in a producing enterprise. Disposable capital often becomes flight capital to European bank accounts, rather than being used for productive domestic investment.

Some African governments have put roadblocks in the way of private sector growth by preventing ethnic minority participation in industry or agriculture. This discrimination also extends to certain tribal groups.

Corruption also poses a serious constraint to private sector investors activities. It has become so widespread that in some countries it has virtually become part of business overhead. Apart from the ethical aspects of corruption, it delays bureaucratic decisions and defeats government policy objectives.

### 7.8.3. *Aid the private sector*

Beside their recommendations to the governments to foster an "enabling environment for enterprises", the donors can help directly the private sector by technical assistance and technology choices. Where basic capabilities are not yet

developed, as in most of the less developed more agricultural economies, actions will be needed to increase people's awareness of what can be done with modern technologies, and to build up institutions that will help the economy take advantage of such technologies. Such actions will probably include efforts to expand general education and technical training, the development of some engineering capabilities, very practical hands-on technical extension services in selected industries, and the creation of a small core of technology specialists to assess and select technologies in a few sectors of particular relevance to the economy. Even the least developed economies stand to benefit from modern technology, provided it is appropriately chosen to match their needs and capabilities.

The UNIDO' intervention would be particularly useful in this area.

Other activities can be funded and followed up by a special African fund for private enterprise.

Private sector training including an holistic approach to manufacturing with developing every aspect of production looked up by detailed analysis; standardisation (what degree), customisation, product range, enterprise zone development; these zones would permit to some entrepreneurs to receive technical help, with restriction of local constraints.

Seed finance : with a specialist development capital subsidiary. ONUDI joined by the other donors will try to establish, in some countries to be determined, venture capital. The seed funds will be linked with training and support for a number of small enterprises. Their failure will lead to the move of eventual.

The investment to an other company, after an assessment of the experience.

Banking and Financial System Reform : Critical to the growth of the private sector is reform of the banking system in most African countries. Many existing banks require improved management and reduction of the heavy burden of non-performing debt portfolios. Reform of present banking laws and development of a prudential system to watch over bank performance is also necessary. Above all, closer coordination between banking and non-bank private enterprises is needed. Restructuring of banking facilities to provide working and medium to long-term capital for the rural and the informal sectors should also be an important part of any changes.

Private sector needs information not only on what is currently available but also on technological trends, in order to avoid choosing technology that may rapidly become outmoded. They need to know where to obtain technologies, with a sense of the alternatives offered by different suppliers. They also need to keep abreast of key trends in the foreign and local markets that the country plans to produce for. They thus need to combine technological information with market intelligence. Most of this information gathering and analysis has to be done at the firm level, but because of the economies of scale in this activity there is also an important role for specialized institutions, including technology agencies and special consulting organisations.