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United Nations Industrial Development Organization

Meeting of High-Level Experts
on Africa's External Debt in respect of
the Industrial Sector

Vienna, Austria, 14 - 17 May 1985

FINAL REPORT*/

(Meeting on Africa's external debt).

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Sir,

I have the honour to transmit herewith the report of the Expert Group Meeting on Africa's External Debt in respect of the Industrial Sector held in Vienna, 14-17 May 1985. The report contains a review of the debt situation in the region and the experts' conclusions. It also puts forward for consideration by African Governments and the international community proposals relating to more permanent solutions to the debt problems besetting the continent.

This report and the recommendations contained therein are based on extensive work carried out by the experts. The experts attached particular significance to the local production of essential factor inputs to industry, whose importation at present constituted a major drain on the countries' foreign exchange resources of the African countries. The experts reiterated the importance of adhering to the Lagos Plan of Action and the Programme for the Industrial Development Decade for Africa (IDDA) as their implementation would greatly contribute to alleviating the debt problem of Africa.

On behalf of the participants, I should wish to express our appreciation for the opportunity granted to the experts to contribute to this important work of UNIDO. In this regard, the meeting recommended that you consider transmitting the meeting's review, conclusions and recommendations to the OAU, along with a foreword by you, so that they might be considered in connection with the preparations on this subject for the forthcoming Summit. I should also like to place on record the participants' deep appreciation for the facilities made available to the meeting and the excellent services provided by UNIDO in general, and the Co-ordination Unit for the IDDA in particular.

Accept, Sir, the assurances of my highest consideration.

Yours sincerely,

E. Koulla
Chairman of the meeting

Dr Abd-El Rahman Khane
Executive Director of UNIDO
P.O. Box 300
Vienna International Centre
A-1400 Vienna

I. INTRODUCTION

1. Since the beginning of the present decade, the debate on the industrialization of Africa and the debt crisis in the region has taken on an intensity unequalled in the post-independence period. Indeed, although Africa accounts for slightly less than one-fifth of all developing country debts, the debt burden is accumulating faster in Africa than in any other region. Debt terms have deteriorated markedly in recent years, interest rates have risen sharply, and average maturity of loans, grace periods and grant elements have all slumped dramatically. At the end of 1983, the ratio of debt to exports had reached staggering proportions in a number of African countries.

2. A general review of the present economic structure of the region indicates that the African countries depend on external industrial inputs (manufactured products, intermediates and services) to support their economic development programmes and projects. Although aggregate figures are not readily available, the import dependence of industry in Africa is substantial. The purchases of large quantities of raw materials and intermediates have used up a great amount of foreign exchange. If the cost of importing technical services and know-how, including consultancy services, is also taken into account, it becomes even clearer that one of the root causes of the African external debt is its dependence on the import of industrial factor inputs and services to sustain the economic development of the region.

3. Another major dimension to African external debt relates to the problems associated with idle capacities involving major investments. A number of countries embarked on large investment projects in the expectation that they would reduce the imports of manufactured goods as well as generate the foreign exchange badly needed to support other development projects. Unfortunately, this has not been the case in several instances. Instead, the projects have constituted a constant drain on the foreign exchange resources of the countries concerned. They are either producing at very low capacity or have, in some cases, been completely closed down. In all cases, the countries have had to repay the heavy loans incurred, thereby contributing still further to the current African debt crisis.

4. In the light of the above and other considerations the OAU Council of Ministers, in its decisions on the preparations for the economic agenda for the OAU Summit scheduled to take place in July 1985, called on UNIDO to prepare, in co-operation with the OAU and ECA, an analysis of Africa's external debt in respect of the industrial sector. On the basis of that analysis, proposals were to be advanced for consideration by the OAU Steering Committee 1/ when preparing the agenda item on the regions' external debt, a matter to be accorded high priority at the Summit. To that end, a meeting of African experts was convened to contribute to the work of UNIDO on the subject and to respond to the OAU request.

II. ORGANIZATION OF THE MEETING

5. The meeting was held at the Headquarters of UNIDO, the Vienna International Centre, 14 - 17 May 1985. It was attended by twelve experts and two observers from the World Bank and the United Nations Conference on Trade and Development (UNCTAD) (see Annex I). The experts were senior officials from African countries and organizations as well as developed country organizations. They disposed of extensive experience in matters related to economic development and financing as well as external debt problems, with particular emphasis on the role of industrialization.

Opening of the meeting

6. The meeting was opened by the Executive Director of UNIDO, Dr. Abd-El Rahman Khane. Welcoming the participants to Vienna, he thanked them for having accepted his invitation to come to Vienna despite their many other commitments. He looked forward with particular interest to their inputs to the challenging task facing UNIDO and its contribution to the search for a lasting solution to the external debt crisis besetting the African region. The Executive Director invited the experts to present concrete proposals for tackling the African debt situation which he described as unacceptable. In urging that immediate action be taken to reverse the economic deterioration of Africa, he underscored the critical role of industry in agricultural

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1/ Established by the OAU Heads of State and Government to prepare the economic agenda for the Summit meeting to be held in July 1985.

development which would continue to be the cornerstone of the African economy. In that connection, he remarked that it was no coincidence that the terms "developed" and "industrialized" were often interchanged.

7. In the light of the above, he called on African countries to double their efforts toward realizing the industrial goals and objectives contained in the Lagos Plan of Action. He also drew attention to the assistance which UNIDO, together with the OAU and ECA, was providing to African countries and organizations in formulating their programmes, based on the Lagos Plan of Action, for implementing the Programme for the Industrial Development Decade for Africa (IDDA) which had been proclaimed by the United Nations General Assembly in 1980.

8. The Executive Director urged that the proposals and recommendations to be advanced by the experts should include suggestions for internal policy measures aimed at restructuring and managing the African economy more effectively. The experts should also put forward proposals for accelerating the development of an industrial base in each African country, as well as external measures to readjust the pattern and structure of external investment and aid flows to the region.

Election of officers

9. The meeting elected Mr. E. Koulla (Cameroon) Chairman, Mr. L. Haines (Liberia) Vice-Chairman, and Mr. S. Wangwe (Tanzania) Rapporteur.

Organization of work

10. The provisional agenda and programme of the meeting (see Annexes II and III) were adopted and used as the basis for discussion. All discussions were held in plenary and conducted in English and French. The papers presented to the meeting included an issue paper and other background documents prepared by the UNIDO Secretariat as well as documents prepared by the participants from the African Development Bank and the University of Paris (see Annex IV). Full account was taken of the work already done on this subject by the OAU Steering Committee.

11. All the data utilized for the meeting were based on information communicated to UNIDO by the World Bank and note was taken of information on international export credit financing provided to the meeting by the expert from Cameroon as well as the work being done by UNCTAD on the subject. A small working group comprising four experts was established to assist the Rapporteur in formulating the conclusions and recommendations of the meeting.

Closure of the meeting

12. The conclusions and recommendations of the meeting were discussed and adopted at the closing session of the meeting. The Secretariat was requested to finalize, edit, reproduce and circulate them in form of a final report. The Chairman also requested the Secretariat to forward the conclusions and recommendations of the meeting to the OAU along with a foreword by the Executive Director of UNIDO.

13. Both the Chairman and the Chief of the Co-ordination Unit for the Industrial Development Decade for Africa, speaking on behalf of UNIDO, thanked the experts and observers for their active and constructive participation in the discussions. They also thanked the interpreters and all those involved in the preparation and processing of the background documents for their positive contribution. The Chairman extended his particular thanks to UNIDO for having given the participants an opportunity to contribute to the work of UNIDO on the subject. He also expressed his appreciation to the Co-ordination Unit for the Industrial Development Decade for Africa for having made all the arrangements for the meeting.

REVIEW AND CONCLUSIONS

Africa's external debt

14. According to data communicated by the World Bank to UNIDO in May 1985, the total outstanding medium- and long-term debt, including undisbursed debt, for 46 African countries increased from $131.1 billion in 1982 to $133.9 billion in 1983 (see Table 1). These amounts do not include the external debt of Angola, Libyan Arab Jamahiriya, Mozambique and Sao Tomé and Principe, nor do they take account of debt arising from short-term credits, IMF payments (credits), private non-guaranteed loans and short-term credit lines.

15. Over the same period, the total debt service payments (interest and amortization) for the same 46 countries increased from $12.9 billion to $14.9 billion for the 46 countries (see also Table 1). Since they do not cover all forms of debt, these figures do not show the full extent of the debt service burden, but merely reflect the impact of recent rescheduling exercises. World Bank projections, for instance, indicate debt service payments of the order of $18.9 billion in 1984 and $20.4 billion in 1985.

16. In 1982, the total debt of the 46 African countries was equivalent to 51 per cent of gross national product (GNP) rising to 59 per cent in 1983, while the overall debt service ratio rose from 19.8 per cent to 27.4 per cent over the same period. Although it is generally accepted that the average debt service ratio should not exceed 20 per cent, five countries exceeded this figure in 1982 and nine countries in 1983.

17. Apart from the alarming rate of increase in Africa's aggregate debt and debt service, it is most disturbing to observe the considerable change in the structure of its debt over the past decade. For example, the share of "soft" loans in sub-Saharan Africa's total debt declined from 62.5 per cent in 1972 to 47 per cent in 1983. The share of financial markets in sub-Saharan debt rose from 14.5 per cent to 36 per cent over the same period. Meanwhile, most other African countries were excluded from soft loan agreements as well as from bilateral and multilateral loans. Many thus turned to IMF stand-by agreements and extended fund facilities, despite the difficult conditions attached to such loans. The severity of the situation is underscored by the fact that in 1985 African countries will most likely repay more than they receive from the International Monetary Fund, to whose convention more than fifteen African countries have acceded. IMF repayments under the so-called "repurchase obligations" are currently estimated to total $700 million.

18. Another feature of the structure of Africa's external debt relates to sectoral distribution. According to the most recent World Bank data, 6 per cent of Africa's borrowing went into the agricultural sector, 13 per cent in the manufacturing sector, 7 per cent in the mining sector, while 27 per cent went into infrastructure such as energy production, construction, transportation, storage and communications, 13 per cent for community and social services and 4 per cent into the services sector (see Table 2). It is thus clear that most of Africa's external debt is being utilized to finance projects which do not directly contribute to the generation of foreign exchange needed to service the debt.

TABLE 1

DEBT SERVICE OF AFRICAN COUNTRIES OF PUBLIC AND PUBLICLY GUARANTEED DEBT
(millions of dollars)

Country[b]	1982 Total Debt incl. undisb.[a]	1982 Total Debt Service	1983 Total Debt incl. undisb.[a]	1983 Total Debt Service
Algeria	20,270.4	4,261.0	18,839.6	4,945.1
Benin	877.1	15.2	868.8	26.2
Botswana	383.6	13.4	502.3	23.9
Burkina Faso	653.7	16.8	681.2	14.0
Burundi	527.4	5.8	561.2	7.8
Cameroon, United Republic	2,591.9	264.0	2,562.5	218.6
Cape Verde	112.1	1.5	132.5	2.9
Central African Republic	305.4	4.7	342.9	17.4
Chad	243.4	0.2	233.3	0.6
Comoros	153.3	0.9	179.0	1.5
Congo, People's Republic	1,886.4	179.7	1,967.2	238.1
Djibouti	98.4	3.4	149.9	4.0
Egypt, Arab Republic	19,904.1	1,877.8	19,120.8	2,465.9
Equatorial Guinea	146.2	3.2	138.1	5.0
Ethiopia	1,486.2	54.4	1,916.5	65.7
Gabon	1,595.2	288.0	1,282.4	209.0
Gambia, the	232.2	10.8	246.2	6.1
Ghana	1,405.1	65.1	1,370.9	71.9
Guinea	1,539.5	79.3	1,538.4	69.8
Guinea-Bissau	160.6	3.0	193.5	1.8
Ivory Coast	6,314.7	961.0	6,087.5	806.5
Kenya	3,784.0	326.0	3,514.7	304.9
Lesotho	222.3	10.9	239.8	12.2
Liberia	893.4	33.6	911.3	30.8
Madagascar	2,178.1	57.9	2,036.6	140.6
Malawi	860.3	61.7	890.0	58.3
Mali	1,276.0	8.1	1,300.0	12.6
Mauritania	1,670.4	39.7	1,753.9	36.7
Mauritius	553.2	62.4	542.9	83.7
Morocco	11,540.5	1,334.0	13,103.5	1,120.0
Niger	938.9	111.1	928.6	72.6
Nigeria	15,522.7	1,427.6	18,539.5	2,040.5
Rwanda	383.8	5.2	423.0	4.2
Senegal	2,106.8	39.6	2,166.8	47.5
Seychelles	60.8	1.0	71.8	2.7
Sierra Leone	459.3	10.6	446.4	9.7
Somalia	1,442.4	20.4	1,503.9	22.1
Sudan	6,227.0	118.6	6,391.4	144.4
Swaziland	245.4	18.2	219.9	18.7
Tanzania, United Republic	2,520.4	53.4	2,544.8	77.8
Togo	936.9	38.4	983.6	44.6
Tunisia	5,327.9	485.5	5,278.1	598.1
Uganda	1,022.5	64.8	1,086.9	81.8
Zaire	4,704.7	136.0	4,610.8	126.8
Zambia	3,210.4	177.2	3,331.9	126.2
Zimbabwe	2,166.6	147.8	2,150.4	434.6
TOTAL AFRICA	131,141.5	12,898.9	133,885.4	14,854.2

Source: World Bank: World Debt Tables, 1984-85 edition.

(a) Public or publically guaranteed debt outstanding including undisbursed representing total outstanding external obligations of the borrower at year end.

(b) Data are not available for Angola, Libyan Arab Jamahiriya, Réunion and Sao Tomé and Principe.

TABLE 2

DEBT DISTRIBUTION AMONG MAJOR SECTORS IN AFRICAN COUNTRIES

(in percentage of country's total debt)

Country	Total debt (mill. $) 0	agri. 1	min. 2	man. 3	infra. 4	serv. 5	com. 6	oth. 7	total 8
Algeria	20,270	1	36	12	25	15	3	8	100
Benin	877	5	1	50	23	1	12	8	100
Botswana	384	10	15	0	45	1	26	2	100
Burkina Faso	654	19	4	3	31	3	29	11	100
Burundi	527	8	1	17	29	0	25	22	100
Cameroon	2,592	9	2	20	47	1	18	3	100
Cape Verde	112	13	-	1	50	0	22	15	100
Central Afr. Rep.	305	13	-	0	37	0	10	40	100
Chad	243	6	-	12	8	3	60	10	100
Comoros	155	10	-	-	66	1	15	8	100
Congo	1,886	3	4	8	30	2	31	25	100
Djibouti	98	4	-	5	81	3	8	3	100
Egypt	19,904	1	0	6	18	2	4	69	100
Equatorial Guinea	146	8	-	6	6	0	50	30	100
Ethiopia	1,486	15	2	15	51	12	29	4	100
Gabon	1,595	3	1	1	53	6	18	18	100
Gambia	233	12	-	1	34	2	15	9	100
Ghana	1,405	9	-	7	43	3	11	29	100
Guinea	1,540	5	7	12	19	2	8	48	100
Guinea-Bissau	161	14	4	4	35	3	4	37	100
Ivory Coast	6,075	16	2	8	39	4	30	2	100
Kenya	3,784	13	0	10	32	2	26	14	100
Lesotho	222	10	-	1	39	3	26	21	100
Liberia	893	16	3	3	36	4	19	19	100
Madagascar	2,178	5	1	7	26	1	8	52	100
Malawi	860	17	0	0	36	2	34	12	100
Mali	1,276	10	2	3	37	1	35	12	100
Mauritania	1,670	4	23	9	26	0	22	16	100
Mauritius	553	10	-	4	29	5	34	19	100
Morocco	11,541	7	2	15	10	3	5	58	100
Niger	939	13	18	1	31	3	26	6	100
Nigeria	15,523	5	-	34	31	5	21	19	100
Rwanda	384	19	-	7	47	3	17	7	100
Senegal	2,107	19	2	8	31	2	17	20	100
Seychelles	61	10	-	0	32	3	51	3	100
Sierra Leone	459	19	3	6	36	3	20	13	100
Somalia	1,442	11	1	21	25	0	19	23	100
Sudan	6,227	7	-	3	17	1	10	62	100
Swaziland	245	10	-	15	40	2	31	3	100
Tanzania, United Rep.	2,520	7	2	14	27	2	17	31	100
Togo	937	7	3	12	31	2	9	35	100
Tunisia	5,328	6	3	13	32	6	12	29	100
Uganda	1,023	14	1	16	19	4	23	21	100
Zaire	4,705	3	4	6	35	2	5	45	100
Zambia	3,210	6	20	10	29	2	12	22	100
Zimbabwe	2,167	5	2	3	39	-	24	26	100
TOTAL AFRICA	131,141	6	7	13	27	4	13	30	100

Source : World Bank data on sectoral distribution of public debts of African countries (data as of 25 April 1984).

Notes : a) Total debt = public and publicly guaranteed debt outstanding, including undisbursed commitments as at the end of 1982; for Algeria, Egypt, Morocco and Tunisia, percentages reflect distribution as at 1983.

b) The World Bank sectors have been regrouped as follows :

1. Agriculture, forestry and fishing;
2. Mining and quarrying;
3. Manufacturing;
4. Infrastructure covering : electricity, gas, (water production), construction, transport, storage and communication;
5. Services covering trade, restaurants, lodging, finance, insurance, real estate and business service;
6. Community, social and personal services;
7. Others covering : contributions to finance current imports, contributions not directly for imports, other contributions, debt reorganization, military, pension payments, other contributions not Development Assistance Committee flows, emergency (distress relief), and purpose not applicable.

c) The actual debt in sectors 1 to 6 will be higher than shown in the table because the following debts have been placed in group 7 : debts which have been resheduled and debts for which the purpose is unclear or debts for which the country has not reported any purpose, furthermore debts for which repayment terms are unknown have not been included.

d) Data are not available for Angola, Libyan Arab Jamahiriya, Mozambique and Sao Tomé and Principe.

e) "0" indicates percentage equals zero after rounding;
"-" indicates that no debt is recorded for that sector.

19. When considering imports of factor inputs, sight must not be lost of the role played by services, which constitute a very high foreign exchange cost. Any measures relating to commodities in the balance of payments should pay due consideration to the impact of service imports (shipping, civil aviation, insurance, marketing, information, management, consultancy, etc.) whose volume and unit costs are often not even monitored. Such measures should include a substantial and efficient transfer of know-how to nationals as well as the development and use of national skills in the services sector. The process of industrialization coupled with structural change induces a heavy demand for consultancy services, especially in project design, planning, construction and management. This is particularly true of the African region which is virtually a continental greenfield site, the development of which will require enormous expenditures on new physical infrastructure (see para.18).

Domestic debt

20. Given the worsening external debt situation, particular attention has to be paid to domestic debt which is the result of accumulated arrears and payments due to local and foreign entrepreneurs and contractors on various projects, especially in the area of construction. In some countries, a major portion of domestic debt comprises salaries due to civil servants. Domestic debt can contribute to a reduction in national productivity, thereby affecting of the country's credibility and undermining the confidence of local and foreign contractors. The latter may be forced to secure foreign funds to cover local expenditures, thereby increasing the country's external debt.

Africa's foreign exchange expenditures

21. Preliminary data collected by UNIDO from information published by the United Nations for most African countries, indicate that the region's foreign exchange expenditures on certain major industrial commodities amounted to $62.2 billion in 1982 and $50.5 billion in 1983 (see Table 3). In 1982, these expenditures represented about 46 per cent of Africa's total external debt for that year, while total expenditures of foreign exchange in 1982 and 1983 accounted for about 84 per cent of the total debt in 1983. If all expenditures on services in all countries were added to that figure, the situation would be still more dramatic. Table 4 shows the distribution of Africa's foreign expenditures in the importation of major industrial commodities.

TABLE 3

FOREIGN EXCHANGE EXPENDITURE FOR CERTAIN MAJOR
INDUSTRIAL COMMODITIES
(thousands of dollars)

Country	1982	1983
Algeria	8,796,293	8,617,332
Angola	865,149	627,500
Benin	671,745	332,082
Burkina Faso	261.245	225,462
Burundi	124,300	84,453
Cameroon	1,313,848	1,144,022
Cape Verde	55,566	71,201
Central African Republic	73,508	54,551
Chad	57,478	48,482
Comoros	38,599	39,724
Congo	821,288	508,038
Egypt	9,887,013	9,259,623
Ethiopia	486,351	546,964
Gabon	671,459	586,419
Gambia	72,080	69,129
Ghana	481,463	484,282
Guinea-Bissau	84,582	70,060
Ivory Coast	1,328,721	1,113,242
Kenya	1,199,927	763,910
Liberia	2,616,493	1,937,327
Libyan Arab Jamahiriya	6,233,894	5,744,720
Madagascar	407,066	285,440
Malawi	103,055	77,940
Mali	246,148	274,620
Mauritania	348,746	282,535
Mauritius	277,546	186,334
Morocco	3,620,999	2,556,914
Mozambique	622,939	480,237
Niger	323,945	198,823
Nigeria	10,696,442	6,574,496
Reunion (La)	630,042	559,047
Senegal	851,832	743,353
Seychelles	53,637	37,967
Sierra Leone	149,766	82,876
Somalia	389,354	265,965
Sudan	1,504,049	963,767
Togo	423,653	450,543
Tunisia	2,854,650	2,419,732
Uganda	260,119	138,149
United Republic of Tanzania	728,626	482,913
Zaire	904,727	816,954
Zambia	684,231	329,035
TOTAL	62,222,572	50,536,162

Source: United Nations trade tapes, data as at May 1985.
The totals do not include the following countries for which data are not available in UNIDO: Botswana, Djibouti, Equatorial Guinea, Lesotho, Rwanda, Sao Tomé and Principe, Swaziland and Zimbabwe. - Data compiled from export statistics of trade partner countries. 1983 data are based on statistics available at the time of compilation, which underestimates the actual foreign exchange expenditure, intra-African trade especially is not accounted for (see also explanatory note).

TABLE 4

FOREIGN EXCHANGE EXPENDITURE FOR MAJOR GROUPS OF INDUSTRIAL COMMODITIES
BY THE AFRICAN REGION
(thousands of dollars)

Groups of commodities	1982	%	1983	%
Food, beverages and tobacco (01, 02, 03, 04, 05, 06, 07, 09, 11, 12, 42)	9,971,339	16	8,436,076	17
Raw and intermediate materials of agricultural origin (08, 21, 22, 23, 24, 25, 26, 29, 41, 42, 43)	1,645,260	3	1,511,057	3
Mineral raw and intermediate materials (27, 28, 51, 52, 53, 56, 57, 58, 67, 68)	6,146,573	10	4,959,256	10
Energy (32, 33, 34, 35)	4,816,154	8	2,805,523	6
Consumer goods (81, 82, 83, 84, 85)	1,206,284	2	1,055,204	2
Machinery and transport equipment (71, 72, 73)	26,013,316	42	20,904,652	41
Manufactures of metal (n.e.s.)1/ (69)	2,971,634	5	2,418,708	5
Miscellaneous manufactured (54, 55, 59, 61, 62, 63, 64, 65, 66, 86, 89)	9,452,008	15	8,445,685	17
TOTAL	62,222,572	100 2/	50,536,162	100 2/

Source: United Nations Trade tapes, data as at May 1985.
Data are compiled from export statistics of trade partner countries and aggregated for Africa excluding: Botswana, Djibouti, Equatorial Guinea, Lesotho, Rwanda, Sao Tomé and Principe, Swaziland and Zimbabwe, for which data were not available.
1983 data are based on statistics at the time of compilation, which underestimate the actual foreign exchange expenditure.
Codes refer to the SIT Classification.

1/ Not elsewhere specified.

2/ Inaccuracy in additions due to rounding off.

22. It is also important to note that economic development in Africa, especially the manufacturing and agricultural sectors, relies heavily on imported inputs. In its analysis of certain major industrial commodities in the region, UNIDO found that in almost all countries more than half of the commodities had import to apparent consumption ratios very close to 100 per cent. This pattern, which covers the entire range of major industrial factor inputs, has remained virtually unchanged over the past ten years.

Africa's industrialization and external debt accumulation

External dependence on factor inputs

23. The process of industrialization is a long-term venture which requires the development of infrastructure, such as roads, railways, harbours, airports and buildings, the supply of essential utilities, such as energy and water, and the development of the requisite manpower and services. Much time elapses before an environment is created that can support the local production of such basic inputs to agriculture as fertilizers, agricultural implements and tools, industrial spare parts and components. During this period, debt accumulation is inevitable, since funds are needed to import those and other factor inputs essential to sustaining the economy.

24. It is expected that, as the industrial development process gains momentum, some of the commodities imported at present will be produced locally. While some commodities will still have to be imported, their effect on external debt can be offset by exports of manufactures. This development increases the credibility of the country, as a result of which it can negotiate better terms and obtain a greater flow of official and private financial resources for investment projects.

Choice of investment

25. Another major factor contributing to debt accumulation is the persistence (indeed the extension) of enclaves, semi-enclaves and idle capacities within the economy. While it is true that many projects have failed as productive enterprises because they were conceived and commissioned for reasons unrelated to enhancing development and economic growth, a far larger number have failed for several other reasons. These include: a deficient conceptual base; poor design, construction and/or management; wrong

choice of technology and equipment; absence of forward and backward linkages; lack of suitable manpower capabilities; limited local and external markets; and wrong timing.

Flow of financial resources into Africa

26. Recent trends show that foreign capital and investment flows are moving away from and not towards the Africa region. This is partly due to the criteria used by governments and private enterprises in developed countries to determine the countries and sectors that qualify for foreign private investment. These criteria include: stable political situation; favourable investment climate; liberal policies conducive to profit-making and repatriation over shorter periods; and large and expanding domestic and multinational markets. Only a few countries in the region are likely to be able to balance their aggregate foreign capital inflows and outflows.

27. Despite this difficult situation, special efforts should be made to encourage a greater flow of investment capital from both official and private sources. This also applies to technical assistance: genuine political commitment of all parties concerned and sincere negotiations are needed to secure increased official development assistance (ODA) to African countries, especially for the development of domestic factor inputs. African Governments must recognize the real scope and dimensions of the looming crisis and enforce control over the utilization of foreign exchange.

External debt: an essential feature in Africa's economic development

28. African countries will undoubtedly continue to borrow from external sources in order to be able to purchase the various factor inputs required for their economic and industrial development. Historical developments and current experience confirm this situation. In fact, even the richest nations, endowed with all the factor inputs they require, are indebted to other countries. The real issue is the country's credibility which it can only achieve through its ability to meet its debt obligations by generating sufficient foreign exchange revenue.

29. Given the structure of North/South trade relations, debt accumulation is inevitable. It is therefore necessary to reinforce all efforts towards the

local production of requisite factor inputs which are relevant in function, large in quantity and of high quality.

30. Debt rescheduling only offers temporary relief. Furthermore, debt write-offs, however desirable, do not bring about a lasting solution. Debt rescheduling and/or write-offs are only successful if coupled with revitalizing the productive capacity of the economy, thereby generating the capacity to repay any future debt. Debt rescheduling, in particular, will only serve to increase the debt burden of most African countries. Additional investments will be required to finance imports of factor inputs for ongoing or new projects, since Africa is not yet a significant producer or exporter of those factor inputs.

Africa's external debt and economic management

31. It is apparent from the above that the problem facing the African countries is not so much the accumulation of external debt but its management within the framework of the entire economy. Each country thus needs to institute the effective mobilization and utilization of its domestic and foreign exchange resources. In this regard, information on financial flows and their utilization must be well organized and, where necessary, special entities should be established in order to ensure the reliability of such information.

32. The data in Table 2 also reveal that a large part of Africa's external debt represents expenditures on the import of industrial goods and services to sustain the economic development process. The successful economic development of Africa will depend on the level and pattern of its industrialization which can only be initiated through a massive expansion of the processing of industrial raw materials. This should be matched by extensive intra-African co-operation related, in particular, to trade in industrial commodities, which at present constitutes only a marginal share in world trade. In addition, there is great scope and need for the expansion of local markets, at both the national and subregional levels.

RECOMMENDATIONS

33. A programme of action designed to combat Africa's external debt problem must take into account not only administrative aspects but also fundamental aspects aimed at improving the overall efficiency of the economy. The programme should comprise both short-term measures aimed at ensuring the credibility and economic recovery of the African countries, as well as medium- and long-term measures designed to bring about structural transformation and economic growth. Since the OAU Steering Committee has already identified measures related to debt management, this document focuses on other measures.

Internal measures to be taken by African countries

Short-term measures

34. Each country should strengthen and/or establish institutional machinery for the collection, processing, storage and dissemination of information and data essential to the management of its external debt and economy as a whole. In addition to the data currently being maintained on medium- and long-term official loans, reliable information should also be maintained on private credits, short-term loans, IMF payments and short-term credits so as to provide a more complete picture of the country's external debt.

35. Policies, priorities, criteria and control mechanisms governing the allocation of foreign exchange resources should be reviewed and adjusted as appropriate. The following policy and structural adjustments should be undertaken:

(a) More effective identification and planning of a nation's foreign exchange requirements for essential industrial commodities with a view to reducing wastage. This should include measures for generating local financing, promoting the flow of foreign exchange and investment resources, and reducing external debt through: (i) more effective international negotiations; (ii) domestic substitution of imported factor inputs; and (iii) improved management of the economy;

(b) More judicious allocation and utilization of national foreign exchange resources, especially for the local manufacture, using domestic resources, of essential factor inputs to agriculture and food production, transport and communication, energy and other economic sectors;

(c) More efficient national procurement procedures with a view to strengthening regional or subregional arrangements, including the joint negotiation, importation and distribution of major industrial and other commodities.

36. Enterprises should be assessed with a view to diverting resources from unviable plants to more productive units. A rehabilitation programme should be prepared for each potentially viable project. The programme should provide for: the improvement of plant management, production and operational efficiency, including readjustment of original contractual arrangements (especially financial and management); securement of new markets; and identification of new raw material supplies, especially from local sources.

37. Each country should review its investment policy and legal framework for foreign enterprises. Appropriate adjustments should be made so as to ensure the effective contribution of the latter, on favourable terms, to the economic development of the country.

38. Each African Government should take measures to:

(a) Mobilize external financial resources through joint ventures, buy-back, leasing, compensation and similar arrangements;

(b) Facilitate the development of medium- and small-scale industries, especially those providing inputs to agriculture and food production;

(c) Secure the greater involvement of local development banks in co-financing arrangements and providing adequate lines of credits.

39. Given the importance of the services sector to economic development, African countries should:

(a) Review the volume and composition of their service imports;

(b) Consult with public enterprises as well as domestic and foreign private enterprises with a view to determining national consultancy and other service requirements;

(c) Consult with local consultancy organizations on methods for and their role in meeting the above requirements;

(d) Secure the co-operation of other third world countries in providing consultancy services and developing local consultancy capabilities;

(e) Adopt measures for developing local and African multinational consultancy organizations;

(f) Strengthen or establish machinery to co-ordinate and monitor activities in the services sector.

Medium- and long-term measures

40. Each African country and organization should intensify its efforts to achieve the successful implementation of the Lagos Plan of Action, the Final Act of Lagos and the Programme for the Industrial Development Decade for Africa. Adequate human and financial resources should be allocated to facilitating the development of subregional core industries, including the establishment of African Multinational Enterprises. The reinforcement of clearing-house arrangements and the development of other trade compensation agreements are equally important.

41. A careful assessment should be made of all public enterprises in the interests of improving efficiency. Where appropriate, consideration might be given to re-designing some public enterprises so that they are suited to current economic realities. In devising special performance criteria, the ultimate aim should still be to:

(a) Contribute to the generation of skilled manpower;

(b) Reinforce intrasectoral or intersectoral linkages;

(c) Enhance the development of technological capabilities, including R & D;

(d) Promote the development of medium- and small-scale indigenous enterprises.

42. Measures should also be taken to enhance the capabilities of local policy-makers, industrial leaders, entrepreneurs, industrial planners, project negotiators and plant managers. To this end, fiscal, financial and other special incentives should be offered.

43. With regard to industrial raw materials and intermediates, African countries should:

(a) Formulate policies and programmes covering raw and intermediate materials production, trade and procurement;

(b) Establish bilateral or multilateral working groups to examine the feasibility of joint production, transportation and trade by barter or other arrangements with minimal foreign exchange requirements.

Actions at the international level

44. International co-operation can contribute significantly to the solution of Africa's external debt and promote the region's accelerated economic and industrial development. The international community should take all the necessary measures, official and private, to complement the endeavours of the African countries. To this end, the international conference on Africa's external debt under consideration by the OAU should also discuss measures for the economic recovery of Africa.

45. Policy and decision-makers in developed countries should take appropriate policy and operational measures to readjust the pattern and structure of external investment and ODA flows to Africa. They should ensure that those financial resources are directed towards projects which produce industrial inputs to agricultural and food production.

46. Ways and means should be found of ensuring the more effective utilization of the principal forms of industrial finance, such as multilateral and bilateral grants and loans, loan capital from commercial banks, direct foreign investment, and credit lines.

47. In co-operation with other relevant international organizations, UNIDO should assist in:

(a) Drafting guidelines, in the form of a "model framework" for the establishment of multinational enterprises;

(b) Preparing the industrial map for Africa called for in the Programme for the Industrial Development Decade for Africa;

(c) Accelerating the pace of industrialization of the African countries through the effective implementation of the Programme for the Industrial Development Decade for Africa;

(d) Developing industrial manpower and technological capabilities;

(e) Providing technical advisory services related, in particular, to the mobilization of financial resources, contract negotiations, technology acquisition and manpower training.

ANNEX I

Meeting of High-level Experts on
Africa's External Debt in Respect of the Industrial Sector
Vienna, Austria, 14-17 May 1985

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ANNEX II

Meeting of High-level Experts on
Africa's External Debt in Respect of the Industrial Sector
Vienna, Austria, 14 - 17 May 1985

AGENDA

(1) Opening of the meeting

(2) Organization of the meeting

(3) General discussion

(4) Formulation of conclusions and recommendations

(5) Adoption of the report, conclusions and recommendations

(6) Closure of the meeting

ANNEX III

Meeting of High-level Experts on
Africa's External Debt in Respect of the Industrial Sector
Vienna, Austria, 14 - 17 May 1985

PROGRAMME

Tuesday, 14 May 1985

Morning	0900	- Registration and administrative matters	
	1030	- Opening of the meeting	Agenda item 1
	1100	- Organization of the meeting	Agenda item 2
	1130	- Introductory remarks by the UNIDO secretariat	Agenda item 3
Afternoon	1430	- General discussion	Agenda item 3

Wednesday, 15 May 1985

Morning	0930	- General discussion (continued)	Agenda item 3
Afternoon	1430	- General discussion (continued)	Agenda item 3

Thursday, 16 May 1985

Morning	0930	- General discussion (continued)	Agenda item 3
Afternoon	1430	- Formulation of conclusions and recommendations, adoption of the report, conclusions and recommendations	Agenda item 4

Friday, 17 May 1985

Morning	0930	-	Formulation of conclusions and recommendations	Agenda item 4
Afternoon	1630	-	Adoption of the report, conclusions and recommendations	Agenda item 5
	1900	-	Closure of the meeting	Agenda item 6

ANNEX IV

Meeting of High-Level Experts on
Africa's External Debt in Respect of the Industrial Sector
Vienna, Austria, 14 - 17 May 1985

LIST OF DOCUMENTS

	Title	Document Number
1.	Provisional agenda	ID/WG.439/1
2.	Industrial Development Trends and Policy Options	ID/WG.439/2
3.	External Debt and the Industrial Sector in Africa: Outline of and Approach	ID/WG.439/3
4.	Africa's External Debt in Respect of the Industrial Sector: Issues and Proposals	ID/WG.439/4
5.	The Effect of Borrowing Strategies on Prospects for Economic Recovery and Future Industrial Development in Africa (submitted by the ADB)	ID/WG.439/5
6.	Industrial Development of Africa and External Debt (submitted by the ADB)	ID/WG.439/6
7.	Foreign Exchange Expenditures by African Countries on Major Industrial Commodities	ID/WG.439/7
8.	Draft Proposals by the Experts of the Steering Committee for the Twenty-first Assembly of the Heads of State and Government at thier Meeting Held in Addis Ababa, Ethiopia, 2 - 8 May 1985 On Africa's External Debt	ID/WG.439/8
9.	Final Report	ID/WG.439/9
10.	International Export Credit Financing (submitted by Mr. Koulla)	
10.	Endettement et Projets Industriels en Afrique Sub-Saharienne (submitted by Mr. Hugon)	