



TOGETHER
for a sustainable future

OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.



TOGETHER
for a sustainable future

DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org

14753

Distr.
LIMITED

UNIDO/IS.536
20 June 1985

UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

ENGLISH

**INDUSTRY AND EXTERNAL DEBT IN AFRICA:
A PRELIMINARY ANALYSIS***

Prepared by the
Regional and Country Studies Branch
Division for Industrial Studies

3660



* The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. Mention of company names and commercial products does not imply the endorsement of the United Nations Industrial Development Organization (UNIDO). This document has been reproduced without formal editing.

CONTENTS

	<u>Page</u>
Foreword	iii
Introduction	v
I THE PRESENT SITUATION	1
I.1 Statistical overview of debt	1
I.2 Debt and industry	5
I.3 A statistical overview of industry	11
I.4 The context of the industry/debt problem	19
II FINANCIAL MECHANISMS AND THEIR IMPACT ON INDUSTRY	21
II.1 The State as a domestic resource mobilizer and industrial entrepreneur	21
II.2 The international financial structure and African industry	22
II.3 The prospect of industrial finance	31
III THE PERFORMANCE OF INDUSTRIAL PROJECTS	34
III.1 Evaluation of selected industrial projects	36
III.2 The Institut de l'Entreprise/Centre Nord-Sud study	38
III.3 Project performance and industrial development planning	41
IV PERSPECTIVES OF DONOR COUNTRIES	45
IV.1 Debt and financial flows	45
IV.2 Industrial project organization and market prospects	48
IV.3 Export oriented industry: is it an option?	49
IV.4 Rehabilitation	54
V TOWARDS AN AFRICAN STRATEGY FOR INDUSTRIAL CRISIS	56
Statistical Annex	62
Bibliography	73

LIST OF TABLES

	<u>Page</u>
1. Public and Private debt in Sub-Saharan Africa - selected years	2
2. Sub-Saharan Africa: Composition of debt, 1972-83	3
3. Manufacturing sector's share of total debt	6
4. Debt, disbursed commitments, and debt servicing - selected years	8
5. Sectoral distribution of public debts of African countries in 1983	9
6. Growth of manufacturing value added, selected periods and years	13
7. Country distribution and share in total economic activity of manufacturing value added, 1973 and 1981	14
8. Summary of data on import content of apparent consumption in selected commodities in 40 African countries	18
9. Share of public sector in manufacturing investment, value added, output and employment	22
10. Official and multilateral and private creditor debt renegotiations of African countries, 1980-1983	23
11. High conditionality agreements with the IMF and World Bank made by African governments, fiscal years 1980-1983	24
12. ODA grant and loan commitments to industry in Sub-Saharan Africa, 1980, 1982, 1983 and 1984	26
13. Estimated net flow of foreign finance to the manufacturing sector in SSA, 1980, 1981, 1982, and 1983	29
14. Reasons for low capacity utilization and plant closure, selected African industries	39
15. FRG: Debt relief measures vis à vis African least developed countries (LDC's)	46

FOREWORD

In the framework of UNIDO's programme for the Industrial Development Decade for Africa, the Regional and Country Studies Branch launched a research project at the end of April 1985 entitled "Analysis of the relationship between industrial projects and external debt in Africa". The purpose of the project is to highlight the current problems of Africa's indebted industrialization and to assist in creating conditions for an industrial expansion in Africa. The project seeks to provide a better understanding of how alternative ways of financial organization of projects may alleviate the foreign exchange cost of establishing and operating industries.

The main results of the study were expected to be made available at the end of May. This made it necessary for UNIDO to restrict the data search and analysis to a bare minimum and to prepare a draft report on the findings within this given short period of time.

The research work had therefore to be largely based on existing computations and reports on the subject matter. In an attempt to acquire supplementary up-to-date information on some major industrial projects and the form and impact of their external financing through development agencies in developed countries, a series of brief information gathering was undertaken in a few selected countries, namely Canada, France, the Federal Republic of Germany, the Netherlands, Sweden and the UK. At this stage of the research, however, it was not possible to undertake any data collection from or any significant exchange of views with African authorities and policy-makers. It is hoped that the initial research work can be followed up with more detailed data analysis, in particular in African countries on the basis of comments and suggestions made on the first report, which necessarily is incomplete and can give only preliminary observations.

The preliminary findings of the project are presented here. In addition, a summary paper was issued containing a very brief synopsis of major findings and observations.

The research work was undertaken by UNIDO staff with Javed Ansari, Paul Hesp and Bo Thomé as consultants. Additional inputs were provided by Charles Cooper of the Institute for Social Studies in The Hague; Jacques DeBandt in co-operation with other French researchers; Alisdair I. MacBean in the UK; Brent Copley and Roger Young of the North-South Institute in Ottawa; and Marian Radetzki in Stockholm. UNIDO is grateful for the co-operation of these individuals as well as for the assistance of the African Development Bank, OECD and the World Bank for their contributions in the form of valuable background information and data. A special acknowledgement must be made of the support and interest expressed by the authorities of Canada, France, the Federal Republic of Germany, the Netherlands, Sweden and the UK, for whose co-operation UNIDO staff and consultants are very grateful.

INTRODUCTION

The proximate concern of this report is to offer a tentative response to two inter-related questions: what has been the impact of the industrialization process on the fast deteriorating foreign debt position of African countries? And, seen from the opposite angle, what is the effect of the debt burden on current and likely future industrial trends in Africa? The use of the past tense in the first question but the present in the second is no accident. The specific conception and operation of industry in Africa during the quarter of a century since independence has in many cases been unimportant drain on scarce foreign exchange resources and has thus been a powerful factor contributing to the accumulation of foreign debt. Upon independence, African states were not industrialized to any significant degree. The infrastructure and industrial tradition which play a fundamental role in the industrialization process were generally absent, and agriculture and mining were not organized to serve as stable resource bases for industrial processing. The decision to industrialize after independence were taken on the basic recognition that industry would be the necessary engine of long-term socio-economic growth and enable the achievement of increasing economic independence.

It has, however, become increasingly evident that much of the investments undertaken in the industrial sector were insufficiently integrated within the national economy and thus with the overall development process. Thus, linkages between industrial projects - and indeed between industrial development and the development of the economy as a whole - remained weak. In the absence of sufficient domestic financial resources and developed raw material resources, the industrial projects, required substantial commercial external borrowings and sizeable official development assistance (ODA) flows. Moreover, many of the established industries proved not to generate the desired saving or generation of foreign exchange with the result that they infact aggravated the current foreign exchange crisis in a period of high external indebtedness.

The implication, is that this structure of industry and the pattern of industrial development must be radically altered both in quantum and nature in

the present problems confronting African industrial sectors reflect underlying structural weaknesses and imbalances. In order to reduce these balances it is necessary to address a number of key issues. First, there is a need to understand. The causes which led to the development of an essentially dualistic economic structure in many African countries with industry having minimum structural and institutional links with the subsistence sector. Second, there is also a need to closely examine the nature of the external relationships of African industry particularly its dependence on foreign capital, technology and raw materials. Thirdly, there is a need to identify the desired changes in the internal organization of African industry and its position within the international economy in order to reduce its structural weaknesses. Finally, it is essential that the scope for implementing, a strategy which seeks to bring about these desired changes should be realistically identified.

UNIDO has undertaken this study in order to address some of these issues in the context of the impact of the debt crisis on African industrialization. The study seeks to develop a relevant policy perspective in order to identify the choices open to African decision makers in their quest for a more viable industrial sector which can serve as a basis of stimulating national development.

Proposals for the restructuring of African industry have been forthcoming from a wide variety of sources. Perhaps the most well known and widely debated are the set of policy recommendations put forward by the international financial institutions. In this view industrial policies should be redesigned to foster export growth; public sector direct ownership and management of industrial projects should be replaced by indigenous capital and entrepreneurship to the maximum extent possible; the emphasis on large projects, almost invariably heavy net absorbers of foreign capital, should give way to smaller operations which will be less of a burden in absolute terms; and the mix of foreign financing should be altered towards greater use of commercial loans and direct foreign investment in the more advanced countries of the region, a closer association of public and private capital in the 'donor' countries, and closer attention to project specific infrastructural

outlays so as to maximize the productivity of these foreign inputs should be established. All these changes must, according to prevailing views, be effected within a framework of severe constraints on aggregate investments in the industrial sector.

This study argues that while such a policy re-orientation may contribute to an alleviation of short-term pressures on the balance of payments of some African countries it is inadequate as a basis for reducing the structural weakness as pointed out above, are reflected above all in the very weak interindustrial linkages characteristic of most African countries, in the insufficient integration of the industrial sector within the national economy and in the sector's high dependence on foreign capital and raw material imports. In export-oriented industrialization strategy which relies principally on the investment initiatives of private enterprise unlikely to increase industrial integration or reduce international dependence. Such an approach may lead to a widespread erosion of the industrial base of many African countries. Donor agencies which are broadly sympathetic to the macro-economic perspective outlined above are nevertheless reluctant to endorse the generalized decentralization that a comprehensive endorsement of such a strategy may entail. They are therefore cautious about designing sector specific policies and as this report repeatedly points out. There are many inconsistencies in the macroeconomic recommendations and sector specific interventions of the international financial agencies.

Africa is at a crossroads in regard to industry. Although evidence is by no means systematic or sufficiently detailed, there are indications that a de-industrialization process has already begun in various countries, especially in sub-Saharan Africa (SSA). The development of a consistent and coherent industrial strategy capable of adjusting to short-term costs while preserving a national industrial base is a urgent necessity. Such a strategy must be constructed on the basis of an objective assessment of the existing evidence about existing problems and opportunities. This prospect is greatly magnified by Africa's chronic dependence on others (overwhelmingly, the USA, EEC and a handful of other developed countries members) for supplies of finance and equipment for industry. Those suppliers will have to be convinced

of the earnestness of African endeavours - if they are not, then there could be such severe cutbacks that any careful restructuring would be precluded.

The report is organized as follows: Section I offers, in highly summary form - which differs from the macroeconomic perspective outlined above - an interpretation of the current situation. Its aim is to underline some basic points regarding the process of industrial change in Africa and to present essential data on debt and its relation to industry. The second section examines the financial mechanisms through which industry is funded, concentrating on the domestic and international structures and the influence of the latter on the former. Taken together, Sections I and II try to provide the framework in which the industry/debt crisis is located. Section III then proceeds to analyse case-study evidence of the actual performance of industrial projects. It is at the project level that the various aspects of the major problems affecting African industry emerge most clearly, and the concrete problems must be the starting point for the formulation of an industrial strategy. The first part of this section tries to spell out a series of conditions which affect project performance even though they are situated at a broader level e.g. macro-economic policy. Subsequent analysis is organized with reference to the various phases of a project, from initial formulation through to actual operation. Some phases are more critical than others and the decision-makers, both foreign and domestic, who intervene also vary from phase to phase. The function of this analysis is to clarify which aspects of project performance are most susceptible to improvement, which economic agents (at home and abroad) could best contribute to such improvement, and how (and in what time horizon) project performance could be bettered. Section IV moves from the presentation of empirical evidence to a consideration of the views and suggestions which now appear to characterize thinking in several of the main donor countries. Given the role of both public and private entities from those countries in the provision of finance for, and actual operation of, industry in Africa, these views constitute important data for African policy makers. In this discussion, particular attention is devoted to some of the key themes which recur in developed countries debate i.e. rehabilitation rather than new projects, the stress on export oriented industries, the need to promote domestic private

entrepreneurship. An attempt is made to assess the real prospects for these activities and to outline their relationship to existing industrial operations. The concluding Section V brings together the main findings of the report and, taking into account the actual problems of industries and the macroeconomic environment in which they have to operate, makes a series of suggestions which could be implemented by African countries themselves as part of their own response to the industry and debt crises.

This introduction would not be complete without underlining some obvious limitations of the present report. First, the findings presented here constitute no more than a preliminary analysis of the problem. Second, there has been no opportunity for discussion with African policy makers working at the national level. The report might thus be seen as an opening part of collaboration between UNIDO and African countries on the subject of industrial restructuring in a period of crisis. Third, no individual country studies have been undertaken. It has thus not been possible to identify explicitly which industrial activities could, in particular cases, constitute the core of future operations. UNIDO believes that such practical steps would be an essential part of follow-up work to the present report. Fourth, direct discussions with financing organizations in Africa, and to a lesser extent abroad, have simply not been possible on a sufficient scale within the time schedule for this report. Without more detailed contacts of this type, there is a risk that some possibilities will be lost and/or some proposals will be insufficiently precise from the financial angle. Finally, most of the discussion in the main sections of the report focusses on SSA, making but limited reference to the North African countries. Since the share of Algeria, Egypt, Morocco and Tunisia in total African manufacturing value added (MVA) of the region exceeded 50 per cent in 1981 and their share of total debt is of the same order of magnitude, the focus adopted is not due to any lack of weight of these countries. Rather, it stems from the different nature of their problems as compared to those of SSA. The North African countries are much more closely tied to circuits of foreign commercial finance and more closely integrated to export of manufactures through international subcontracting (above all this is true for Morocco and Tunisia) than is the case for most SSA. It could be argued, and indeed this report does consider

the argument, that four countries in SSA - Nigeria, Zimbabwe, Kenya and Ivory Coast - bear important similarities to the North African States.

Nevertheless, the policy debate for SSA as a whole has been cast in markedly different terms than it has for North Africa. For the moment, the task of creating viable frameworks for industrial restructuring is far more urgent in Africa South of the Sahara even though some overlap in issues certainly exists as between the two subregions. This is so because the impact of the debt crisis has been far more severe on the SSA countries. Consequently greater industrial reorganization is needed to accommodate to this growing debt burden in these countries than is the case in North Africa.

I. THE PRESENT SITUATION

I.1 Statistical Overview of Debt

An investigation into the impact of the growing debt burden on African industry must begin with an assessment of the volume of external debt in African countries and the proportion that is directly or indirectly attributable to industry. This is a complex task. Aggregate figures are published by the World Bank, based on a debtor reporting system, and the Bank for International Settlements, based on a creditor reporting system. The latter estimate tends to be appreciably higher, though since both of them relate primarily to disbursed public and publicly guaranteed debt only they significantly underestimate the aggregate debt figure. For example, the World Bank estimate for end 1983 for the region as a whole was \$96.8 billion; the Executive Director of the Economic Commission for Africa (ECA) has, however, referred to regional debt of the order of \$150 billion, with the latter figure including a series of debts not covered by government guarantees (a proposition which, on the figures just given, would be around one-third of the total). Moreover, the ratio of publicly guaranteed to total debt will certainly vary from country to country so that the distribution of the debt burden among African nations will change according to which approach is adopted. For purposes of this report, the World Bank figures (relating to publicly guaranteed debt only) will be the main source. It should, however, be kept in mind that these figures currently cover not more than about two-thirds of the total and that this proportion could be altering over time.

Table 1 shows the disbursed public and publicly guaranteed debt for SSA as of end year 1976, 1982 and 1983. Over the 7 year period the aggregate rose nearly 250 per cent to an end 1983 total of \$58.5 billion. While the public/private split has altered little, a crucial shift can be observed within the public debt: whereas in the mid 1970s around two-thirds was owed to official creditors, the proportion has recently dropped to about 60 per cent. In itself the change may not seem great yet its impact on debt servicing costs has been significant due to the appreciably tougher terms charged by private creditors. Over the period 1976-1983 there has been a marked deterioration in all aspects of debt servicing, concisely summarized in an increase in the debt

Table 1. Public and private debt in South Saharan African - selected years

	1976	1982	1983
<u>Sub-Saharan Africa</u>			
<u>Total Debt Outstanding (Disbursed)</u>	17,745.0	53,741.8	58,508.6
Public	16,605.6	50,510.2	55,589.0
Private	1,139.4	3,231.0	2,907.6
<u>Public Debt (DOD)</u>			
<u>Official Creditors</u>	16,605.6	50,510.2	55,589.0
(Multilateral)	10,718.9	29,489.9	33,149.9
Private creditors	(3,173.1)	(11,386.3)	(12,886.1)
(Banks)	5,886.7	21,020.3	22,499.1
	(3,534.1)	(18,157.4)	(20,000.7)
<u>Public Net Transfer</u>			
<u>Official Creditors</u>	2,288.0	5,279.4	4,831.0
(Multilateral)	1,544.5	2,937.0	3,097.0
Private Creditors	(522.2)	(1,481.5)	(1,327.8)
(Banks)	742.5	2,342.4	1,733.8
	(679.9)	(2,307.1)	(1,887.0)
<u>Public Debt Service</u>			
<u>Official Creditors</u>	1,499.6	4,940.5	5,725.1
(multilateral)	519.1	1,435.2	1,602.5
Private	(192.5)	(627.6)	(758.2)
(Banks)	980.5	3,502.4	4,122.6
	(387.2)	(3,110.6)	(3,713.2)
<u>Terms</u>			
<u>Interest</u>			
Official Creditors	3.5	4.5	5.8
Private Creditors	7.8	11.3	11.0
<u>Grant Element</u>			
Official creditors	49.1%	42.0%	33.2%
Private creditors	7.2%	-6.0%	-2.3%
<u>Ratios</u>			
Debt/GNP	16.3%	26.3%	32.1%
Total debt service/exports	5.8%	15.0%	20.3%
Int. payments/exports	1.8%	7.2%	9.1%
<u>Private Debt</u>			
Debt outstanding	1,139.4	3,231.6	2,907.6
Net transfer	77.3	207.8	-5.7
Private debt service	235.0	912.3	928.7
<hr/>			
<u>Total debt service</u>	1,734.6	5,852.6	6,653.6
<u>Total debt service/exports</u>	6.6%	17.96%	23.24%
<hr/>			

Source: World Bank, World Debt Tables 1984-1985

Table 2. Sub-Saharan Africa: Composition of Debt 1972-83

	1972	1978	1979	1980	1981	1982	1983	1972-79	1979-80	1972-83
Financial markets	1.0	8.2	10.9	12.9	15.2	18.1	20.0	40.0	16.8	32.0
Per cent of total	14.5	30.1	32.0	32.2	34.2	36.1	36.2			
Oil importers	0.9	5.8	7.3	8.1	8.9	9.4	9.0	31.6	5.8	23.3
Per cent of total	13.5	21.3	21.4	20.2	20.0	18.7	16.3			
Suppliers' credits	1.0	3.4	3.5	3.1	2.9	2.8	2.4	19.1	-8.2	8.9
Per cent of total	14.3	12.4	10.2	7.8	6.5	5.6	4.4			
Oil importers	0.8	2.8	2.9	2.3	2.5	2.4	2.1	19.1	-5.0	9.5
Percent of total	11.2	10.3	8.5	5.8	5.6	4.6	3.8			
Bilateral										
Nonconcessional										
DAC	0.3	1.4	2.7	3.7	4.1	4.2	4.9	34.9	14.1	32.1
Per cent of total	4.6	5.2	7.9	9.2	9.2	8.4	8.9			
Oil importers	0.2	1.2	2.3	3.2	3.6	3.7	4.3	35.5	15.0	34.6
Per cent of total	3.3	4.4	6.8	8.0	8.1	7.4	7.8			
Other	0.0	0.8	1.2	1.5	1.4	1.8	1.8	60.8	10.4	32.3
Per cent of total	0.6	2.8	3.6	3.8	3.2	3.6	3.3			
Oil importers	0.0	0.7	1.1	1.4	1.3	1.7	1.3	58.3	5.4	29.7
Per cent of total	0.6	2.4	3.2	3.6	2.9	3.4	2.			
Concessional										
DAC	2.0	4.3	4.5	5.1	5.1	5.5	5.6	12.0	5.3	9.6
Per cent of total	28.4	15.8	13.2	12.7	11.5	10.9	10.1			
Other	1.1	3.7	4.6	5.2	6.1	6.5	7.7	22.8	13.4	19.0
Per cent of total	15.3	13.6	13.4	12.9	13.7	12.9	14.0			
Oil importers	3.1	6.5	7.5	8.6	9.7	10.4	11.7	14.7	11.4	13.7
Per cent of total	43.7	23.8	21.9	21.5	21.9	20.7	21.2			
Multilateral	1.3	5.5	6.8	8.5	9.7	11.3	12.8	26.3	16.8	24.4
Per cent of total	18.5	20.0	19.8	21.3	21.8	22.5	23.1			
Oil importers	0.9	4.6	5.7	7.6	8.3	9.7	10.9	30.2	16.6	26.7
Per cent of total	12.7	16.8	16.7	19.0	18.6	19.3	19.7			
Total	7.1	27.3	34.2	39.9	44.5	50.2	55.2	25.1	12.6	21.1
Per cent of total	100.0	100.0	100.0	100.0	100.0	100.0	100.0			

Source: EPD, all countries in the Debt Reporting System except Cape Verde, Comoros, Djibouti, and Seycelles.

servicing/exports ratio from 6.6 per cent to 23.2 per cent.^{*/} What this means is simply that relatively much less foreign exchange is available for productive use than before. Industry must therefore either obtain a greater share of the allocation or receive more inflows from other sources if it is to maintain its position vis à vis other sectors. As will be seen later, neither of these conditions has pertained.

Table 2 shows in greater detail the overall worsening of the structure of debt, this time with data taken from the period 1972-1983. By the later year concessional lending was down to less than half of the total and the reliance on financial markets (e.g. the Eurodollar market) had grown substantially. Contrary to what is often supposed, therefore, African debt is no longer characterized by a dominance of soft loans. Instead, it is necessary to distinguish among countries. Those with 'bankable' assets, which in effect means oil exporters and mineral rich countries as far as SSA is concerned, could obtain ready access to commercial money markets while other countries could not - hence three quarters of Euromoney borrowings of SSA in the early 1980s were accounted for by Nigeria, Angola, Gabon, the Congo, Cameroon and Ivory Coast. Countries without such resources and thus without recourse to commercial money have been driven into other arrangements: in the period 1979-1984, debt reschedulings have taken place more than forty times for SSA countries (in some cases, on more than one occasion). And in the worsening climate, even countries with access to commercial money markets have become involved in rescheduling.

For all countries the situation has worsened in terms of the pressure of debt on the economy. Ratios of debt/GNP have reached levels way beyond those observed elsewhere in developing countries e.g. for low-income countries in SSA, more than half had a ratio in excess of 50 per cent, while another five of the middle-income group likewise had such ratios. In addition to the debt-service figures cited earlier, the picture has also become far more bleak with regard to net capital transfers. For all groups of SSA countries the tendency has been for a sharp decline in net transfers, due primarily to a

^{*/} The debt service/export ratio is held down (in the short run) by rescheduling arrangements. In the long run these reschedulings increase the debt burden.

dramatic rise in interest costs and the rise in amortization payments. Consequently balance of payments current account deficits cannot expect to be offset by such flows and must instead be compressed (through e.g. following deflationary policies as proposed by the IMF) or financed through other means.

The panorama described in the preceding paragraphs demonstrates the sharp growth in African debt, the pronounced deterioration in the terms on which such debt has been contracted, and the pressure the debt imposes on overall economic management, including that of the industrial sector. It will be shown later that, in fact, the drive towards reorganizing the economies of SSA in the sense of eliminating activities has been aimed at industry. It is thus relevant to ask to what extent the debt is attributable to industry.

1.2 Debt and industry

Tables 3 and 4 present calculations for SSA. Table 3 debt figures include undisbursed commitments (which explains why the aggregate is noticeably larger than that given in Table 1) while Table 4 gives data for disbursed commitments. For only 4 countries does the 'manufacturing debt' share exceed 20 per cent and in no instance does it go beyond 50 per cent. While classificatory adjustments might conceivably put the shares a little higher, the data certainly lend no support to the view that, for SSA as a whole, industry has been a primary cause of the debt expansion: the sector itself has not been a heavier borrower than others. Table 5 disaggregates debt figures for 6 sectors and a miscellaneous category 'Other' and shows that, in percentage terms, manufacturing industry ranks third of the 6 sectors explicitly identified with about one-seventh of total debt. In only two countries, Benin and Nigeria, does manufacturing industry rank first among all sectors as a source of debt liability.

These numbers do not tell the whole story. It may be argued that the absence of domestic production of industrial items due to inefficiencies of the sector may have led to imports which worsened the balance of payments situation and thus indirectly brought about debt increases. It is not easy to assess the weight of this argument. It would be wrong to just add up all industrial imports and put them on the bill since many items cannot be produced locally. Moreover, in those instances (the majority) where capacity

Table 3: Manufacturing sector's share of total debt
(1983 - figures in millions of US\$)

Country	Total debts	"Manufacturing debts"	Percentage
Benin	877.1	440.4	50
Botswana	383.6	-	-
Burkina Faso	653.7	22.2	3
Burundi	527.4	87.1	17
Cameroon, U.R.	2,591.9	525.4	20
Cape Verde	112.1	.7	1
Central African Republic	305.4	.1	0
Chad	243.4	28.5	12
Comoros	154.5	-	-
Congo, Peoples Republic of	1,886.4	154.6	8
Djibouti	98.4	5.2	5
Equatorial Guinea	146.2	8.3	6
Ethiopia	1,486.2	221.5	15
Gabon	1,595.2	14.5	1
Gambia	233.3	3.3	1
Ghana	1,405.1	93.7	7
Guinea	1,539.5	186.7	12
Guinea-Bissau	160.6	5.9	4
Ivory Coast	6,074.5	461.3	8
Kenya	3,784.0	388.7	10
Lesotho	222.3	3.3	1
Liberia	893.4	23.8	3
Madagascar	2,178.1	146.8	7
Malawi	860.3	.6	0
Mali	1,276.0	39.1	3
Mauritania	1,670.4	156.4	9
Mauritius	553.2	23.0	4
Niger	938.9	11.3	1
Nigeria	15,522.7	5,286.8	34
Rwanda	383.8	27.4	7
Senegal	2,106.8	166.9	8
Seychelles	60.8	.2	0
Sierra Leone	459.3	26.9	6
Somalia	1,422.4	296.0	21
Sudan	6,123.4	195.2	3
Swaziland	245.4	36.7	15
Tanzania	3,234.5	465.1	14
Togo	936.9	116.4	12
Uganda	1,022.5	159.8	2
Zaire	4,704.7	283.2	6
Zambia	3,210.4	321.0	10
Zimbabwe	2,166.6	74.6	3
TOTAL	74,471.2		

Source : World Bank data on sectoral distribution of public debts of African countries South of the Sahara (data as of 25 April 1985).

Notes: 1) Total debts are: debts outstanding including undisbursed commitments as at the end of 1983.

2) The actual debt to be attributed to the manufacturing sector will be higher than reflected in the above table because debts which have been rescheduled and debts for which repayment terms are unknown are not included, and also because debts for which the purpose is unclear or for which the country has not reported a purpose are put into the 'not applicable' category. The World Bank print-out includes the following 'sectors':

- agriculture, forestry, fishing
- mining, quarrying
- manufacturing
- electricity, gas/water production
- construction
- trade, restaurants, lodging
- transport, storage, communications
- finance, insurance, real estate, business service
- community, social, personal services
- contribution to finance current imports
- contribution not directly for imports
- other contributions
- debt reorganization
- nationalization
- military
- pension payment
- other contributions, not Development Assistance Committee flows
- not applicable.

Table 4. Debt, disbursed commitments, and debt servicing - selected years
(\$ billion)

Sub-Saharan Africa	1970	1975	1982	1984
1. Total debt	4,685,865	11,702,591	45,456,648	56,467,945
2. Total sectoral debt <u>b/</u>	3,969,200	10,353,619	32,835,118	38,646,285
3. Total industrial debt <u>c/</u>	2,354,406	6,498,581	20,370,309	24,242,340
4. Total manufacturing debt <u>c/</u>	262,464	949,972	5,711,524	6,909,087
5. (4) as per cent of (1)	5.6	8.1	12.6	12.2
6. (4) as per cent of (2)	6.6	9.2	13.4	18.9
7. Total debt service	449,282	1,302,030	4,940,778	9,665,888 <u>a/</u>
8. Total sectoral debt service <u>b/</u>	375,372	956,010	4,242,250	6,559,316 <u>a/</u>
9. Total industrial debt service <u>c/</u>	264,378	660,871	2,366,912	4,226,989 <u>a/</u>
10. Total manufacturing debt service	34,814	127,797	776,059	1,505,145 <u>a/</u>
11. (10) as per cent of (7)	7.7	9.8	15.7	15.7
12. (10) as per cent of (8)	9.3	13.4	18.3	22.9
13. Interest repayments	161,689	429,686	2,361,639	3,605,617 <u>a/</u>
14. Sectoral <u>b/</u>	133,125	370,453	2,075,673	2,461,837 <u>a/</u>
15. Industrial <u>c/</u>	90,614	236,928	1,216,110	1,592,794 <u>a/</u>
16. Manufacturing	8,149	38,010	420,080	524,810 <u>a/</u>
17. (16) as per cent of (13)	5.0	8.8	17.8	14.5
18. (16) as per cent of (14)	9.0	10.3	20.2	21.3
19. Total agricultural debt	135,382	477,271	3,143,017	3,560,203
20. Total trade debt	16,765	69,841	292,811	482,825
21. Finance debt	67,533	172,043	622,254	837,485
22. Social Services	1,390,216	2,790,813	8,406,767	9,523,432
23. (19) as per cent of (1)	2.8	4.1	6.9	6.3
24. (20) as per cent of (1)	0.3	0.6	0.9	1.2
25. (21) as per cent of (1)	1.4	1.5	1.4	1.5
26. (22) as per cent of (1)	29.6	23.8	18.5	16.9

Note: a/ These are projected estimates.

b/ Includes agriculture, mining, manufacturing, utilities, trade, construction, transport, finance and social service sectors.

c/ Includes manufacturing, mining, utilities, construction and transport.

Source: Internal data provided by World Bank

Table 5: Sectoral distribution of public debts of African countries in 1983
(in percentage of total debts)

	Agri- culture 1	Min- ing 2	Manufac- turing 3	Infra- structure 4	Ser- vices 5	Comm- unity 6	Others 7	Total 8
Benin	5	1	50	23	1	12	8	99
Botswana	10	15	0	45	1	26	2	99
Burkina Faso	19	4	3	31	3	29	11	99
Burundi	8	1	17	29	9	25	22	102
Cameroon	9	2	20	47	1	18	3	100
Cape Verde	13	-	1	50	0	22	15	101
Central African Rep.	13	-	0	37	0	10	40	100
Chad	6	-	12	8	3	60	10	100
Comoros	10	-	-	66	1	15	8	97
Congo	3	4	8	30	2	31	25	103
Djibouti	4	-	5	81	3	8	3	100
Eq. Guinea	8	-	6	6	0	50	30	100
Ethiopia	15	2	15	51	12	29	4	100
Gabon	3	1	1	53	6	18	18	100
Gambia	12	-	1	34	2	15	9	99
Ghana	9	-	7	43	3	11	29	101
Guinea	5	7	12	19	2	8	48	100
Guinea-Bissau	14	4	4	35	3	4	37	101
Ivory Coast	16	2	8	39	4	30	2	100
Kenya	13	0	10	32	2	26	14	98
Lesotho	10	-	1	39	3	26	21	100
Liberia	16	3	3	36	4	19	19	100
Madagascar	5	1	7	26	1	8	52	101
Malawi	17	0	0	36	2	34	12	101
Mali	10	2	3	37	1	35	12	99
Mauritania	4	23	9	26	0	22	16	101
Mauritius	10	-	4	29	5	34	19	100
Niger	13	18	1	31	3	26	6	98
Nigeria	5	-	34	31	5	21	19	101
Rwanda	19	-	7	47	3	17	7	100
Senegal	19	2	8	31	2	17	20	99
Seychelles	10	-	0	32	3	51	3	99
Sierra Leone	19	3	6	36	3	20	13	101
Somalia	11	1	21	25	0	19	23	100
Sudan	7	-	3	17	1	10	62	100
Swaziland	10	-	15	40	2	31	3	101
Tanzania	7	2	14	27	2	17	31	100
Togo	7	3	12	31	2	9	35	99
Uganda	14	1	16	19	4	23	21	102
Zaire	3	4	6	35	2	5	45	100
Zambia	6	20	10	29	2	12	22	101
Zimbabwe	5	2	3	39	12	24	26	98
SSA	8	3	14	32	3	19	21	100

Source: World Bank data on sectoral distribution of public debts of African countries South of the Sahara (data as of 25 April 1985)

Notes : a) Total debts are: debts outstanding including undisbursed commitments as at the end of 1983

b) 'Sectors' are as follows:

1. agriculture, forestry, fishing
2. mining, quarrying
3. manufacturing
- Infrastructure (4. - electricity, gas/water production
(- construction
- Service (5. - transport, storage, communications
(- finance, insurance, real estate, trade,
(restaurants, lodging, business service
6. - community, social, personal services
- Others 7. - contribution to finance current imports
(- contribution not directly for imports
(- other contributions
(debt reorganization
(- nationalization
(- military
(- pension payment
(- other contributions, not Development
(Assistance Committee flows
(- not applicable

c) '0' indicates debt percentage of total equals (approximates) zero
'-' indicates that no debt is recorded for that sector.

utilization rates are well below 100 per cent, the reasons for this may not be attributable to domestic inefficiency. Indeed, the weight of the debt itself may well be a major reason why necessary raw materials cannot be obtained and production itself is restricted. But it is a fact that African industry relies on imported inputs more than it does on domestic resources, and that these imports represent a drain of foreign exchange. In Section III, the case study analysis, an attempt is made to put these factors into perspective. A point which tends to be ignored if one looks at the percentages per sector only is, that the directly productive sectors, agriculture, mining and manufacturing, do not just have to pay off their own debts: the huge debts accumulated by e.g. infrastructural projects (often related to industrial development) will have to be paid off as well, and part of the burden will have to be shouldered by industry. Thus, although it can be concluded that the direct contribution of manufacturing industry to debt accumulation is generally small, it has to be borne in mind that industry will have to bear a part of the debt burden of the economy as a whole. For the moment, it can be concluded that the direct contribution of manufacturing industry to debt accumulation is small in most of SSA, and is certainly inferior to that of many other sectors. However, the contribution of manufacturing towards the servicing of debt has remained limited particularly in recent years when industrial growth rates have tended to fall.

I.3 A Statistical Overview of Industry

During the period 1963-82 growth rates in African manufacturing did not generally lag behind those in other developing countries. Thus African MVA grew at an annual average rate of 7.3 per cent during 1963-73, and 5.4 per cent during 1973/81. The World Bank has estimated that MVA growth rates in all low income developing economies (excluding India and China) were 6.7 per cent during the 1960s and 3.2 per cent during the 1970s. The MVA in middle income developing countries grew at the rates of 7.3 per cent and 5.3 per cent respectively during these periods.

Three important differences somewhat concealed by these figures should, however, be noted. First, the manufacturing sector in most African countries is in both absolute and relative terms significantly smaller than in many other developing countries - the smallness of the African industrial base is partially reflected in the relatively high growth rates obtained. Secondly,

industrial performance during the last four years has deteriorated very sharply in Africa relative to other developing countries. Thirdly, there are unusually wide variations in the growth performance of national manufacturing sectors.

Table 6 summarizes the growth record of the African countries over 1963-1973 and 1973-1981. During 1973-1981, 22 of the 49 countries for which data is available experienced negative rates of growth of MVA per capita. During 1963-1973 only two countries had negative growth rates. The tendency of a contraction in manufacturing industry as a whole is also reflected in the fact that for 18 of the 49 countries included in Table 6, the share of MVA in GDP declined between 1973 and 1981. In three countries - the Gambia, Sudan and Tanzania - the share of MVA in GDP fell by over 50 per cent during the period 1973-1981.

Declining growth has been accompanied by increased industrial concentration in the region. As Table 7 shows, the share of the top four African countries in continental MVA (Algeria, Egypt, Morocco and Tunisia) increased from 44.6 per cent in 1973 to 55.6 per cent in 1981 - their share of Africa's population in 1981 was about 35 per cent. The share of the bottom four fell from 0.15 per cent to 0.06 per cent. Thirty-one countries experienced a decline in their share of continental MVA. The share of ten countries in continental MVA was more than halved, while two countries doubled their share. The bottom 20 countries with a population share of about 12 per cent in the whole of Africa account for about 4 per cent of MVA. Most of these countries have an MVA of less than \$100 million each. In at least seven African countries, the manufacturing sector is almost non-existent; it accounts for less than 5 per cent of monetized GDP. Its share is likely to be significantly smaller if account can be taken of the subsistence sector within the national economy.

The high degree of industrial concentration is also reflected in the product mix of African manufacturing. Estimates of the inter-branch distribution of MVA in nine leading African countries (Egypt, Ethiopia, Kenya, Madagascar, Tunisia, Tanzania, Zaire, Zambia and Zimbabwe) show that the share of food products and textiles fell from 52.2 per cent in 1973 to 44.8 per cent in 1980. The share of consumer non-durables was, however, still over 60 per cent in the early 1980s, as compared to almost 75 per cent in 1973. The

Table 6. Growth of manufacturing value added, selected period and years
(at constant 1975 prices)

Country or area	Total MVA		Per capita MVA			
	Growth rates (%)		Value (\$)			
	1963-1973	1973-1981	1963-1973	1973-1981	1973	1981
Africa	7.3	5.9	4.5	2.9	38	46
Algeria	12.8	7.0	9.7	3.5	75	94
Angola	10.2	-10.0	8.3	-12.2	51	15
Benin	6.0	-4.2	3.2	-7.0	14	10
Botswana	6.2	17.3	3.9	14.0	24	88
Burkina-Faso	18.3	4.1	15.7	1.5	17	18
Burundi	13.8	5.0	11.9	2.8	12	15
Cameroon	2.5	6.4	0.6	4.0	40	55
Cape Verde	9.0	3.2	6.2	1.4	15	17
Central African Republic	6.6	1.5	4.5	-0.7	26	22
Chad	5.4	-4.6	3.4	-6.5	15	9
Comoros	7.2	-5.1	4.4	-8.0	17	11
Congo	0.3	1.7	-2.0	-0.9	45	38
Egypt	3.3	8.2	0.9	5.5	57	87
Equatorial Guinea	5.1	-16.1	3.1	-18.0	20	5
Ethiopia	8.2	3.6	5.6	1.6	11	12
Gabon	10.9	14.3	9.9	12.8	90	222
Gambia	3.5	-12.0	0.3	-14.5	20	6
Ghana	6.9	-0.5	4.4	-3.6	67	50
Guinea	3.3	2.6	1.1	0.1	11	10
Guinea-Bissau	8.4	3.4	8.2	1.6	3	3
Ivory Coast	10.7	8.7	5.5	4.9	70	100
Kenya	8.6	6.8	4.9	2.7	29	34
Lesotho	34.3	3.8	31.4	1.4	8	9
Liberia	12.8	2.6	9.1	-0.9	20	19
Libyan Arab Jamhuriya	13.6	16.3	9.1	11.7	78	155
Madagascar	9.0	0.0	6.5	-2.5	29	21
Malawi	14.9	6.4	11.7	3.1	15	18
Mali	4.8	3.8	2.3	1.1	9	9
Mauritania	5.1	6.8	2.4	3.9	14	18
Mauritius	2.8	9.5	0.9	7.8	92	179
Morocco	5.0	7.9	2.2	4.6	82	108
Mozambique	13.6	-6.6	11.1	-9.0	48	23
Namibia	9.6	4.7	6.8	1.8	93	107
Niger	8.0	3.1	5.0	0.2	16	14
Nigeria	7.6	12.0	4.4	8.4	28	48
Reunion	-1.9	5.5	-4.2	3.7	98	116
Rwanda	15.5	16.1	12.4	12.7	4	20
Senegal	4.2	0.9	0.8	-1.8	49	42
Sierra Leone	4.5	0.2	2.1	-2.3	16	14
Somalia	21.5	2.9	19.0	-3.7	15	11
Sudan	5.6	-2.2	3.1	-4.8	47	27
Swaziland	18.1	11.5	15.6	8.5	91	213
Togo	14.0	-3.9	10.6	-6.5	24	16
Tunisia	10.0	10.9	7.9	8.3	68	126
Uganda	5.3	-5.8	1.8	-8.6	21	11
United Republic of Tanzania	10.2	-2.8	7.1	-5.7	18	9
Zaire	12.5	-7.2	10.1	-9.5	15	7
Zambia	12.7	-0.7	9.5	-3.8	86	67
Zimbabwe	10.9	2.8	7.0	-0.6	138	145

Table 7. Country distribution and share in total economic activity of manufacturing value added, 1973 and 1981
(at constant 1975 prices)

Country or area	Contribution to African MVA		Share of MVA in GDP		Share of MVA in GDP less services	
	Percentage					
	1973	1981	1973	1981	1973	1981
Africa	100.00	100.00	9.22	10.72	14.38	18.92
Algeria	8.15	8.79	8.34	9.21	13.00	15.73
Angola	2.19	0.53	6.94	3.99	11.35	5.77
Benin	0.30	0.17	7.92	6.65	14.18	11.10
Botswana	0.11	0.35	5.31	11.84	8.42	20.13
Burkina-Faso	0.72	0.62	13.83	13.86	22.57	23.54
Burundi	0.33	0.31	10.83	11.54	14.26	15.41
Cameroon	2.08	2.24	10.16	11.36	21.39	22.75
Cape Verde	0.03	0.03	6.07	6.10	13.32	13.04
Central African Republic	0.37	0.24	12.92	13.13	22.40	21.19
Chad	0.43	0.19	11.51	7.53	19.17	12.84
Comoros	0.04	0.02	7.07	5.34	10.16	8.54
Congo	0.41	0.29	7.14	7.63	14.16	14.58
Egypt	14.42	17.77	17.85	17.31	37.41	34.43
Equatorial Guinea	0.04	0.01	5.49	5.28	7.83	9.32
Ethiopia	2.24	1.89	10.73	10.74	15.74	16.72
Gabor	0.63	1.15	6.21	9.41	7.75	12.67
Gambia	0.07	0.02	6.48	2.52	14.14	5.58
Ghana	4.58	2.88	12.95	14.09	17.81	21.03
Guinea	0.33	0.25	4.37	3.76	6.08	5.65
Guinea-Bissau	0.01	0.01	1.37	1.53	2.31	2.63
Ivory Coast	3.12	3.94	12.97	15.59	29.04	28.21
Kenya	2.64	2.76	11.77	13.34	21.56	25.75
Lesotho	0.07	0.06	5.69	5.11	12.92	11.24
Liberia	0.22	0.19	4.88	5.63	6.63	8.05
Libyan Arab Jamhuriya	1.26	2.28	1.21	3.52	1.47	6.38
Madagascar	1.53	0.91	11.65	10.05	19.65	16.21
Malawi	0.52	0.54	12.23	12.55	17.51	19.39
Mali	0.36	0.31	9.66	8.64	20.73	19.91
Mauritania	0.14	0.14	5.04	6.29	7.82	11.34
Mauritius	0.57	0.83	13.91	20.43	21.05	35.44
Morocco	9.74	10.74	16.89	17.58	31.45	38.67
Mozambique	3.04	1.19	9.85	7.35	16.97	13.33
Namibia	0.56	0.53	6.43	6.65	10.22	10.55
Niger	0.49	0.36	10.61	6.69	16.21	9.45
Nigeria	12.30	18.31	4.74	8.17	6.70	13.25
Reunion	0.33	0.29	3.86	3.63	15.01	15.52
Rwanda	0.12	0.47	3.97	13.45	5.50	19.51
Senegal	1.64	1.15	13.37	13.75	24.20	24.03
Sierra Leone	0.33	0.23	7.17	6.46	12.07	11.89
Somalia	0.32	0.26	9.48	9.67	17.01	17.78
Sudan	5.16	2.40	15.30	7.83	27.43	18.32
Swaziland	0.30	0.58	22.19	23.86	34.75	36.70
Togo	0.37	0.21	9.23	6.87	16.85	15.53
Tunisia	2.65	3.90	10.24	13.36	19.74	27.33
Uganda	1.62	0.69	7.37	4.29	9.09	5.15
United Republic of Tanzania	1.92	0.83	11.09	5.79	18.34	11.24
Zaire	2.47	0.97	8.26	6.18	14.90	11.18
Zambia	2.89	1.89	18.57	16.93	32.93	32.15
Zimbabwe	5.82	5.28	25.10	26.72	42.09	47.06

share of capital goods has doubled over this period. Capital goods - mainly metal products and assembled transport equipment - currently account for about 20 per cent of MVA. In 1973 the intermediate industrial branches (rubber products, other chemicals and non-metallic mineral products) had the highest rates of productivity (measured in terms of the value added per employee ratio). This pattern was broadly maintained in the early 1980s, but productivity in some consumer goods industries - particularly food products - has also increased. Association between labour productivity and the non-wage value added ratio is positive but relatively low by international standards. In the case of some African economies (such as Kenya), association between the two ratios declined substantively in 1980 compared to 1973. More significant is the minimal connection between labour productivity levels and rates of growth of output over the period 1973-1980. The most rapidly growing industrial branches (transport equipment, electrical and non-electrical machinery) did not rank high in terms of the productivity index. Industries with the highest levels of productivity (industrial chemicals, other chemicals rubber products and food manufacturers) grew at moderate rates. Manufacturing growth was fuelled by increased investment of financial resources. It did not occur primarily as a consequence of increased efficient use of existing resources. Investable surplus generated within the industrial sector remained relatively low.

Relatively low levels of industrial efficiency are also reflected in stagnant export earnings. UNIDO has estimated that Africa's share in world manufacturing exports declined from 0.48 per cent in 1970 to 0.36 per cent in 1980. Over the same period, Africa's share in global manufacturing output increased from 0.73 per cent of 0.97 per cent: the widening gap between output and export growth rates indicates a gradual worsening of Africa's manufacturing trade performance. For ten of the sixteen countries for which data is available, total exports tended to grow significantly faster than manufacturing exports during the period 1973-1981 - there was therefore a decline in manufacturing's share of total exports in most African countries. Five countries - Egypt, Kenya, Morocco, Tunisia and Zambia - accounted for 83 per cent of African manufacturing exports in 1981. In three of these countries, the share of manufacturing in total exports declined over the period 1973 - 1981.

Stagnant export levels have been accompanied by rising import levels in most African countries - until at least the time when stabilization programmes induced drastic import cutbacks. An important part of these imports consists of inputs (raw materials, intermediate and capital goods) for industry. If the great majority of African industries are of the import-substituting kind, this refers to the final product rather than the inputs. The cutbacks, therefore, have had a large negative impact on growth and capacity utilization within African manufacturing due to the high import dependence of many industrial branches.

UNIDO has recently compiled data on the share of domestic production and imports in apparent consumption (defined as domestic production plus imports less exports) for over 100 commodities for over 40 African countries. This data is presented for the time period 1972-74 and 1979-81. The main features of this data are summarized in Table 8 which, however, is incomplete, primarily because it excludes all products in ISIC category 38 (SITC category 7), i.e. metal products, machinery and transport equipment. As shown above, domestic production in precisely these branches grew significantly during 1973-1981 in some countries: however, since an overwhelmingly large proportion of this production is of an assemblage character, its import content is likely to be high and broadly in line with trends portrayed in Table 8.

The table presents a truly alarming picture of the extent of Africa's import dependence as far as manufacturing industry is concerned. Although these figures refer to national imports, it is clear that an overwhelmingly large proportion of these imports are obtained from outside Africa. Exports of manufactures from African countries are very small - representing less than one per cent of world manufactures' export. The only branches in which the import to apparent consumption ratio is below 25 per cent for the majority of countries for which data is available, are food manufacturing and textiles. Soap is the only chemical product within this category. Two other chemical products (liquified petroleum gas and distillate fuels) have import to apparent consumption ratios below 50 per cent for the majority of African countries. Motor gasoline in 1979-81 may also be regarded as a border line case: 18 of the 41 countries for which data is available had ratios not below 50 per cent.

Of all items, 54.7 per cent had import to apparent consumption ratios approaching 100 per cent for all or almost all African countries. For another 30 items (20.3 per cent of the total), the majority of African countries had import ratios approaching 100 per cent. These two categories included virtually the whole range of intermediate industrial inputs (including most chemicals, all mineral processed products and even wood pulp and paper) necessary for the development of an integrated industrial structure.

Another feature of African industrial sectors revealed by Table 8 is the surprisingly little change that has taken place in import ratios over the period 1972-74 to 1979-81. Out of the 43 commodities included in Category 1 (i.e. with import ratios approaching 100 per cent in almost all countries), as many as 38 remained within it in both 1972-74 and 1979-81. Three products (wood pulp sulphate, non-cellulosic sulphate and lubricating oils) moved down one category and had import ratios approaching 100 per cent in the majority of African countries. Two products (glycerine and unwrought lead) moved up to Category 1. By 1981, all African countries had an import ratio of 100 per cent in these commodities.

The picture at the bottom of the list is more complex. Five of the thirteen commodities included in the lowest category (with import ratios below 25 per cent for the majority of countries) have moved; but only three (cheese, raw sugar and refined sugar) have moved in the 'right' direction and achieved a lowering of their import to apparent consumption ratios over 1972-81. Movement in the intermediate categories is also limited. Seven products (malt, motor gasoline, distillate fuel, raw sugar, liquid petroleum gas, cheese and refined sugar) out of a total of 23 moved in the 'right' direction. The overall impression, therefore, must be that the pace of import substitution and domestic integration of production somewhat slackened during the 1970s and remained largely confined to the food processing branches. Some movement is also discernible in terms of petroleum-based products. But no progress whatsoever has been made in terms of the major categories of industrial intermediates nor in the production of fertilizers. In all fertiliser categories the majority of the African countries continued to have import to apparent consumption ratios of approximately 100 per cent during the 1970s.

**Table 8. Summary of data on import content of apparent consumption
in selected commodities in 40 African countries
(Ratio + import to apparent consumption ratio)**

Commodities in which ratio approaches 100% in all or almost all countries	Commodities in which ratio approaches 100% in most countries	Commodities in which ratio is not below 75% in most countries	Commodities in which ratio is not below 50% in most countries	Commodities in which ratio is not below 25% in most countries	Commodities in which ratio is below 25% in most countries
Wood pulp (72-74)(79-81) Pulp of other fibres (72-74) (79-81) Wood pulp sulphate (72-74) Newsprint (72-74) (79-81) Methanol (72-74) (79-81) Glycerine (79-81) Chlorine (72-74) (79-81) Zinc oxide (72-74) (79-81) Titanium oxides (72-74) (79-81) Lead oxides (72-74) (79-81) Ammonia (72-74) (79-81) Caustic soda (72-74) (79-81) Soda ash (72-74) (79-81) Hydrogen peroxide (72-74) (79-81) Calcium carbide (72-74) (79-81) Dyestuffs (72-74)(79-80) Vegetable tanning extracts (79-81) (72-74) Activated carbon (72-74) (79-81) Potassic fertilizers (72-74) (79-81) Synthetic rubber (72-74) (79-81) Non-cellulosic staple (72-74) Regenerated cellulose (72-74) (79-81) Lubricating oil (72-74) Angles, shapes, etc. (72-74) (79-81) Iron plates, heavy (72-74) (79-81) Plates, medium (72-74) (79-81) Plates + sheets (72-74) (79-81) Tin plate (72-74) (79-81) Railway track material (72-74) (79-81) Wire, plain (72-74) (79-81) Tubes (71-74) (79-81) Tubes, welded (72-74) (79-81) Copper bars, etc. (72-74) (79-81) Copper tubes (72-74) (79-81) Aluminium unwrought (72-74) (79-81) Aluminium rods (72-74)(79-81) Aluminium plates (72-74) (79-81) Aluminium tubes (72-74) (79-81) Lead unwrought (79-81) Zinc unwrought (72-74)(79-81) Zinc plates (72-74) (79-81) Tin unwrought (72-74) (79-81) Tin plates (72-74) (79-81) (Total 81 entries) <u>2/</u>	Fish tinned (72-74) (79-81) Malt (72-74) Wood pulp sulphate (79-81) Other printing paper (72-74) (79-81) Kraft paper (72-74) (79-81) Machine-made paper (72-74) (79-81) Glycerine (72-74) Sulphuric acid (72-74) (79-81) Nitrogenous fertilizers (72-74) (79-81) Phosphate fertilizers (72-74) (79-81) Insecticides, etc. (72-74) (79-81) Non-cellulosic staple (79-81) Motor gasoline (72-74) (79-81) Kerosene (72-74) (79-81) Distillate fuel (72-74) Lubricating Oil (79-81) Pig iron (72-74) Wire rods (79-81) Lead unwrought (72-74) (Total - 30 entries) <u>3/</u>	Raw sugar (72-74) Malt (79-81) Cotton yarn (79-81) Motor gasoline (79-81) (Total 4 entries) <u>4/</u>	Butter (72-74) (79-81) Distillate fuel (79-81) Liquefied petroleum gas (72-74) Cement (72-74) (79-81) (Total 6 entries) <u>5/</u>	Cheese (72-74) Vegetable oil (79-81) Flour (72-74)(79-81) Refined sugar (72-74) Footwear (79-81) Particle board (72-74) (79-81) Liquefied petroleum gas (79-81) Cement (72-74) (79-81) (Total 12 entries) <u>6/</u>	Cheese (79-81) Margarine (72-74)(79-81) Vegetable oil (72-74) Raw sugar (79-81) Refined sugar (79-81) Animal feeds (72-74) (79-81) Beer (72-74) (79-81) Soft drinks (72-74) (79-81) Cigarettes (72-74) (79-81) Cotton yarn (72-74) Cotton fabric (72-74) (79-81) Footwear (72-74) Soap (72-74) (79-81) (Total 13 entries) <u>7/</u>

Source: UNIDO, Africa in Figures, UNIDO/16.517, 1983, Table 7.

Note 2/: Each commodity is counted twice for each time period.

The key issue of course is that Africa is rich in both agricultural and mineral resources. Africa has vast potential for the development of manganese, phosphates, iron ore, bauxite, tin, copper and diamond-based industries. Yet exploration and product development in these branches is virtually at a standstill. The region continues to import an increasing proportion of processed mineral intermediate products, and the ample potential for increased utilization of intra-industry linkages remains unexploited.

I.4 The Context of the Industry/Debt Problem

The statistical reviews underline that, while industrial transformation has been and remains a key issue in Africa, the debt phenomenon is a recent one with the explosion dating from the end 1970s. Since industry, at least in the form of large projects utilizing modern technology, has always been dependent on foreign exchange availability for investment expansion and indeed current production, the limitation of foreign exchange is a permanent feature of industrial organization. But debt has acted as a constraint only in the past few years and its consequences for industrial policy are being realized only gradually. The debt problem undoubtedly owes most to the deterioration of the international environment of which Africa is a part, and in particular to the fall in export earnings, the rise in the value of the dollar (the currency in which, for most African countries, the majority of transactions is denominated) and the worsening of the terms of loans, especially the interest rate. Yet some part of present difficulties also stems from poor use of foreign exchange obtained in the past: those funds have made far less of a contribution than they ought to have done towards altering the relationship of African economies to the international system. Theoretically, Africa could have struck a balance between integration of investment and markets between African countries themselves and the separate integration of each country with the international system. Despite various attempts in the former direction, actual practice has weighed heavily in favour of the latter - and even attempts at somehow mixing the two approaches have depended greatly on the power of initiative of economic actors in developed countries. The policy space has been heavily determined not only by the general internal and external environment but, more importantly, by specific economic and political entities such as private and multilateral and bilateral public financing agencies. Therefore it is not surprising that the actors should have reached a

modus vivendi which, though subject to frequent stresses and strains, has operated towards maintaining the traditional structure of Africa's relations with the international economy.

In the period up till the beginning of the 1980s, international financing agencies seemed primarily concerned with project organization and evaluation. Recently, the severe and economy-wide difficulties of the past 3 to 4 years, however, have induced them to pay greater attention to broaden macroeconomic issues. External financing in industry is now ever more conditional on African countries following the general policies recommended by the multilateral financing organizations. While African Governments and international financiers agree on the need to improve efficiency within the industrial projects and to concentrate investment in the most promising cases, there is little consensus on the type of industrial restructuring that is required or the criteria on the bases of which projects should be selected for either destruction or presentation. It is widely recognized that the emphasis on efficiency and strengthening project organization will lead to important foreign exchange savings in the short run. In the longer term nevertheless an efficient reorganization of projects that can currently generate substantial amounts of foreign exchange earnings is unlikely to bring about the type of exchanges required for reducing structural weaknesses within African industry. Unless some capability to reproduce productive capacity at home i.e. strengthen the metalworking and engineering industries, can be developed, the already notable deficiencies in input-output relations (and thus the chronic import dependence of current production) will certainly be exacerbated. The price for short-run alleviation of some of the debt pressures could be even greater long term dependency. The following sections of the report try to elucidate the dilemma in greater detail and make some suggestions on how to respond to it.

II. FINANCIAL MECHANISMS AND THEIR IMPACT ON INDUSTRY

II.1. The State as a domestic resource mobilizer and industrial entrepreneur

The involvement of the State in industrial investment and operational process in Africa was necessary in the first years after independence. In the pre-independence period industrial investment had come almost exclusively from foreign sources: local private entrepreneurs did not possess the resources, experience and could not bear the risk exposure of being involved in complex industrial projects. The decision to increase public investment in industry was facilitated by the government's ability to raise tax on expanding agricultural and mineral exports - the world prices of which were rising through most of the 1960s and 1970s. Most of the State's financial resources for industrial and general economic development have to be supplied by taxing Africa's traditional exports: agricultural and (in a number of countries) mining products. Reduced export crop production and declining international commodity prices have in recent years led to considerable reductions in agricultural export earnings of African States. Earnings from the mining sector were also reduced by low commodity prices. In both cases, the inability of individual African countries to influence price fluctuations in the world market is painfully obvious. An additional problem which is becoming a serious barrier to governing earnings on primary commodities is the rapid erosion of the natural resource base which has become dramatically visible in the Sahel countries. These developments have drastically reduced resources available to the public sector for investment in industry.

Even in the best of years, however, the low level of development in any sector of the economy forces the African States, as the major entrepreneurs, to rely on foreign financial and material resources. And the State continues to be crucial in decisions regarding the role of foreign investment in domestic manufacturing; the State acts as buyer not only for certain basic industrial commodities but also for many intermediates; the State, through fiscal and financial policy as well as trade policy, can determine the potential profitability of industrial activities; and the State, though not directly involved in the industrial learning process of private entrepreneurs, can nevertheless encourage that process through local content measures.

Table 9 shows the share of the public sector in manufacturing investment, value added, output and employment for those African countries for which reliable data could be obtained. While the numbers are fragmentary, they do permit a few tentative generalizations. First, the emphasis on the public sector in Egypt, Algeria and Somalia comes through strongly. Second, those SSA countries shown, while frequently cited as striking examples of state involvement, do not in fact exhibit such high proportions - none of the figures for Tanzania reaches 50 per cent, for example. Third, there is some tendency for investment shares to exceed output shares which may in part be explained by the tendency (and indeed necessity) for the public sector to become involved in activities where the incremental capital output ratio (ICOR) is significantly above the average, in part by investment outrunning output (in the Algerian case e.g., where many projects were started towards the end of the 1970s, the gross investment figures were several times larger than those corresponding to projects where production had actually begun, due to their long gestation periods), and in part to low utilization of installed capacity.

Table 9: Share of Public Sector In Manufacturing Investment, Value Added, Output and Employment (latest available year)

<u>Percentage Share</u>	<u>Investment</u>	<u>Value Added</u>	<u>Output</u>	<u>Employment</u>
80-89	Egypt (81.4)	Algeria (84.9)	Somalia (85.1)	Algeria (81.0)
70-79	Somalia (79.9)		Algeria (79.1)	Egypt (70.0)
60-69	Zambia (64.0)	Egypt (66.7)		Somalia (65.3)
50-59	Tunisia (53.7)	Zambia (51.0)		
40-49				Tanzania (47.3) Zambia (42.5)
	Tanzania (39.0) Morocco (34.8)	Tanzania (33.6)	Ghana (32.9)	
20-29		Senegal (21.1)		
10-19	Ivory Coast (19.3) Nigeria (17.7)			

Source: UNIDO/IS. 386

II.2 The International Financial Structure and African Industry

Section I.1 of the report outlined the sharply deteriorating debt position of African countries. The corollary of this has been a growing dependence of the domestic payments system on acceptance by the international

financial system of reorganization of cash flows. Table 10 summarizes the debt renegotiations, with both public and private creditors, concluded by African countries in the period 1980-1983 - the increase in both numbers of countries and amounts at stake is clearly noticeable in the later year. Those renegotiations have become increasingly intertwined with other arrangements involving the provision of finance and conditional upon changes in both economic policy and economic structure. Table 11 demonstrates that no fewer than 29 African countries concluded arrangements embodying fairly stringent conditioning of policy over the period end 1970s to (in some cases) mid 1984; in several cases these arrangements (especially stand-by loans from the IMF) were multiple, one often overlapping another, and the table indicates a few countries where both IMF and World Bank lending have been prominent. To a

Table 10: Official and Multilateral and Private Creditor Debt Renegotiations of African Countries, 1980-1983 (\$ million)

A. Official Multilateral Debt Renegotiations

1980	1981	1982	1983
Liberia (30)	Central African Republic (55)	Madagascar (103)	Central African Republic (13)
Sierra Leone (39)	Liberia (25)	Malawi (42)	Liberia (25)
Zaire (606)	Madagascar (142)	Senegal (84)	Malawi (30)
	Senegal (77)	Sudan (174)	Morocco (1,200)
	Togo (92)	Uganda (10)	Niger (29)
	Uganda (27)		Senegal (81)
			Sudan (550)
			Togo (300)
			Zaire (1,600)
			Zambia (320)

B. Private Creditor Debt Renegotiations

1980	1981	1982	1983
Togo (68)	Sudan (553)	Liberia (27)	Madagascar (195)
			Malawi (57)
			Nigeria (1,830)
			Senegal (92)
			Sudan (646)
			Togo (84)

Source: Robert Wood, "The Aid Regime and International Debt: Crisis and Structural Adjustment", Development and Change, 1985, p.193.

**Table 11 : High Conditionality Agreements with the IMF and World Bank
made by African Governments, Fiscal Years 1980-1983**

Country	International Monetary Fund Stand-By Arrangement		Extended Fund		World Bank Group Structural Adjustment Loans		
	Dates	SDR(mn)	Dates	SDR(mn)	Dates	Agency	\$ mn
Central African Republic	2/80-2/81	4.0					
	4/81-12/81	10.4					
	4/83-4/84	18.0					
Congo	4/79-4/80	4.0					
Egypt			7/78-7/81	600.0			
Ethiopia	5/81-6/82	67.5					
Equatorial Guinea	7/80-6/81	5.5					
Gabon			6/80-12/82	34.0			
Gambia	11/79-11/80	1.6					
	2/82-2/83	16.9					
Ghana	1/79-1/80	53.0					
Guinea	12/82-11/83	25.0					
Ivory Coast			2/81-2/84	484.5	1982	IBRD	150.0
Kenya	8/79-8/81	122.5			1980	IDA	55.0
	10/80-10/82	241.5			1983	IBRD	60.9
	1/82-1/83	151.5					
	3/83-9/84	175.9					
Liberia	3/79-3/80	9.2					
	9/80-9/82	65.0					
	8/81-9/82	55.0					
	9/82-9/83	55.0					
Madagascar	6/80-6/82	64.4					
	4/81-6/82	76.7					
	7/82-7/83	51.0					
Malawi	10/79-12/81	26.3			1981	IBRD	45.0
	5/80-2/82	49.9					
	8/82-8/83	22.0					
Mali	5.82-5/83	30.4					
Mauritania	7/80-5/82	29.7					
	6/81-3/82	25.8					
Mauritius	10/79-10/81	73.0			1981	IBRD	15.0
	9/80-9/81	35.0					
Morocco	4/82-4/83	281.2	10/80-10/83	810.0			
			3/81-10/83	817.0			
Rwanda	10/79-10/80	5.0					
Senegal	3/79-3/80	10.5	8/80-8/83	184.8	1981	IBRD	30.0
	9/81-9/82	63.0			1981	IDA	30.0
	11/82-11/83	47.2					
Sierra Leone	11/79-11/80	17.0	3/81-2/84	186.0			
Somalia	2/80-2/81	11.5					
	7/81-7/82	43.1					
	7/82-1/84	60.0					
Sudan	2/82-2/83	198.0	5/79-5/82	427.0			
	2/83-2/84	170.0					
Tanzania	9/80-6/82	179.6					
Togo	6/79-12/80	15.0					
	2/81-2/83	47.5					
	3/83-4/84	21.4					
Uganda	1/80-12/80	12.5					
	6/81-6/82	112.5					
	8/82-8/83	112.5					
Zaire	8/79-2/81	118.0	6/81-6/84	912.0			
Zambia	4/78-4/80	250.0	5/81-5/84	800.0			
	4/83-4/84	211.5					
Zimbabwe	4/81-9/84	300.0					

Source: IMF, 1980 - 1983 Annual Reports; World Bank, 1980 - 1983 Annual Reports.

steadily growing degree, the possibilities for renegotiation are becoming a function of acceptance by the country of the by now fairly standard terms involved in the provision of short to medium term foreign exchange by the IMF. Consequently it is less and less possible to suppose that private and public loan capital will continue to be forthcoming whatever a country's general economic policy; instead, that policy must conform to a deflationary package whose principal elements are invariably a quick and pronounced reduction in the public sector deficit, currency devaluation and (increasingly) an effort to encourage greater foreign private capital inflows. The intensity of IMF arrangements and their relatively limited duration is now beginning to generate an additional effect viz. Africa is becoming a debtor to IMF. In 1985 payments under 'repurchase obligations' may total over \$700 million and will exceed receipts from IMF in the absence of fresh loans. The tendency, then, is for domestic resource management to be brought under constant supervision.

In these circumstances the flow of finance to the industrial sector from external sources assumes particular significance - it represents the 'direct' access the sector has to foreign exchange notwithstanding the crisis. The sources of such funds are ODA (both bilateral and multilateral) coming from countries and organizations belong to the Development Assistance Committee (DAC) reporting system; and non-concessional finance, composed of export credits, other official flows, direct foreign investment and portfolio investment.

Official development assistance

The most favourable source for funds is undoubtedly ODA due to its concessional component. Table 12 shows the behaviour of these funds in recent years.

Aggregate flows have fluctuated appreciably - present indications are that 1984 transfers were well below those in earlier years of the present decade. A closer look at the numbers reveals several additional features:

1. Deterioration in the average terms and conditions of ODA has been quite pronounced in the first half of the 1980s. One major reason

Table 12. ODA grant and loan commitments in industry in Sub-Saharan Africa, 1980, 1982, 1983 and 1984

Year	Total ODA commitments	Average grant element (%)	Gross period (years)	Maturity (years)	Interest rate (%)
1980	225.9	73.4	9.1	41.0	1.50
1982	208.7	68.5	8.1	38.1	1.88
1983	279.8	62.2	6.1	32.0	1.84
1984 ^{a/}	73.6	53.8	6.1	25.0	2.64

Note a/ Data for 1984 refer to bilateral commitments only i.e. excluding European Economic Community, International Development Association and African Development Fund.

has been the sharp reduction in the multilateral share of total ODA, (from 67.4 per cent in 1980 to 36.5 per cent in 1983) since multilateral agencies tend to offer better terms than the bilaterals (IDA and AFDF loans all have 50 year maturity, 10 year grace period and a grant element of 83.1 per cent; EEC loans exhibit a much wider range, with the grant portion running from about 30 to 80 per cent, but are also on the whole more favourable than many of the bilateral offers).

2. The donor set is dominated at the individual country level by France, the Federal Republic of Germany and (to a lesser extent) the Netherlands. The UK does not figure at all in the data for 1980-1984 inclusive, while there is only one example of ODA from the USA. On the other hand Italy has recently become very active, beginning with relatively small commitments in countries of traditional interest (Ethopia, Sudan) and expanding to much larger project involvement in the more industrialized countries of East and West Africa.
3. Taking the whole period 1980-1984, 35 SSA countries have received ODA funds. Commitments to the more industrialized States have been somewhat limited, with Nigeria and Ivory Coast receiving just one

loan each: Zimbabwe has figured more prominently, while Kenya was a large recipient of funds in 1980. On the whole, the leading recipients have been the 'middle of the order' countries (viewed from the industry perspective) e.g. Tanzania, Zambia, Senegal. The least industrialized countries have received little in absolute terms, though in some cases e.g. Togo, Burundi, Mauritius, these loans may have been significant, relative to existing industrial investments. These observations suggest the following hypothesis: a direct correlation exists between the extent of industrialization in a country, as measured by gross value of industrial output, and the share of non-concessional sources in total external finance to the industrial sector. In other words, the more industrialized the African country, the less it can rely on ODA to meet its foreign exchange needs. This is consistent with the general philosophy which appears to underpin the whole aid approach regarding industry i.e. non-commercial sources of funds should be provided for some years as 'industrial seed money' to make the terrain conducive for commercial cash investments later on. But the question is - can all SSA countries follow such a path? As things stand at present, SSA might be roughly divided into three groups: the four countries expected to establish themselves on the international industrial map (the Ivory Coast, Kenya, Nigeria and Zimbabwe), an intermediate group whose prospects are very unclear (e.g. Cameroon, Ghana, Senegal, Tanzania, Zaire and Zambia), and the remaining countries (the majority by number though a fairly small share of SSA population) where industrial transformation does not figure as a strategic objective during the next 15 to 20 years. This division, of course, cuts across the more traditional ways of viewing SSA.

4. Among countries, Tanzania has been a big recipient - in 1983 it alone received more than \$100 million ODA, and over the whole period 1980-1984 has obtained some 20 - 25 per cent of all ODA. Among activities, there are two kinds of loans which stand out. First, several sizeable loans have been given to industrial development banks or industrial development in general; in other words, foreign exchange has been provided to domestic institutions which in turn allocate funds to industries established (or to be established) in

the country. Second, there is some evidence indicating that the largest and most troublesome industrial projects have continued to enjoy substantial injections of ODA. Thus in 1983, the CIMAO cement venture (a joint activity involving Ghana, Ivory Coast and Togo) obtained a total of nearly \$21 million from both bilateral and multilateral sources, while the ever controversial Mufindi Pulp and Paper mill in Tanzania received another \$18 million. Taken together, therefore, these two projects (which certainly have claims to be the most inefficient industrial projects in SSA) obtained about 14 per cent of all ODA to the region in a year when the aggregate volume of such financing was high. These numbers raise doubts concerning the effectiveness of resource allocation: It may conceivably be argued that these projects are about to reach their break even points. To those who find this arguments implausible continuing support of such projects represents a reluctance on the part of donors to abandon 'lost causes'. The concept of industrial rehabilitation seems to be unduly stretched if new investments continue to be directed to inefficient projects which are mainly of symbolic significance.

These observations suggest that ODA is certainly not increasing to the industrial sector, that while still offering more attractive conditions than other financial sources its relative advantage is decreasing, and that it is ever more aimed towards the 'intermediate' countries of the region. How does ODA appear in relation to other sources of foreign exchange for industry? Estimates must necessarily be tentative since aggregates often fail to specify what share actually goes to industry. Using approximate figures derived from other studies, however, the picture is that shown in Table 13.

The level of ODA to the sector from all sources (DAC, multilateral, OPEC) has virtually stagnated in nominal terms since 1980, having risen sharply until then. The proportions between bilateral DAC, ODA and multilateral ODA have hardly changed since 1980. But, looking further down the table to total financial flows to industry, the picture is more dramatic. These total flows grew at an average of 17.3 per cent over the period 1978 to 1982, doubling in four years. But over three-quarters of those gains were lost in 1983, with total financial flows falling from \$2,200 million to \$1,470. As has been

Table 13 : Estimated net flow of foreign finance to the manufacturing sector in Sub Saharan Africa, 1980, 1981, 1982 and 1983

<u>Source</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
I Total ODA of	627	628	624	612
which:				
DAC countries	401	408	408	397
II Total non ODA	1,254	1,362	1,576	795
of which:				
Export Credits	664	514	560	474
Direct Investments	287	521	642	118
Total	1,881	1,990	2,200	1,407
% of all Financial flows to SSA	14	14	15	12

Source: G. Dancet, "ODA to Manufacturing Industry in Sub-Saharan Africa", UNIDO, Regional and Country Studies Branch, forthcoming.

noted, ODA remained about the same, and the real losses were in the area of direct investment and portfolio investment, both of which fell to levels below those in 1978. The effect of this is to increase further the importance of ODA in total flows, with its share rising from 1.5 per cent in 1978 to 43.5 per cent in 1983. If, in addition, it is noted that export credits are usually under substantial government control, then it can be said that no less than 77 per cent of financial flows to the manufacturing sector in sub-Saharan Africa require some government involvement. National policies can thus play an important part in restructuring industrial investment in Africa.

Export credit

It is clear from the table that export credit occupies a key role, alongside ODA, in the total provision of finance to industry in SSA. The crisis conditions of the 1980s have led to significant shifts in the policies of the main trade credit agencies, grouped together in the Berne Union: while these shifts are by no means exclusively concerned with Africa, they all have implications for the financing position of the continent. First, assessments of political and commercial risk made by the trade credit agencies tend to be much gloomier than they used to be - so the costs of risk insurance have shot up, by around 100 per cent during the present decade. Second, the size of

debt has led the agencies to impose limits on the value of projects they will cover. Consequently, larger deals now tend to be managed through risksharing systems in which several entities participate. If the co-participants are private organizations (e.g. banks and insurance companies) of the same country as the trade credit agency, the chances are the latter will be left with the more vulnerable part of the deal. If there are other trade credit agencies abroad, there may well have to be some project unpackaging to entice them in.

Third, the extent of existing debt can easily act against the implementation of projects that do promise to yield foreign exchange. The reason is simply that current creditors may insist on having first claim to any funds generated by the project, thereby cutting out the project sponsors (or at best relegating them in the queue). To confront this obstacle, some efforts have been made to 'cordon off' foreign revenue generating projects from the burden of meeting prior claims due to the parlous debt position of the country as a whole. One example of this type appears to be the urea factory constructed to use the natural gas resources at Songo-Songo in Tanzania. Fourth, the competitive struggle in the developed countries to promote sales of capital goods and the fact that aid contracts with a grant element of at least 25 per cent are not subject to the GATT rules controlling the use of interest subsidies, has stimulated the growth of mixed credits i.e. contracts in which aid and trade are mixed together. Consequently, the temptation is to employ grant money as a lever with which to strengthen the pull of trade finance (through making it available on better terms). While this has some advantage on the trade side, it ties the aid and trade aspects together and thus tends to reduce the real value of the grant element. Fifth, the Berne Union rules are quite restrictive as far as trade credit terms for purchases of spare parts and materials are concerned. They significantly complicate the organization of rehabilitation programmes. At present the World Bank and Export Credit agencies are discussing means by which co-financing arrangements can be made that would circumvent some of these problems. Sixth, while there has always existed fairly close collaboration among Berne Union, IMF, World Bank and developed countries, the signs are that the co-operation is even closer in the crisis period. Thus, the late 1984 'Brau report' notes that "most agencies regarded the existence of Fund-supported adjustment programs as evidence of credible efforts and

compliance with performance criteria as demonstration of economic progress". Moreover, the same document notes that some agencies, in their search for project screening methods which would allow them to avoid imbrication in dubious ventures, are trying to identify ways "in which the soundness of an overall investment plan, including its project selection, could be assessed by an international organization, particularly the IBRD".

II.3 The prospects of industrial finance

These points, while not an exhaustive coverage of changes now occurring in the trade credit system, are sufficient to highlight the relevance of an understanding of that system to the short and medium term prospects of industrial finance in Africa. While it is not easy to provide strong evidence on the point, the impression is that countries of the region could profitably equip themselves with more detailed and up to date knowledge of the functioning of the various sources of industrial finance.

The trends described in regard to ODA and trade credit both illustrate the extent to which the manoeuvrability of countries has gradually become more circumscribed. But the influence of alterations to multilateral lending practices on the domestic financial system for industry appears still more vividly if reference is made to the recent draft of the Policy and Operational Guidelines for the Industrial Sector prepared by the African Development Bank (ADB) group.

The crucial aspect of the fresh orientation is the ADB's concern to strengthen the role of small- and medium-scale enterprises (SME) in the industrial network. In the past almost 45 per cent of ADB industrial funding did go to this type of firm but always via the intermediation of domestic financing corporations (DFC), entities themselves owned and managed by the State. The ADB argues that DFC's in general have become one of the major casualties of the economic crisis and that many of them are suffering from mis-management. It follows that institutional rehabilitation (of the domestic industrial credit system) will have to be one of the medium term objectives of the Bank. This rehabilitation, it is stressed, will be done in the light of an assessment of the overall industrial credit requirements of the economy which may lead, the report notes, to one of two broad results. On the one

hand, where DFC problems have become chronic and irreversible, they will have to be liquidated. If, on the other hand, the review shows that a DFC is necessary but is operating poorly, measures may include not only re-organization of the DFC itself but also structural adjustment measures to eliminate economic distortions.

The pattern is thus indicative of the desire to strengthen the domestic subcontracting dimension of the industrial system, while emphasizing that this cannot be accomplished satisfactorily given the present institutional framework. ADB clearly recognizes that for some economies, the prospective volume of business just does not warrant the maintenance of the local intermediating institution while for others, macroeconomic changes may be an integral part of a rehabilitation programme. Though we do not have data on the proportion of DFC funds stemming from ADB, it is very likely that in this period of financial stringency, few if any SSA governments could afford to replenish either equity capital or loans of DFC from their own resources. Since these institutions are rarely very profitable (e.g. as measured by returns on equity holdings), their prospects for raising capital on the market (if one exists) are likewise not bright. It follows that financing the growth of SME will not be easy, and without the support of ADB the task is likely to be onerous indeed. Hence even a government which is ready and willing to shift the balance of industry structure towards complementarity of large State owned projects and smaller, private ones, has a difficult task as far financing is concerned.

The evidence reviewed in this chapter shows that the sheer weight of the debt burden has induced a growing number of countries to accept agreements which essentially buy time in return for acceptance by the country of a series of quite firm guidelines for macroeconomic management. The content of the policies points towards the need to substantially improve the performance of public enterprises, to alter macroeconomic policies in the direction of encouraging both greater domestic private enterprise and more inflows of foreign capital, and to orient production in the direction of export promotion. Unless these conditions are met, there is a considerable

likelihood that the process of de-industrialization will continue to gather momentum. The following section focuses on observed project performance and attempts to analyse what has been the interplay of factors, domestic and foreign, which has shaped observed results.

III. THE PERFORMANCE OF INDUSTRIAL PROJECTS

The industrial sector as it presently exists has come under severe criticism in recent years. The criticisms are diverse and not always internally consistent, nor is it readily apparent which yardsticks of comparison the sector is being judged against. What is fairly obvious, however, is who is being judged viz. Africa policy makers and managers. While, until very recently, harmony rather than conflict was the keynote of relations among the principal groups involved in the organization of industrial projects, those groups being the African industrial elite (both public and private sectors), ODA agencies and developed countries firms engaged in the supply of goods and services to African industry, and while in general none of them (viewed as groups) stood to loose anything from risky decisions, the situation is now changing. The current stress is on accountability of both African economic policy makers and industrial managers : that accountability is to be forged through squeezing the supply of foreign capital (as described above) and through shifting domestic pricing policy, trade régimes and access to investible resources in the direction of a much greater play for market forces. Yet everyone agrees that the existing industrial set-up is the product of, among other things, strong intervention by foreign public and private entities, multilateral and bilateral. To whom are they accountable? If Africa undertakes reforms, what assurances does it have that significant improvements will also be made by external agencies? To date these questions have not been posed with the insistence they deserve. Although this report cannot attempt answers, the evidence presented in this section is pertinent to any assessment of how much improvement, and of what kind, can reasonably be anticipated in African performance in projects is strengthened.

The observations made here are limited in various ways. First, it has not been possible to obtain thorough cost-benefit analyses of important projects, or to compare exante with expost assessments. It is known that some exercises of this kind have been carried out recently by certain ODA agencies but those studies remain strictly confidential. Second, in no sense has it been possible to conduct any systematic sampling of existing projects; instead, pieces of information have been gleaned from documents made available

by official and private agencies in some developed countries. In particular, analyses giving an African perspective on the performance of individual projects has been very scarce. Third, data (qualitative as well as quantitative) tends to be less complete and/or less specific on matters not related to the actual technical operation of the plant. In part this may be due to sensitivity of information regarding how and why certain industrial operations actually began, in part it may be due to a misplaced perspective whereby insufficient attention is given to the formative phases of a project, and in part it may be due to the allegedly 'pragmatic' view that only the actual operating process can be corrected anyway. The trouble with the latter, however, is that it ignores the key question of how learning is to be built into the project set-up. Fourth, most projects on which information is available today were initiated several years ago. Since we do not possess regular 'snapshots' of the progress of a project, data suffer from two deficiencies. Within any given project, it is not possible, without more detailed work to evaluate whether project performance has been improving or deteriorating over time. On the other side, the lack of material on projects started recently implies that comparisons of the same type of activity initiated at different points in time cannot be made. Fifth, the sketchy remarks here cannot substitute for examination of detailed case histories. The problem here is that the various parties involved in the various stages of a project, from initiation to decline, tend to leave the stage as soon as they have performed their part. An awareness of this problem, which cannot be swept away by implementing a series of technical measures, may be itself a clue to improved project performance in Africa. Sixth, and perhaps inevitably, the project information pertains to fairly large activities in which developed countries donors and entrepreneurs participate on a substantial scale. There is, for the moment, little evidence on how SME projects function: comments on African industry usually imply that such activities would perform much better and a prior reasoning suggests this ought to be the case (especially as far as foreign exchange use goes) - but firm evidence is still absent. Seventh, as the information pertains to existing projects, it is concerned with import substitution activities (the substitution is for final products: their imports have been replaced by import of equipment and intermediates) linked to domestic demand - data for export oriented projects are few and far between.

III.1 Evaluation of selected industrial projects

The statistical annex brings together data on eight SSA countries: Bern, Gabon, Ghana, Nigeria, Senegal, Sierra Leone, Zaire, and Zimbabwe. It covers both individual plants and, in some cases, collections of plants within the same industrial branch in a given country. Since the data could not be classified by project size, ownership, financial aspects or starting date, detailed analysis of differences in observed results cannot be made; yet the data do permit a series of tentative findings:

1. Problems begin at the beginning. In those instances where information on preinvestment studies is available, the pattern is to regard them (ex post) as unsatisfactory. For Gabon, this classification holds for five of the seven activities listed, for Nigeria a good result was given in only one of eight cases, for Senegal in one of six. Any preinvestment study is, of course, never expected to be fully accurate: on the contrary, its task is to provide orientation to the parties considering participation in the project. In many cases its real function goes further viz. to act as a promotional document to strengthen the position of one or more of the entities involved. What is disturbing is the extreme scarcity of good preinvestment reports, meaning those which have provided orientations in the right direction and within an acceptable margin of error.

2. Contract negotiation seems to be a more or less universal weakness. Of the nine cases cited for Nigeria (including the Nigeria/Benin joint cement factory), and the three for Zaire, not one of them yielded a satisfactory contract. The only exception to the pattern appears to be the chewing gum factory in Zimbabwe. The value of a negotiation, like that of a preinvestment study, is to a certain extent in the eyes of the beholder - a good contract for one party may be a poor one for the other. All the same, the tenor of the evidence strongly suggests that the pre-construction and operation phases of industrial projects are handled at all carefully from the perspective of the interests of African countries. Two major implications flow from this finding. First, efficient operation of a poorly conceived project may entail unnecessary costs for the African country. Second, the least that can be said about poor negotiation is that the country, rather than equipment suppliers, foreign managers or foreign financing agencies, is likely to bear the costs

when things go wrong. In a period of severe debt problems, such costs may be by no means negligible.

3. Within the operations phase, the issue which has been at the centre of debate has been raw material supply. For Ghana the lack of materials is a chronic weakness in all branches, due chiefly (though not entirely) to the unavailability of foreign exchange (even were it at hand, the costs of many materials are likely to be prohibitive given that the Cedi has been devalued some 3,500 per cent since the early 1970s and that most investments in industrial capacity predate that time). In Nigeria the raw material shortage adversely affects project performance in most of the activities cited and the same litany of shortage of foreign exchange - lack of raw materials - low capacity utilization can be found in virtually all other countries and branches for which data are available. These findings at the project level confirm the tremendous import dependence of most industrial branches, as signalled in Section I above. The fact remains, however, that while the raw material scarcity adversely affects project performance the control over this situation may not be, and most probably is not, in the hands of project managers. It rather reflects the choice of projects (or products) which have very little relation to the domestic industrial structure.

4. With very few exceptions the technology performance of plants has been poor. The main reason seems to be overcapacity in relation to domestic demand, which in turn should be associated with the initial project studies (either demand was largely overestimated to begin with and/or smaller plants could not be obtained) - the existence of overcapacity is not in itself a symptom of operating difficulties. Projects have also been found wanting, however, in other aspects, including a product range unsuitable for the domestic market; supply of equipment which was old and in poor repair; poor location of the plant, affecting material supplies; and infrastructural difficulties (e.g. breakdowns in electricity supply) which raise production costs. Though the table deals in qualitative rather than numerical terms, the net impact of these production difficulties is to drive up unit costs for items actually made well above anything that could have been suggested in the feasibility studies. It does not necessarily follow that such plants have failed to make a commercial profit (for even at unit costs and prices far in excess of those initially estimated there might be buyers); but it does mean that wasted resources have been, and continue to be, considerable.

5. The results on management are quite mixed. For Ghana the findings are poor to average. The Senegalese plants show bad results in the two fish processing factories and the wood processing enterprise yet do well in the two smaller companies engaged in printing and paper products (in one of these cases a long-established family business is involved, an indication at the micro-level of the importance of an 'industrial culture'). In Sierra Leone also the assessments cover the full range, including a foreign-owned company where management is thought to have performed well along with another in which the expatriate management appears to have functioned badly. Information on two plants in Zaire and one in Zimbabwe pertains to foreign controlled firms and in each case performance is judged good. But foreign management does not always come out well either. The suggestion overall is that management performance is not something about which quick and easy statements can be made - results vary substantially from case to case. Judgements on management should be passed with its objectives and the environment in which it operates in mind. It may be suspected that assertions of 'bad management' in government-owned industries are really aimed at the choice of macroeconomic policy. Given the thrust of current policy debates about African industry, the mixed findings on management do have bite since they cast doubt on the extent to which project difficulties can sensibly be located at the project level.

III.2 Findings of a survey by The institut de l'Entreprise/Centre Nord-Sud

The statistical annex and the deductions which can be made from it provide nothing more than a broad introduction to the issue of industrial project performance. Before going into greater depth, however, it is useful to present another, extremely up to date (April 1985) survey of the reasons for low capacity utilization. The survey, conducted by a research institute linked with French entrepreneurs (and thus working from a perspective different from that characterizing the sources for the statistical annex) and drawing on data for 345 plants throughout Africa where some French interests exist, looked at both low capacity utilization (defined here as 70 per cent, a figure notably higher than the cutoff points used in studies by official organizations) and plant closures (of which there were 79 in the whole sample). Table 14 summarizes the results.

Table 14.

Reasons for low capacity utilization and plant closure
selected African industries

Industry	<u>Planning phase</u>			<u>Construction phase</u>			<u>Operational phase</u>			<u>Failure of individual projects largely due to</u>	
	Economically Unjustified	Bad location	Wrong technology	Construction Bad	Bureaucracy etc	Absence of local infrastructure etc.	Maintenance and production problems	Sales problems	Administrative and financial	Single cause	Combination of causes
Cement		●	●		●	●	●	●	○		●
Wood (products)			○			○	●	●	○		
Paper	●	○	●	○	●	●	●	○	○		●
Textile		○				●	○	●	●	●	
Sugar	●		●	○	○	●	●	●	●		●
Vegetable oils		○		○		○	●	○	●		
Flour milling	○		○	○		○	●	●	●		
Canning	○	○	○			○	●	○	○	●	
Breweries			○			●	○	○	●	●	
Milk (products)	●	○	●		○	○	●	○	●	●	

Legend : ○ marginal/infrequent cause
 ● important/frequent cause
 ● major/general cause
 blanks - no information

Source : Adapted from
 Institut de l'entreprise/Centre
 Nord/Sud

The project phase breakdown used by the survey is somewhat distinct from that employed in the statistical annex. No reference is made to negotiations, technology is classified as a planning variable, while the operational phase focusses on marketing and financial issues as well as production and maintenance. The text of the survey makes it clear that raw material supply difficulties are submersed in the term 'production'. The matrix also differs from the earlier ones in that here all results are aggregated into ten industrial branches - what are revealed, then, are 'typical' characteristics of a project in the branch in question. The main conclusions are:

- i. Most information is available for the operational phase and it is there where problems concentrate (i.e. the highest incidence of major causes for failures of performance). Maintenance and production difficulties are frequent to major for eight of the ten branches whereas the sales and financing problems are appreciably less severe (affecting five and six of the branches respectively).
- ii. Against this clustering of obstacles, the French entrepreneurs judge planning and construction variables to have only a limited impact on project performance. In the first six columns of the table (pertaining to these phases), there is but one entry signifying a key cause of poor performance (lack of economic justification for milk products). A few instances of inadequate technology choice and the absence of acceptable local infrastructure are given, but in no case are they believed to be major factors generating project breakdowns.
- iii. Although no straightforward association of project variables with specific groups of decision-makers can be made, the matrix certainly gives the impression that many more problems, and of greater severity, are encountered regarding those aspects of projects over which domestic authorities in Africa have more control. The last four columns are the only ones fully populated and all of them could be said to involve domestic decision-makers on a substantial scale. In areas which almost certainly fall in the domain of foreign decision making, the problems are held to be far less common and severe.

- iv. Examining the matrix by industrial branch tends to confirm impressions gained from other project enquiries in Africa. Cement, paper plants and sugar factories often run into a multiplicity of problems, several of them fairly serious. Interestingly, these are also the three branches, along with milk products, where planning and construction phases are recognized to play a pivotal role in unsatisfactory performance. Breweries, on the other hand, fare well (19 of 43 plants examined were regularly functioning at more than 70 per cent capacity).

- v. On a branch basis, there seem to be notable differences as to whether industrial performance could be strengthened simply by tackling a single problem area. In the three important branches mentioned in the preceding paragraph it seems that a single target approach would probably not be sufficient. But in other instances, including textiles and canning, French partners do believe that tackling a single bottleneck ('maintenance and production') would be sufficient to activate the system. The mixed nature of these findings should serve to keep us on guard against accepting too simplistic an explanation of production problems in all branches

III.3 Project performance and industrial development planning

Examination of project performance has to be set in the broader context of industrial decision-making: drawing on background work for the present report, the following observations can be made:

- i. There has been little evidence of effective (i.e. operationally oriented) industrial planning in Africa. Whatever the form taken Governments in Africa have been reticent to refuse offers of foreign exchange tied to the establishment of industrial projects. The assumption seems to have been, at least until very recently, that the existence of such a project would itself guarantee continued inflows of foreign exchange to support the project even if it were running into trouble. The situation has therefore risen in which a surfeit of projects co-exists with a shortage of foreign exchange. Given the present financial circumstances of depressed markets for primary commodity exports, a growing debt service burden, inadequate provision of international liquidity to retain

purchasing power over imports, and constraints on the flow of foreign exchange under concessional terms, it is scarcely surprising that now the allocation effort has shifted away from opening up new activities in favour of re-examining those presently in place.

- iii. Since the majority of projects, even those with a high overall foreign exchange saving component, depend on some inputs financed with convertible currency, most governments are faced with acute and permanent problems of rationing foreign exchange. Those projects receiving more or less adequate allowances can register fair performance while the allowance lasts but are then likely to cut back production. One consequence is that inter-industry deliveries may fluctuate wildly, contributing to the general instability of the sector.
- iv. Crisis periods are known as potential stimulators of self-reliant activity. To date, however, if there has been an increase in African domestic capabilities regarding repair and maintenance of equipment, on the one hand, and raw material substitution (local for imported) on the other, it has yet to make much impact on industrial performance. There is little evidence of the emergence of a coherent domestic economic framework in which industry can operate.
- v. The reliance on the aid regime as the motor for industrial expansion has meant, implicitly as well as explicitly, the constant presence of foreign organizations in the implementation (if not the elaboration) of industrial decisions. It is therefore at best disingenuous, and at worst downright misleading, to act as if the sole responsibility for errors in decision-making belongs to African groups. In the fundamental sense that these groups could, had they opted for another path, have acted on their own, the comment has something to it. But in fact the option consciously pursued by both African and foreign groups was to tie expansion of local industry to the international financial assistance vehicle. Now that this option is faltering it is the responsibility of all participants who have benefitted to shoulder part of the responsibility and costs.
- vi. The emphasis on streamlining industry has, among others, two important corollaries viz. the concern for rehabilitation and the growing stress on

financial and foreign exchange criteria in making rehabilitation decisions. Though, interpreted broadly, the Lagos Plan of Action does offer some pointers on these issues, there is an urgent need for African authorities to spell out approaches on these matters. At present there is a risk that implementation work, if not the policy debate itself, will be in practice conducted by groups who consult with national governments but are not subservient to them.

- vii. The concern with industrial performance has been focussed almost entirely on the supply side i.e. with the tacit assumption that the problems are simply those of production. But right now demand is in as much need of rehabilitation as is supply. GNP per capita in SSA fell by 11 per cent from 1981 to 1983, a drop sufficiently large to offset gains made during the previous decade. Unless income redistribution takes on more egalitarian forms, which is not probable in a downward spiral, the chances are that a fair number of projects might have difficulty selling their output after rehabilitation. Existing arguments which remain silent on this issue must be assuming pent-up assets which would come into the effective demand realm as soon as industrially produced commodities were more readily available. This comment is enough to warn against the dangers of too much restraint - demand as well as supply is affected.
- viii. While much has been made of the 'locomotive' phenomenon in relation to industry in other developing regions, especially with regard to the pull of the US market for leading Asian industrial producers, the argument is largely irrelevant as far as African policy makers are concerned. Industry in the region cannot rely on the market pull of developed countries core countries to generate recovery - that would only happen if Africa could gain a sizeable share of developed countries industrial imports and that can certainly not be achieved in a brief period. Hence the pull needed is of a different and much more specific kind viz. foreign exchange flows. But, as noted earlier, expectations on that score cannot be too high.

This section has thus tried to show that the frequent castigation of industrial projects and performance is in reality a much more complex business than appears. Performance is inseparable from the broader consequences of the international financial régime in which industry has been expanded (at any rate in terms of project numbers). Moreover, that very régime has been intimately linked to the conception of industrial projects, as indeed many instances to their implementation. Now that the bases on which expansion could continue to take place have been torn asunder, the problem of accountability has at last appeared in its starkest form. The issue is whether African governments and external agencies can work jointly for joint accountability, or whether the present offensive aimed at accountability only for the former will carry the day. To shed more light on this matter, the next section looks at some evidence relative to policies and attitudes in some developed countries countries.

IV PERSPECTIVES OF DONOR COUNTRIES

The aim of this section is to offer impressionistic evidence on certain important trends in official policies of donor countries and multilateral institutions towards the debt/industry situation of African countries. No attempt is made to provide a complete picture of current tendencies: rather, the aim is to capture key elements of an emerging picture.

IV.1 Debt and Financial Flows

Since the middle to late 1970s, DAC member countries have cancelled appreciable amounts of debt outstanding from the least developed countries (which includes much of SSA). Though the proportions specifically pertaining to industry are not known, such debt relief does lighten pressures on the sector both directly and indirectly. Table 15 is illustrative, showing debt relief measures taken by the Federal Republic of Germany from 1979 to date. In approximate terms some \$1.6 billion of debt was cancelled with close to one-half of this relating to just three countries viz. Sudan, Tanzania and Togo. Most of the cancellations took place in 1979; during the present decade, one additional country per year has been added to the list. The FRG has adopted a case-by-case approach to avoid automaticity; and in order to prevent a simple recurrence of past difficulties, financial assistance to least developed countries is now exclusively in grant form. Similar findings hold for the UK where, by March 1985, total cancellations for SSA were just over pounds sterling 226 million: the remaining outstanding official debt of the industrial sector was approximately pounds sterling 25 million, nearly all of which was owed by Egypt.

Debt cancellation measures represent a favourable move towards alleviating the foreign exchange pressures affecting the poorest African economies. But they have been offset by marked shifts in the pattern of new financial flows. First, donor countries have placed much greater control over their funding of major multilateral institutions. Thus the January 1983 replenishment of \$9 billion to the International Development Association (IDA) fell way below the figure (\$12 billion) that would have been necessary if disbursements were to be maintained in real terms. The World Bank has noted that even if SSA share of future IDA disbursements were to rise by 5 per cent,

Table 15. FRG: Debt relief measures vis-à-vis African Least Developed Countries (LDC's)

Country	Agreement as of	Amount involved (in mio DM)
Botswana	22/3/1979	61.8
Sudan	11/4/1979	434.5
Lesotho	24/4/1979	22.0
Rwanda	7/5/1979	103.1
Burkina Faso	8/5/1979	170.0
Malawi	25/5/1979	90.0
Burundi	7/6/1979	55.2
Benin	8/6/1979	37.4
Niger	13/6/1979	179.7
Guinea	18/6/1979	43.2
Somalia	28/6/1979	104.1
Mali	6/7/1979	171.9
Gambia	14/8/1979	20.0
Tanzania	27/12/1979	345.5
Uganda	26/11/1981	60.1
CAR	21/10/1982	32.2
Chad	13/5/1983	15.7
Togo	6/7/1984	287.7
Sierra Leone	7/3/1985	157.7
(1) Africa Total		2,391.7
(2) TOTAL of LDC		3,540.4
(1) as percentage of (2)		67.6

Source: Internal information provided by the Ministry of Economic Co-operation, Bonn.

the reduction in real terms due to the overall contraction would still be 21 per cent. In relation to IMF developments have likewise been adverse; access limits for the Compensatory Financing Facility have been revised downwards quite sharply (the 'normal' figure has been reduced from 150 per cent of quota to 102 per cent) and the earlier situation whereby up to 50 per cent of quota was obtainable on low conditionality has now been removed, meaning that compensatory finance is now locked into high conditionality; the overall quota expansion of 47.5 per cent was not matched by that for SSA, where the average was 35 per cent; and SSA are effectively excluded from access to the General Arrangements to Borrow on the Saudi Loan. Second, there has been a sharp increase in public/private co-financing of export credits as evidenced by the growth of mixed credits referred to in an earlier section. The commercial element of aid has always been evident through tying clauses;

but this is now being taken further in that aid is being used as a lever to win primarily commercial contracts. This change is an outcome of the increased competition among developed countries, as they struggle to expand market shares in a world economy where most parts are growing slowly. Tabulations presented earlier in the report showed how ODA and trade credit added together represent a major part of recent financial flows to manufacturing industry in SSA. A trend towards competitively associating the two is likely to commercialize ODA without generating any increase in net flows. Third, the association of official agencies with the promotion of direct foreign investment (DFI) to be growing stronger in this phase of sharpening external competition and commercialization. Thus the Commonwealth Development Corporation (CDC), which had expenditure on industrial projects in SSA during 1983-1984 of some pounds sterling 31.8 million, is quite heavily involved with British firms. When CDC is a minor lender the project appraisal work is carried out by other partners, most often the British firms. There is some evidence, gleaned from documents and through conversations with interested parties, to suggest that project initiation in such cases may come through contacts among Transnational Corporations (TNCs), British diplomats and Ministry officials in African countries, with the former carrying out the background studies and CDC chipping in with some equity capital. In effect, CDC is assisting foreign investors with some provision of risk capital while the Export Credits Guarantee Department (ECGD) is providing funds for public sector imports of industrial products. In Canada a similar emphasis on support activities can be found. While the total volume of Canadian International Development Agency (CIDA) industry projects is quite small, with annual flows for financing then around C\$5 million in 1980-1984, official resources to support feasibility and other preparatory studies for possible ventures between Canadian and African private partners seem to be growing in relative importance: in 1979-83 the annual average was about C\$3.4 million, whereas in 1984 it rose to over C\$12 million. Likewise the German Development Company (DEG) in the Federal Republic of Germany, with a capital stock of roughly DM 1 billion concentrates on providing equity participation and long term loans to support FRG- African joint ventures; these financial inputs can also be supplemented by advisory assistance. By end 1983, about 38 per cent of DEG funds had been committed to projects in African and of these at least one half went to manufacturing industry (with rather small amounts only to the North African countries). Since the African share of FRG foreign investments

was much smaller, around 16 per cent, the implication is that DEG capital is service a seed money function - the distribution of these funds over the past decade is shown in Table 15.

These arguments point to the growing orientation of official finance towards the support of private industrial activity, and to the coincidence of this trend with a growing severity of the terms and amounts of multilateral finance. The private funding can be understood better, however, by briefly reviewing prevailing opinions in some developed countries donors regarding project organization and market possibilities.

IV.2 Industrial project organization and market prospects

Section III of the report emphasized the severe weaknesses of project conception and preinvestment studies in relation to industry in Africa. Whatever initial analyses are carried out rarely involve African agencies, official or private, and still fewer are the monitoring or evaluation exercises for projects which are already functioning. Given this paucity of systematic examination by African agencies of the likely impacts of projects, it becomes particularly important to clarify the approaches followed by those external groups who are responsible for such studies.

The dominant tendency nowadays is for the project assessments to be undertaken by commercial organizations whether they be separate consultancy organizations, equipment suppliers or the actual corporations which will design and execute the project. The role of official bilateral agencies is weak. The multilateral bodies, particularly the World Bank and EEC, have a much greater say in project assessment, but their activities too are increasingly geared towards promoting the participation of commercial capital and evaluations must therefore take account of its needs. The essential shift of emphasis, therefore, is towards commercial criteria as the primary determinant of industrial project choice. Social cost-benefit analysis, where used, seems increasingly to involve relatively minor adjustments to results derived on the basis of private rate of return figures. To some extent this may be explained by the growing conflict over what is in the social interest - after all, the main thrust of current prescriptions for change in Africa is in the direction of a closer equation of public and private objectives. More

particularly, however, the emphasis is on the creation of profits with income distributional and other, broader matters occupying only a minimal place in overall assessments.

The tendency to highlight private returns does not necessarily mean, however, that public costs will be any the less. First, for several larger projects the interdependence of the industry and its infrastructure is receiving greater attention. The focus is on creating relatively self-contained complexes where adequate ancillary services for the main activity are ensured: to the extent that the State pays for these, costs will be kept up. Second, the effort to attract investment yielding a commercial return will most probably involve, in several instances, an increase of subsidies and/or reduction of company taxes; either way, the public budget is affected. Third, to the extent that such commercially successful projects follow the route used in, say, Latin America in the past, i.e. investment by local borrowings and/or re-investment of earnings, followed by repatriation of earnings, the longer-term foreign exchange impact may be far less positive than it seems at first.

IV.3 Export-oriented industry: Is it an option?

At a time when the debt burden weighs heavily and most manufacturing activities, as well as the industrial sector as a whole, are net users of foreign exchange (both in terms of interest on loans for importing capital equipment and for current production), the temptation is great to promote export oriented activities. It is not always clear whether advocates of industrial exports predicate the encouragement of individual projects or whether they are arguing for a whole strategy i.e. export led industrial development. The impression is often given that it is the latter which is really meant, an impression reinforced by frequent references in the literature to the experience of some of the more prominent Asian countries. Those references, however, are not easy to translate to the current African environment. Strong states providing powerful public organizational as well as fiscal/financial support have been at the centre of those manufactured export drives; and in the larger of these economies e.g. Republic of Korea, the export expansion has grown from a successfully implemented import substitution policy in industry. In recent efforts in Asia where those

conditions have not existed, the export bubble inflated through encouraging footloose foreign investment has burst quite quickly e.g. Sri Lanka. It is also germane to ask what markets the exports have been directed at. Although certain products have penetrated some of the EEC markets, the magnet for manufactured trade both in the early 1970s and in the present decade has emphatically been the USA. In Europe, which for historical and geographic reasons is of more immediate relevance to possible exports from Africa, growth rates have been much slower and protectionism is generally more marked and, despite recent comments (around the May 1985 Bonn Summit) hinting that Europe should (could?) adopt a more dynamic posture, there is no strong reason to suppose that this is in fact likely to happen. Consequently African exports, were they to be forthcoming, would have to fight for shares of very low growth markets against the opposition of other exporters from developing countries.

These preliminary observations underline the care which must be exercised in postulating the possibility of an export led industrial growth strategy - to argue by inference and through the example of other countries is not logically tenable. To examine the matter further, we turn to some empirical findings which allow the potential export map to be charted more carefully.

The share of manufactures in total exports is less than ten per cent for the majority of SSA against an average of 35 per cent for all non OPEC developing countries. In fact, Africa's share of world manufacturing exports fell from 0.48 per cent in 1970 to 0.36 per cent in 1980 - moreover, the bulk of these exports (more than 80 per cent) originated from just five countries of which only Kenya and Zambia (processed copper) were SSA countries. The relative similarity of production structures as among African countries suggests that not all of them could succeed simultaneously. Even if the classic fallacy of composition indicating that export expansion by one country could not be repeated by all did not hold (and it almost certainly does, given the external market conditions noted above), the markets will almost certainly go to those with the lowest unit costs of production and/or some other special advantages.

It is often argued that Africa could take up some export market segments as they are vacated by other developing countries moving into other products.

Alternatively, Africa could generate competitive advantages which would allow some countries of the region to capture shares from other developing country sellers. Though it is unclear to what extent market shifting by established exporters is in fact taking place, the capacity of Africa to develop a competitive edge certainly could not be developed quickly. To begin with, the slow growth of internal markets does not provide much base for cost cutting using large scale production. This implies that export oriented output would most probably have to be geared explicitly towards external markets. Since African countries are exceptionally weak (even the most industrialized of them), any export drive would have to rely heavily, at least for quite some time, on the production and marketing command of TNC. In essence this means two types of operation - greater local processing of natural resources, particularly minerals, and for encouraging the entry of footloose industries. The first kind of avenue has been on the agenda for a long time but only limited progress has been made: in present international market circumstances there is little to suggest that TNC can be tempted to go any further than they have already done. On the 'footloose' road, a recent Group of Thirty survey of 52 major international companies concluded that the idea of using developing countries as export bases was not attractive to most companies.

There is increasing pressure on African governments to enhance incentive schemes for attracting foreign investment. The general efficacy of such measures has been widely questioned in the literature. A recent OECD study has noted that experience has shown that measures undertaken by home and host governments to improve the flow of foreign direct investment or to direct it to specific sectors influence investment decisions only marginally. The Group of Thirty Survey referred to above also found that fiscal incentives were regarded as unimportant influences on investment decisions ... (by) ... the companies ... (themselves). Another survey undertaken in Britain during 1984 found that direct foreign investors were primarily influenced by the size of the market and its recent and expected performance. The survey notes that in the case of some South East Asian countries which introduced new incentives when the first investment incentives began to expire that inertia of investment suggests that incentives for keeping investment in a country are unlikely to be cost effective. It is often the case as one investor whose views are reported in the survey said "that once an investment was under consideration he included the available incentives in working out the

appraisal but that they were not the reason for going into a country: an investment had to look viable ... (on its own)".

A World Bank study of foreign manufacturing activity in ten countries - the sample however includes only one African country, Kenya - finds that these countries compete for foreign investment. Assessing the evidence for this survey Helleiner has written that "none of this evidence offers any guidance as to whether increased incentives will increase the aggregate flow of direct foreign investment to developing countries. Increased incentives inevitably matched by others, may simply reduce their earnings without increasing its flow". In other words countries at a roughly similar level of development and with similar market sizes are engaging in negative (not zero) sum games when they compete for attracting foreign investment through enhancing incentives.

It is not unreasonable to conclude therefore that prospects for attracting foreign investment through generalized liberalization policies are not bright for most African countries - even in Zimbabwe where at least 70 per cent of capital stock in manufacturing is foreign-owned, company response to liberalization initiatives has been weak. (A recent survey shows that not only are next to no companies present in Zimbabwe injecting additional external capital into the country at this time, none have been identified who express a strong desire to do so).

There is, furthermore an additional query as far as the export push path is concerned. In those countries where international subcontracting has expanded, there have usually been important attractions as far as the foreign enterprise was concerned. Real wage levels were low compared to alternative locations, or transport costs were low, or special tariff incentives were available. In the African case it is not obvious that these attractions are available. Though nominal wages may be comparatively low in certain locations, productivity is not at levels which compete with those observed in possible developing country competitors. Mauritius has opted fully for export oriented manufacturing and it is interesting to note there that significant proportions of the foreign investment came from Asian countries (particularly Hong Kong) as they sought to escape quota limits on their trade to developed countries. Yet even in that case the advantage of being a quota-haven has been difficult to maintain and requires constant shifting of product lines and

a search for new investors. Electronics, for instance, were 19 per cent of total export earnings in 1976 yet had dwindled to nothing by 1982.

The effort to attract export oriented trade through the formation of a processing zone has not had a good history in Africa. Only one such zone exists in Mainland SSA, that established in 1974 in Senegal. By 1981 a mere five firms had been attracted of which only three are currently operational. In the planning period 1981-1985 the aim was to bring in a further five projects which would account for 16 per cent of total industrial investment; by mid 1984 only one of these was operational. The promotion efforts continue, however, and it remains possible that more business could be generated. All the same the incentives have always been most generous, to wit: total exemption of import duty on all inputs; exemption from all direct and indirect taxation until 1999; and of course the basic advantages of the 1981 investment code, which include free transfer of dividends and profits, and of returns from liquidation on sales of assets.

An additional concern needs to be kept in mind when evaluating the export push through DFI: it is the age-old point that what matters is the net foreign exchange retained in the country, after calculation of all trade and financial flows. Account needs to be taken, then, of issues such as transfer pricing as well as the extent to which repatriation claims can be increased through using equity which in fact came from local rather than foreign sources of funds. Despite the more limited development of local capital markets in SSA, there is evidence that this behaviour has occurred quite frequently in some of the countries e.g. Kenya, Ivory Coast, Senegal.

All these observations thus cast major doubts on the very possibility, let alone the profitability in foreign exchange terms, of export oriented industrialization based on direct foreign investment. Its consistency with other policy targets is also open to question - in a period when great emphasis is placed on constraining the public budget, the pursuit of policies which forego government revenue (through fiscal exemptions) and most probably increase government expenditures (due to the infrastructure needs of these projects) require careful evaluation. Finally, there is but a small probability that such projects could be consistent with attempts to develop an integrated industrial structure. Given that they must respond to a changing

foreign market environment, the activity mix is likely to alter quite often and in ways not necessarily consistent with maintaining close inter-industry links. This point merely underlines how an export oriented industry really functions best when part of an import substitution approach, as has been the case in the larger Asian countries.

IV.4 Rehabilitation

In the severely depressed state of African industry, rehabilitation has become a key word for change. The content of rehabilitation measures is not, however, very clear. They could refer to refurbishment of capital equipment which has fallen into disrepair and/or supplementing the current capital stock by introduction of some new machines. They could mean a reorganization of management and work processes in a plant, including methods of financial restructuring. They could mean recasting a plant designed for one type of product and market towards another. So far, it is not obvious where the accent is to be placed; it may be that choices will simply be made on a case by case basis. Thus the World Bank's ongoing work in Ghana has stressed the first meaning above, due to the extreme paucity of industrial investment in that country during the past decade. Loans made by IDA and others (bilaterals) to the CIMA0 multi-country venture, however, are clearly aimed at reorganizing a structure which has yet to produce results.

Whatever the difficulties of providing a general definition of rehabilitation, three points do deserve greater examination if 'making the best of what exists' is to be the principal guideline for industrial investments during the next period. First, the criteria for choosing activities to be strengthened and those to be left out need to be specified. Second, and closely related, there should be an attempt to link rehabilitation of different activities so that system improvements can be made - changes in one project can enhance the profitability of changes in others which are linked to it. Third, a priori reasoning suggests it is unlikely that the conversion of plants from import substitution to export orientation can be made at all easily. Location, choice of equipment, type of output, quality control, marketing mechanisms are all difficulties that might require resolution if such a switch were to be effected.

As with choices of new investments the question of who is taking the decisions affects the criteria employed. African governments are now confronted with the essentially defensive choice of which industrial activities can be retained. Within these, the task is to decide what steps to strengthen them need to be made. Once more, unless African choices are made known, policy making may be overtaken by others.

V. Towards an African Industrial Strategy

The report has established that the direct contribution of industry to debt in African is relatively small, and that only in a couple of countries of SSA does the industrial sector weigh more heavily than the others. It has also shown, however, that the debt burden has both drastically exposed the fragility of industrial structure in the region, especially the dependence on imported inputs, and provided the setting in which sweeping measures to reduce and reorganize the sector have already begun to be implemented. Since the economic crisis in the developed countries has resulted in a marked sharpening of competition for market shares among the member countries, the aid flow, while not showing any stable trend, has increasingly become associated with commercial funds and indeed a lever for obtaining industrial contracts.

The commercialization and sheer inadequacy of foreign aid flows have severely affected the domestic financial structure. Pressure on the public budget has severely constrained the Government's role as a mobiliser of resources and indeed as a direct producer. Moreover, indications are that domestic financing institutions are finding it increasingly difficult to provide resources for the much needed expansion of small- and medium-scale enterprises. There is no convincing evidence to suggest that DFI oriented towards export is likely to provide much to generate fresh resources. Hence the indicators all point firmly towards a severe lack of finance for new industrial investment, growing conditionality of fund provision in general along with increased tying of specific cash for industry, a shortage of cash to support the growth of SME, and the remote likelihood of new investment from abroad making much contribution to aggregate flows.

In these conditions the criticisms of economic mismanagement at both policy and project levels have grown apace. The report finds, however, that if there has been a lack of accountability in relation to industrial projects, that criticism is fully applicable to all the principal entities involved, foreign as well as domestic. What is happening now is that the latter are bearing the full brunt of the attacks while there is little to demonstrate that the foreign financing agencies are developing a clearer grasp of the problems. Instead the accent is placed on either new

activities, few of which are yet to be seen, or selective rehabilitation of what exists.

The broad contours just sketched of course do not apply in the same way to all countries. Indeed, one of the difficulties in examining prospects in Africa is the enormous diversity among countries. The North African states (Algeria, Egypt, Morocco and Tunisia) are all, in their own ways, strongly involved in industrial production: though they do have major problems, of which the debt burden is definitely one, they are not caught in the deindustrialization pressures to anything like the same extent as the SSA countries. Within SSA, three groups of countries may be distinguished. The most industrialized (Nigeria Ivory Coast, Kenya and Zimbabwe) which are now thought to have reached a degree of industrial/financial maturity such that they can proceed with commercial borrowing and avoid too much cutting back of industry. The intermediate group, including such countries as Tanzania, Malawi, Zambia, Madagascar, Ghana, Senegal, are seen as possible areas of industrial activity but subject to the broad pattern of pressures and disciplines described above. Finally, most other African countries are not regarded by developed country agencies as having significant industrial prospects. It follows that most of the real debate and conflicts over implementation are likely to be focussed on the first two groups of countries.

African governments could focus their own actions at three levels viz. amendments to the financial system, concentration on industrial branches, and improvements in industrial project handling. The main findings of the report in these three areas are briefly outlined below.

Industrial Finance

1. The report points towards both a declining tendency in the availability of foreign finance and towards its increased commercialization. The allocation of foreign finance among African industrial projects will increasingly be determined by the short term commercial viability of these projects. African governments must assess the contribution such projects can make to African industrial development. There is a need to formulate a clear concept of the process of industrial rehabilitation in Africa. This report argues that successful industrial rehabilitation

must involve projects selection and development on the basis of criteria that suits Africa's needs and conditions. Rehabilitation should involve the preservation and development of projects which are at least potentially capable of maximizing the utilization of domestic natural resources and which produce essentially (though not exclusively) for the domestic markets. These projects should be oriented towards filling vital 'gaps' in the production structure and increasing the overall sectoral integration of African industry. They should be capable of generating significant levels of subcontracting and employment and stimulating regional trade.

2. A clearly formulated and operationally viable conception of industrial rehabilitation provides a basis for negotiating financial arrangements with sympathetic donor governments. As overall financial flows stagnate concessional finance will increase in importance. Its increased association with non-concessional finance can only be challenged if African governments identify the inconsistencies in the macro-economic and sector-specific recommendations of multilateral agencies (which this report has discussed) and present alternative criteria for allocating foreign resources in a manner which enhances its long-term development potential.
3. The scope for negotiating improvements in the availability and structure of industrial finance can be improved by developing a regionally co-ordinated African position on this issue. African bargaining power in the area of international finance has remained modest because African countries have been forced to deal in a bilateral framework. Arguments do exist in favour of removing the strongly discriminatory tendencies against SSA which have significantly weakened access to international finance. They are likely to receive a better hearing if they are presented as a part of a coherent strategy of industrial rehabilitation and investment integration at the regional level.

Industrial Planning

1. Industrial planning has remained a relatively underdeveloped art in most SSA countries. In particular there is a need to reduce the emphasis

currently put on the availability of foreign finance as a determining precondition of project selection. Instead project selection should reflect an application of the rehabilitation criteria outlined above. In particular, stress should be placed on increasing the vertical integration of industry and increasing its linkages with the agricultural sector.

2. Project initiation should be co-ordinated and monitored on a national scale to assess the collective impact of industrial projects of foreign exchange and other resource requirements.
3. Adequate attention should be placed on demand management. A lack of demand has been an important factor constraining industrial growth in Africa. An economic strategy which promotes an equitable distribution of income can stimulate industrial demand and can create scope for developing a broader and more integrated range of industrial activities.
4. Industrial planning has involved both domestic and international decision makers. The report has shown that the latter have often played a dominant role, particularly in questions related to the distribution of industrial finance. Both groups must share the responsibility of Africa's current economic difficulties and participate in the development of a viable industrial strategy. This requires the emergence of an international concensus on the concept of industrial rehabilitation as applicable in the case of Africa. It also requires a co-ordinated monitoring of changes in the international financial system and of efforts being made to modify this system to meet Africa's needs. Domestic policy adjustment can only succeed if complemented by changes in the structure of international financial relations.
5. A particularly important example of the relationship between domestic and foreign financial policy is the obligation of African governments to meet debts obligations for the foreign exchange earnings of successful industrial projects. Without a 'cording off' of new viable industrial projects - i.e. exempting them from surrendering their foreign exchange earnings - industrial rehabilitation is simply impossible.

6. The 'cordonning off' of new projects for a specified time period should be supplemented by a careful monitoring of the overall foreign exchange costs (and benefits) of sustaining industrial development. Such a monitoring will ensure that opportunities for both saving and earning foreign exchange are pursued and adjustments are made in procurement, operational and sales policies of specific projects to reduce unnecessary foreign exchange costs on a continuous basis.

Project development and re-organization

1. The report emphasises the need to improve the processes of project preparation and selection. Often preinvestment studies are undertaken by parties which have an investment stake. This has led to grave - often unrectifiable - mistakes. Feasibility and pre-investment activities should as far as possible be conducted by neutral agencies. Clearly UNIDO can play an important role in this respect.
2. There is also a need to improve contracts negotiation. An effort must be made to reduce the liability of African governments in the case of delivery hold-ups and construction delays. UN agencies can play an important role in improving African negotiating capacity. Regional co-ordination can also prove highly beneficial in this respect.
3. The report has found that equipment supplies to African projects have often been sub-standard. A co-ordinated technology acquisition and procurement policy based upon relevant market information should be given high priority by African governments.
4. African governments and international agencies have rarely undertaken project appraisal on a systematic basis. This neglect has also entailed high economic costs. Project monitoring on a continuous basis is an important need, particularly in view of rapidly changing international price structures.
5. Finally, there is also a need to improve management performance - although the report did not find any evidence for the general decline in this respect. Nevertheless an improvement of management services can make a significant contribution to project rehabilitation in Africa.

On the basis of these recommendations it is not easy to generalise regarding branches. Nevertheless it seems the accent should be oriented towards metalworking activities, and that for three main reasons. First, repair and maintenance efforts are indispensable for retention of capital stock and thus productive capacity of the system. Second, the learning and further development of industrial experience are best promoted through these industries. Third, SME tend to be prominent in metalworking and the branch thus offers an excellent means for tighter linkage of public and private sector activities.

To emphasise metalworking does not deny that other areas may be equally promising in some cases, and that certainly the further processing of locally available raw materials has much to be said for it. Nevertheless the essential skill which requires local mastery is the ability to maintain the stock of productive instruments - that must be supported whatever the output of consumer goods may be.

Within projects it must be recognized that feasibility studies have a damning record of over-optimism in regard to construction and production possibilities. The constant and substantial cost over-runs have regularly added to the project burdens for African industry even where responsibility for them rightfully belonged elsewhere. Unless guarantee clauses for this type of problem can be successfully enforced, rejection of projects (and rehabilitation schemes) will have to become more frequent. Actual management obviously can always be improved and there is certainly a need to improve accountability of public sector managers. Governments should take steps to strengthen this aspect of public enterprise performance.

None of what has been said will be of use unless there is a genuine political will to create strength from crisis. When, some years ago, the international environment was much more benign than it is today, insufficient advantage was taken of the possibilities then available. Now the continent is faced with a challenge of responding to adversity - the only assurance is that if it does not do so, developments elsewhere will yield still more adverse results.

STATISTICAL ANNEX

Qualitative overview of the performance of some industrial projects in SSA

<u>Performance</u>	<u>Prefeasibility study</u>	<u>Contract negotiation</u>	<u>Operation</u>	<u>Management</u>
			Raw mat.	Technical Output aspects

Gabon

Sugar Factory

+			X	X
0	X			
-				

Initially, sugar plantation/plant were both operated and owned by j.v.; the State was later made the full owner of plant and plantation which presumably means that it is also fully responsible in case things go seriously wrong.

Initial plans unrealistic; project reduced to half size.

Société des ciments

+				
0				
-	X(?)			X

Uses local inputs; initial plans based on peak demand for cement in 1978/79; now produces at ca. 40 per cent of capacity.

Plans exist to use surplus cement for production of tiles etc.

Somifer - mines (not implemented)

+	X(?)			
0				
-				

Exploiting the large reserves of high grade iron ore would require completion of the Transgabonais railway for which the international organizations involved have refused to make new funds available.

Sogaferro - basic metals (project not implemented)

+				
0				
-	X(?)			

Transgabonais problem (see Somifer)

This project is waiting for (the completion of) a 50 billion FCFA hydropower project to provide energy.

<u>Performance</u>	<u>Prefeasibility study</u>	<u>Contract negotiation</u>	<u>Operation</u> Raw mat.	<u>Technical aspects</u>	<u>Output</u>	<u>Management</u>
--------------------	-----------------------------	-----------------------------	------------------------------	--------------------------	---------------	-------------------

Agrogabon

+						
0	X					
-			X			

Planned as an integrated agro-industry, but plantations etc. to provide it with resources have only been completed partly.
Crude palm oil produced here cannot be used by existing refinery.

Petrol refineries

+						
0				X	X	
-	X					

Overcapacity

Other countries in the region have become competitors.
Downstream projects never realized.

Sogacell (paper pulp ?)

+						
0						
-	X					

"Stillborn" - no funds available for roads, water and electricity supply.
Only minor parts of the project (dating back to 1969) had been realized when it was given up in 1983.

Ghana (Sectorial characteristics)

Food processing

+						
0						
-			X	X	X	X

Some well-managed projects produce at abysmally low levels due to lack of raw materials.

Vegetable oils and fats

+						
0						
-			X	X	X	

Some plants are badly located in relation to raw material supply.
Growing small-scale soap industry.

<u>Performance</u>	<u>Prefeasibility study</u>	<u>Contract negotiation</u>	<u>Operation</u>			<u>Management</u>
			<u>Raw mat.</u>	<u>Technical aspects</u>	<u>Output</u>	

Beverages

+						
0				X		X
-			X			

Many small-scale traditional distilleries operate successfully, but product quality is variable.

Tobacco

+						X
0					X	
-			X	X		

Excess demand.

Animal feed

+						
0						X
-			X	X	X	

Transport problems.
Excess demand.

Wood processing

+						
0						X
-			X	X	X	

Infrastruct~~ure~~ problems.

Rubber products

+						
0						X
-			X	X	X	X

Upgrading of rubber plantations and smallholder rubber production very badly needed.

Infrastructural problems.

<u>Performance</u>	<u>Prefeasibility study</u>	<u>Contract negotiation</u>	<u>Operation</u>			<u>Management</u>
			<u>Raw mat.</u>	<u>Technical aspects</u>	<u>Output</u>	

Textiles

-	+					
	0					
	-		X	X	X	X

Raw cotton production very low as consequence of low prices.
 Training methods of staff inappropriate.
 Government has not exploited export opportunities.

Non-metallic materials

	+					
	0		X			
	-			X	X	X

Infrastructural problems.
 Low demand caused by economic downturn.

Metal and engineering

	+					
	0					
	-		X	X	X	X

Product range of some projects not suited for local market.
 Some basically sound projects with reasonable management cannot meet demand because inputs are unavailable.

Nigeria

Delta Steel Plant (not operational yet)

	+	X				
	0					
	-					

Indian/Nigerian joint venture.
 Indian consultant (much expertise in developing countries) considerably improved earlier German/Austrian plans.
 Foreign partner is in virtual control of everything.

<u>Performance</u>	<u>Prefeasibility study</u>	<u>Contract negotiation</u>	<u>Operation</u>			<u>Management</u>
			<u>Raw mat.</u>	<u>Technical aspects</u>	<u>Output</u>	

Machine Tools Co.

+						
0	X(?)	X(?)	X(?)		X(?)	
-	X(?)	X(?)				

Indian/Nigerian joint venture.

Indian partner highly experienced in Third World.

"Pioneer machine tool factory likely to be one of the most modern machine tool plants in the world".

Feasibility study carried out by Indian partner.

Apparently reasonably well-run but completely dependent on imports.

World Bank: "no doubt, demand will grow".

"prospects somewhat better than marginal".

Textile industry - general

+						
0						
-			X	X		X

Huge imports of inputs.

Low productivity.

Cement - general

+			X			X
0						X
-				X		

20 per cent import duty on cement protects the market; high operating costs, scope for expansion.

Unspecified vehicle assembly plants

+						
0						
-			X	X		X

Problems: securing imports of inputs.

Kwara State metal products plants

+						
0						
-			X	X		X

Suffer from power cuts, shortage of inputs.

<u>Performance</u>	<u>Prefeasibility study</u>	<u>Contract negotiation</u>	<u>Raw mat.</u>	<u>Operation Technical aspects</u>	<u>Output</u>	<u>Management</u>
--------------------	-----------------------------	-----------------------------	-----------------	------------------------------------	---------------	-------------------

Hydroelectric Power Plant

+						
0	X		X	X	X	
-						

Regional politics partly determined the type of power generation and the location.

Insufficient water supply downstream as a consequence of this project.

Paper Mills

+						
0						
-	X	X	X			

So far, the cost of these as yet largely inoperative projects has doubled. Insufficient attention to forest reserves, local infrastructure, related services.

World Bank has made a rather optimistic projection of national demand growth in the near future to partly justify rehabilitation; in the long-term, the project presumably will save foreign exchange.

Nigeria/Benin - Onigobolo Cement Factory

+						
0						
-	X	X	X	X	X	

Infrastructure incomplete.

Inexperienced Beninese and Nigerian partners fared badly with Danish technical partners.

Senegal

Société Sénégalaise de Scierie

+						
0	X(?)					
-			X		X	X

"Ambitious project" which operated efficiently at the start.

Bankrupt after 3 years.

Export restrictions on Ivory Coast wood supplies.

30 per cent of available inputs wasted in production.

<u>Performance</u>	<u>Prefeasibility study</u>	<u>Contract negotiation</u>	<u>Operation</u>			<u>Management</u>
			<u>Raw mat.</u>	<u>Technical aspects</u>	<u>Output</u>	

Fresh and tinned fish

+						
0						
-	X					X

"Short-term borrowed capital used to finance long-term needs".
Well-established small firm before expansion: bankrupt 2 years after expansion.

Printing works

+	X(?)		X	X	X
0					
-					

Manager's "know how was transferred to him by his father" - printing a family tradition.
Main debtor: Government.

Paper products factory

+				X	X
0		X			
-					

Well-managed, successful small firm, but profits are eroded by high cost of imported inputs.

State-owned drilling company

+					
0					
-	X(?)		X	X	X

Company bought two unsuitable trawlers for fish transport with disastrous financial results.
Parallel story: state firm fishing company.

Dry cell battery factory

+					
0					
-	X	X(?)	X	X	X

"Inferior quality product which could not be marketed domestically despite ... 100 per cent state protection".

Excess capacity was installed wherever possible: "several factories within one factory".

Factory has been reorganized in 1981 and had a high turnover and good prospects in that year (no recent data).

<u>Performance</u>	<u>Prefeasibility study</u>	<u>Contract negotiation</u>	<u>Operation</u>			<u>Management</u>
			Raw mat.	Technical aspects	Output	

Foam rubber factory Sierra Leone

+	X(?)				X	
0						
-						

Successful enterprise supplying domestic market some export; Operation stopped in 1983 after fire.

Soap and plastic bags factory

+					X(?)	X(?)
0						
-						

Successful, although profits lower than planned.
Extension of existing factory.

Ice cream

+						
0						
-		(X) (initially)		X		X

Expansion of existing company.

Rice milling

+		X(?)			X(?)	X(?)
0			X			
-						

Spare parts problem.
High operation costs.
Expansion of existing small firm.

Printing works

+						X(?)
0		X		X		
-						

Foreign exchange scarcity major problems in acquiring inputs; has operated quite profitably.

<u>Performance</u>	<u>Prefeasibility</u> <u>study</u>	<u>Contract</u> <u>negotiation</u>	<u>Operation</u>			<u>Management</u>
			Raw mat.	Technical aspects	Output	

Jute bags

+						
0						
-			X	X	X	

Output initially 2.3 per cent of planned output.
 Foreign exchange problems input problem.
 Attempts to produce jute domestically failed.
 "... equipment in a irrecoverable state of rust".

Fruit processing

+						
0						
-	X(?)				X	X

Low-quality product, totally incompetent; closed down.

Fish meal/oil

+						
0						
-			X	X	X	X

Run by expatriates (exception in Sierre Leone sample).
 Inadequate trawlers - inadequate catch; inadequate marketing.
 Closed down.

Carbondioxide etc. plant

+	X					X
0						
-			X	X	X	

Predominantly foreign-owned.
 Replaced obsolete plant.
 Initial plan rejected by ADB, revised appraisal report accepted.
 Foreign exchange problems lack of inputs.
 Deterioration export market.

<u>Performance</u>	<u>Prefeasibility study</u>	<u>Contract negotiation</u>	<u>Operation</u>			<u>Management</u>
			Raw mat.	Technical aspects	Output	

Confectionery

+	X			X	X
0					
-		X			

Foreign exchange problems lack of inputs; good quality products which sell well

Zaire

Société textile de Kisangani*

+			X	X	X	X
0						
-		X				

Linkage effects: increased local cotton production, other inputs.
 Presidential project (improving stability in separatist region) - few problem in implementing and running the project.
 Large regional demand.
 Both machinery and personnel are exploited to the highest possible degree.
 Technical breakdown will be remedied by French development aid; large social breakdown is quite possible - no remedy is mentioned.
 No evidence of long-term planning.
 Plant totally controlled by French-Swiss parties in joint venture.
 *Zaire also acquired 30 complete high technology textile plants from the US: these have never produced an inch of cloth.

Minoterie de Natadi

+					X	X
0						
-		X				

Very favourable terms for the Northern partner in this "joint" venture; in effect, 90 per cent of the production cost of flour is subsidized by the Banque Nationale.
 Total control by Northern partner.

Cimenterie Nationale

+						
0						
-	X	X	X	X(?)	X	

Planned construction cost/real construction cost: 1/6.
 Critical assessment of project shelved by government.
 Not located near sufficient raw material resources.

<u>Performance</u>	<u>Prefeasibility</u> <u>study</u>	<u>Contract</u> <u>negotiation</u>	<u>Operation</u>			<u>Management</u>
			Raw mat.	Technical aspects	Output	

Zimbabwe
Chewing gum factory

+		X		X	X	X
0			X			
-						

partly export oriented; export market share more or less guaranteed by Danish parent company.
Production/export could be higher if foreign exchange restrictions (imports of raw materials) were relaxed.
Danish company may be expected to pull out in case of growing political instability.

Sources: Benin/Nigeria: O. Akin Abudifa, "The Onigbolo Cement Story, or how to snatch defeat from the jaws of victory", mimeoed 1982.

Gabon - material supplied by Universite Paris X (1985).

Ghana - down from World Bank studies of industrial branches (1985).

Nigeria -

Senegal - assessments made by ADB (1984).

Sierra Leone - assessment made by ADB (1984).

Zaire - material supplied by Universite Paris X (1985).

Zimbabwe - from Roger Riddell, "Foreign Investment in Zimbabwe". mimeoed, June 1984.

Notes: The performance indicators are: '+' to signify good, '0' to signify moderate or satisfactory, '-' to signify poor. The indicators are qualitative, assigned on the basis of the remarks made in the primary source material. 'X' indicates that the performance indicator labelling that row is relevant for the project dimension shown in the column heading. Empty columns mean that no information was available for that item i.e. no reference was made to that aspect of performance in the documents.

BIBLIOGRAPHY

Studies

<u>Author</u>	<u>Title</u>
African Development Bank	Policy and Operational Guidelines for the Industrial Sector Appraisal Report CIMA0 (1976) Annual Report 1984 Exchange Rates and the Management of the External Sector in Sub-Saharan Africa (1984) Post-Evaluation Report on ADB Lines of Credit to the National Development Bank of Sierra Leone (1985) Post-Evaluation Report on the First and Second Lines of Credit to the Development Bank of Zambia (1984) Four other Reports of same type covering Kenya and Tanzania (1982), Liberia and Senegal (1982), Madagascar (1985), and an Appraisal Report covering Morocco (1981) Assessment of Export Credit Guarantee and Insurance Schemes (undated)
O. Akin Adubifa	The Onigbolo Cement Story (1982)
Asobie, H.	The Influence of Multinational Corporation on the Management of Public Enterprises in Nigeria (1983)
Casson, R.	Aid and Poverty Aid and Market Forces Measures to Improve Effectiveness (Draft chapters of forthcoming World Bank Study on Aid, 1985)
Collins, P.	The State and Industrial Capitalism in West Africa (1982)
Commonwealth Secretariat	The Debt Crisis and the World Economy (1984)
Crum, Kathie	Sub-Saharan External Debt (1985)
Economic Commission for Africa	Economic Report on Africa (1985) Foreign Exchange and Financial Leakages in Africa (1985)

Economic Commission
for Africa (cont'd)

Improving Management of African Economies: Some
Problematic Areas (1985)

Establishing the African Monetary Fund Progress
Report (1985)

The Balance of Payments Problems of developing Africa
- A Reassessment (Main document 1984 and Summary 1985)

Review and Appraisal of Economic Performance in
Africa 1980-1985 (1985)

The Crisis and Industrial Rehabilitation and
Revitalization E/ECA.CM.11/32 dated 29 March 1985

ECA and Africa's Development 1983-2008. A
preliminary perspective study, Addis Ababa 1983

Case studies in financial leakages in African
Economies (Sudan, Nigeria)

European Economic
Community

Une Image á Long Terme de l'Afrique au Sud du Sahara

Faber, M.,
Green, R.H. and
Harvey, C.

TNC-State Relations and Negotiations: Fiscal and
Financial Issues (1983)

Financial Times

World Bank C-Financing (1984)

Finaprice

Savings and Development (1984)

Fransman, M.

Industry and Accumulation in Africa (1982)

Gachuki
(1983)

Case Studies of the Negotiating Process in Kenya

Case Studies on Technology Development in Tanzanian
Manufacturing (1982)

Gulhati, R. and
Sekhar, U.

Industrial Strategy for Late Starters: The Experience
of Kenya, Tanzania and Zambia (1981)

Exchange Rate Policies in Eastern and Southern Africa
(1985)

Griffith Jones, S
and Green, R.H.

African External Debt and Development: A Review
A Review and Analysis (1984)

Helleiner, G.K.

Direct Foreign Investment and Manufacturing for
Export: A Review of the Issues (1984)

Aid & Liquidity: The Neglect of Sub-Saharan Africa
and others of the poorest in the emerging
international monetary system: Journal of
Development Planning No. 15. 1985. p.67

- Institute of Development Studies Accelerated Development in Sub-Saharan Africa: What Agendas for Action (1983)
- International Monetary Fund Report on Export Credit Cover Policies and Payments Difficulties (1984)
- Killick, T. IMF and Africa
- Kirkpatrick, C. and Nixson, F. Industrialization of the Less Developed Countries (1984)
- Lucas, Chester The Fine Art of Project Management (1985)
- Monek, A. Follow-Up of Pre-Investment Studies and Joint Venture Projects in Kenya, Swaziland, United Republic of Tanzania and Zambia (1985)
- NACLA Debt: Latin America Hangs in the Balance (1985)
- Nambudiri, C. Public Enterprise Joint Ventures: Nigeria, A Country Study (1983)
- New African Eurobankers Back Off as Africa's Debts Mount (1982)
- New Statesman Helping Africa to Go Hungry (1985)
- North-South Institute Canadian Development Assistance to Tanzania (1983)
- Nunnenkamp, P. Bank Lending to Developing Countries and Possible Solutions to International Debt Problems (1985)
- O'Brien, P. Relations between TNC and Public Enterprises in Developing Countries (1983)
- Development Strategy and Technological Transformation in Tanzania: The Limits to Self Reliance (1981)
- Onitiri, H. et.al. Preliminary Draft Report of the Expert Group on Complimentary Industrial Financing (Annex X of the Second Lomé Convention), undated
- Page, Sheila The Prospects for Direct Investment by UK Companies in Developing Countries (1985)
- Pegatienan Hiey, J. L'Impact des Politiques Implicites sur L'Acquisition et L'Utilisation de la Technologie dans L'Industrie Manufacturière de la Cote D'Ivoire (1983)
- Riddell, Roger C. Zimbabwe's Experience of Foreign Investment Policy (1984)
- Rweyemamu, N. Comparison of export-oriented industrial opportunities in Kenya and Tanzania

- 'Sesan Ayodele, A. The Choice of Kainji Dam Technology and its Optimality/Sub-optimality (1982)
- Singh, A. The Structural Disequilibrium of the Tanzanian Economy: The Strategic Significance of Industry in Short and Long Term Adjustment (1983)
- Steel, W. and Evans, J. Industrialization in Sub-Saharan Africa (1984)
- Taylor, Alwyn The Debt Service of Africa in the 1980s (1984)
- The Economist Hung Up on a Peg (1985)
- Tshilumbayi, N. Technologie Non Appropriée Faite de Ressources dans les Economies Africaines: Le Cas du Zaïre (1983)
- UNIDO CIMA0 Comprehensive Evaluation Study (1985)
- Vasant Moharir Kenana Sugar Company of the Sudan: A Case Study of a Joint Industrial Venture in a Developing Country (1983)
- Wangwe, S. Industrial Development Strategies for Africa: Is Outward Looking Industrialization Viable?
- Westlake, Melvyn Debt Drama on a Low Budget (South, 1985)
- Windsor, Kenneth The Use of Mixed Credits in the United Kingdom for the Financing of Industrial Training and Infrastructure (1984)
- Wood, R. The Aid Regime and International Debt: Crisis and Structural Adjustment (1985)
- Woldu, Michael IMF Conditionality and some African experiences (1984)
- World Bank Accelerated Development in Sub-Saharan Africa (1981)
- Towards Sustained Development in Sub-Saharan Africa (1981)
- Nigeria: Review of Public Sector Pulp and Paper Project (1983)
- Capital Accumulation in Eastern and Southern Africa: A Decade of Setbacks (1983)
- The Benefits and Costs of Official Export Credit Programmes of Industrial Countries (1984)
- Nigeria: The Industrial Incentives System (1983)
- Nigeria: Review of the Cement Industry (1983)
- Nigeria: Review of the Engineering Industries (1983)

- World Bank (Cont'd) Nigeria: Textile Sector Review
- Structural Adjustment Loan to the Ivory Coast (1981)
- Ghana: Rehabilitation of Key Industrial Subsectors (1985)
- Strategy for Industrial Recovery in Ghana (1985)
- Import Programme for Industry (1985)
- Incentives, Efficiency and Comparative Advantage in Ghanaian Manufacturing (1985)
- Ghana, Agro-Industry Subsector (1985)
- Ghana, Wood Processing Subsector (1985)
- Ghana, Textile and Garment Subsector (1985)
- Ghana, Metals/Engineering and non-metallic Minerals Subsector
- Ghana, Rubber, Plastics and Pharmaceuticals Subsector (1985)
- Second Structural Adjustment Loan to the Ivory Coast (1983)

Statistical Sources

- Bank for International Settlements International Banking Developments, Fourth Quarter 1984 (April 1985)
- Statistics on External Indebtedness Bank and Trade-Related Non-Bank External Claims on Industrial Borrowing Countries and Territories end June 1984 (1985)
- Bulletin de l'Afrique Les Ressources Financières Extérieures de 1978 à 1981 des Etats de L'Afrique Noire Francophone
- UNCTAD Handbook of International Trade and Development Statistics, 1984
- UNIDO Handbook of Industrial Statistics, 1984
- African Industrial Imports (mimeo, 1985)
- Africa in Figures (1985)
- World Bank World Debt Tables, 1984-85

Documents

Cable, V.

Overview of opportunities in Africa

Currie, Jean

Comparison of export-oriented industrialization
opportunities in Ghana, Mauritius and Senegal (1985)