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INTRODUCTORY REPORT ON STRATEGIC MANAGEMENT OF THE ADJUSTMENT PROCESS IN THE INDUSTRIAL SECTOR IN AFRICA*

by

UNIDO Secretariat

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INTRODUCTION

Since the end of the 1970s, the majority of African countries have witnessed an ever--increasing aggravation of the internal and external imbalances affecting their economies.

These developments, connected with the structural characteristics of the African economies, have mainly been triggered off by disturbing factors of external origin such as: the reduction of activity and imports in the developed countries, the reduction of capital flows, the evolution of the terms of trade unfavorable to Africa, the increase in real interest rates, drought in some countries etc. Instead of considering these external shocks as evolutions with lasting consequences for their economies, many African countries have pursued policies which implicitly considered these shocks as temporary, such as could be countered by transitional solutions (loans, increased public intervention, etc...[1].

This inadequate approach, combined with the persistent rigidities and constraints of national economic systems, and the absence of any marked improvement in the international environment and in cooperation at the international level, led to many of these countries to being obliged to embark on rigorous policies to restore economic and financial balance, in most cases with support from international institutions, and in particular the I.M.F. and the World Bank. This process has led some thirty African countries successively to initiate since the beginning of the 1980s, policies and programmes of structural adjustment and/or policies of stabilization which profoundly affect their economic and social structures.

The necessity of in--depth adjustment to the new national or international economic conditions is today an acknowledged requirement.

On the other hand, the approach and the modus operandi of the process of adjustment can differ, and take into account in different ways the African reality, its imperatives, and the concerns of the governments of the Continent.

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[1] We do not, for all that, underestimate the difficulty of assessing, in good time and at their real value, the effects of changes affecting the economy and its environment nor the --often long -- delays with which governments can react to the changes.

These governments -- as well as the civil service and economic circles -- have often been hesitant or reticent in their opinions of policies which were strongly recommended by the financial backers, but which did not seem to them totally to meet their constraints and their concerns.

Nor did the economic evolution recorded after the application of these -- often painful -- therapies give unequivocal satisfaction, except in the lessening of macro-economic imbalances. There are widely divergent interpretations of the significance of these developments and the results of the processes applied. Much remains to be done and it is often too early to draw conclusions.

The fact is that the persistence of economic and financial imbalances, the maintenance of unfavorable international factors and the inadequate performances in terms of growth have highlighted the limits of the global policies of adjustment as they were initially conceived. They have also shown the risks of social tension and of the drift into depression that they involved. This is why the African countries, the United Nations system, and the international financial institutions concerned have begun not only to emphasize the necessity of making the economic and social partners more aware of the action of redressement and to associate them with it to a greater degree, but also to reflect on the ways and means to lighten the social burden of adjustment and to link them more effectively to concrete actions of development, in particular at the level of the productive sectors. Thus the newer programmes are now more oriented to the search for balanced growth.

It was with this in mind that the African Planning and Development Ministers, and the Finance Ministers, meeting in the framework of the Economic Commission for Africa, recently adopted[1] an overall framework and a joint approach defining a strategy intended simultaneously to address the necessary global economic adjustment and the factors that would make it possible to create better conditions of economic and social development. This approach to the re--assessment of the process of adjustment, received the support of the General Assembly of the United Nations in its forty--third session[2]. Referring to the same context, the African Ministers of Industry,

1 African Alternative Framework to Structural Adjustment Programmes for Socio--Economic Recovery and Transformation (AAF--SAP) Adis Abeba 10 April 1989. Ref. E/ECA/CM 15/6/REV

2 Mid--term review of the United Nations Action Programme for the Economic Recovery and Development of Africa.

meeting in their ninth session in May 1989, called for a second Decade of Industrial Development for Africa on renewed bases and with intensified efforts, capable of making industry into a driving force for growth and a factor of structural transformation of African economies[1].

So it has become evident both to the African countries and to the international community that the strategies of stabilization, the spirit of which has so far dominated the global reforms, should be completed, if not replaced, by strategies of development more linked to the structural constraints of the African economies. This necessity seems particularly evident for the industrial sector.

Although it is not central to the concerns of global adjustment policies, the spirit and objectives of which are essentially macro--economic, the industrial sector is of necessity deeply involved in the different reforms undertaken, of which certain aspects are of direct concern to it. In particular, two "idees--forces" dominate the industrial aspect of the policies of adjustment as applied: more competition should be permitted, and firms should be given much more freedom in their initiatives.

All in all, the global policies of adjustment and the processes applied in order to implement them have created a new economic context, with new rules of the game, new requirements and new relations between those involved in the industrial system. This new deal raises a major question: are industrial firms and promoters going to adapt and adjust to this new context, and if so, under what conditions?

The question is all the more crucial since it includes two important components: first of all, do the present characteristics of African industry give it the means to adjust spontaneously? Secondly, does not the international context, particularly in its key aspects connected with markets, technology and financing, make any spontaneous adjustment even more difficult?

These are the questions addressed by the Workshop organized by U.N.I.D.O. Its purpose is to analyse the process of adjustment of industry as it is experienced in Africa, and to explore the possibilities of making it more effective by an approach of strategic management. This approach should make

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[1] Resolution 1(C)(IX). Report of the ninth meeting of the Conference of African Industry Ministers. 13 June 1989. Ref: cami 9/22/REV 1.

it possible to arrive at a better targeted, a more operational and more efficient approach to industrial development.

This report is based on preliminary work that covered:

- Seven country case studies[1] the purpose of which is to examine the conditions under which the process of adjustment took place where the industrial sector was concerned. In particular, the studies seek to identify the way in which the process of adjustment is perceived by the protagonists in the industrial system (the State, the agents in the industrial environment, and the industrial firms) and what were the behaviours and relations they developed
- Two sectoral studies which cover the two most important activities of African industry: agro-industries and textiles. Their purpose is to examine the process of adjustment at the sub-sector level, apprehended on the African scale
- Four thematic studies, the purpose of the first of which is to describe the general lines of the macroeconomic context of the process of adjustment of the industrial sector in Africa, while the other three aim at analysing the role and the influence, in the process of adjustment of the industrial sector, of three functions basic for industrial activities, which are closely connected with the international context: finance, commerce and technology.

Starting from this information, the introductory report attempts first to gather and arrange the facts, then to state the problems, and to open up approaches for reflection and discussion. To this end, it is divided in three parts:

- The first presents a picture of African industry, its evolutions, its characteristics and the context in which it has developed (Chapter I).
- The second, by stating the problem of the process of adjustment of the industrial sector and of the conditions in which it has been applied, concentrates on drawing some conclusions and putting questions, starting from the experience of the process (Chapter II).
- The third describes the strategic management approach which, aims at a purposeful mobilization and organization of resources and agents on the

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[1] The case studies refer to. Ghana, Ivory Coast, Kenya, Nigeria, Morocco, Senegal and Zaïre.

targeted objectives of industrial development, thus opening the way to a more effective process of adjustment of the industrial sector (Chapter III).

The aim of this report is to start off the debate, since the purpose of the Workshop is to stimulate the greatest possible contribution from participants: first of all the African countries, who have directly experienced all this through their administrators and their industrialists, and then the African regional and international institutions which have contributed to the process and have been attentive observers. Based on all these contributions, on the ensuing debates, and on the lessons and conclusions that may be drawn by the Workshop, a Final Report will be prepared by U.N.I.D.O. It should result in a vision, as pertinent as possible, of the process of adjustment of the industrial sector, of its requirements, and of the support which a strategic management approach could contribute to it.

U.N.I.D.O., which took the initiative for this meeting, also expects it to provide encouragement to U.N.I.D.O. to pursue its action of helping to formulate and carry out effective strategies of industrial development, adapted to the present realities and ambitions of African industrial economies.

The limitations of the present report must be borne in mind. The diversity of African experiences of industrial development, as well as of the adjustment programmes, restricts the validity of any global analysis which inevitably ignores particular cases. And the analysis itself is difficult. The lessons to be drawn from the impact of global adjustment policies are at present neither obvious nor final. Information is spotty and lacks precision, statistics often of poor quality: analysis and conclusions must therefore be carefully qualified.

To launch the debate, it has however proved necessary to simplify and generalize, to put forward provisional conclusions meant in the first place to feed the discussion[1].

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[1] The present report has been drafted by Mister K. Abdallah-Khodja, consultant, with the collaboration and remarks from a group a consultants including MM. J. de Bandt, J.J. Deveaud, A. Hewitt, F. Khoury et D. Weiserbs. Mr. A. Kervyn de Lettenhove has also supplied comments. M. J. de Bandt has contributed to the part on strategic management.

CHAPTER I
THE INDUSTRIAL SECTOR IN AFRICA AND ITS CONTEXT

A. THE EVOLUTION OF THE INDUSTRIAL SECTOR

A.1. The formation of the industrial sector in Africa

For the African continent as a whole, industrialization began to make an impact in the years following independence, i.e. essentially during the 1960s. But with the exception of some scattered examples of primary processing necessary for the export of raw materials, Africa was, at that time, already lagging behind other developing regions of the world.

From the beginning of the 1960s, almost all the African countries showed a marked, and often a priority interest, in industrialization in their development action. Whatever their economic strategy options, governments chose a very strong State intervention, and in the majority of countries, the State became the major industrial investor.

This State effort, accompanied, according to the country, by a greater or lesser contribution from private, essentially foreign, investment, was pursued up to the second half of the 1970s.

During this period of fifteen to twenty years, the strategy applied - not always explicitly - combined two orientations:

- promoting import substitution;
- promoting the processing of raw materials, existing or to be developed.

The first orientation was in particular evident in the food industry, drinks in particular, the processing of cereals, tobacco, in the clothing and shoe industries, the simple chemical industries (hygienic products, plastic products, mixing of products such as paints, industrial gases, etc.), some metallic products (domestic hardware) and the production of some intermediate goods (including cement). In some countries, mechanical or electrical assembly was also set up.

The second direction very soon joined up with the first when it led to setting up processing activities in the food (oil industries, sugar factories, etc.) or textile industries. It was more export oriented in fields such as the processing of fruit and vegetables, the wood industry, of the first stage of mineral processing (ores, for instance, or hydrocarbons).

In short, import substitution was the main driving force in industrialization, either from local resources, or from imported raw materials or semi-products.

All in all, the process of transformation never went very far. In the field of local resources only part of African primary productions were concerned, and the processes were often limited to the first stages of transformation. The wood industry is an example where, in spite of constant pressure from governments, transformation was essentially confined to sawing. When import substitution called on imported products, the processes were equally limited and involved only the last stages of manufacture: mixing, assembly, packaging, etc.

The State played an important role in the creation of this industrial potential. It acted as promoter in the major projects of transformation of raw materials and some highly capital-intensive industries (cement, embryonic metal fabricating in some countries, etc.).

During this period, of 15 or 20 years according to the country, African industry took the shape that can be still recognized today. After the end of the 1970s, there have been few extensions of activities, and African industry has entered into a period of crisis from which is has still not emerged today.

A.2. The results of the industrialization efforts.

Recent history shows that Africa is the continent which has industrialized least, and its share has remained extremely modest. Its industrialization efforts have produced only limited results, far remote from the professions of faith by its leaders and from the objectives aimed at. These results can be analysed from two points of view: in terms of structure, and of performance.

A.2.1. The results in terms of structure

They express the insufficient industrialization of Africa and the marked inequalities which characterize the distribution of activities:

- *Weak development of industrial activities*

In thirty three African countries, manufacturing value added (MVA) accounts for less than 10 % of gross domestic product[1], and among them are large countries like Zaïre where today it hardly exceeds 1 %. In one country only, Zimbabwe, does the industrial sector account for a significant share of GDP, exceeding 20 %.

In 1985, per capita MVA for Africa as a whole was less than $60 US, and fell to half that figure if North Africa was excluded[2]. By way of comparison, the figure for Latin America was about $450, the figure for Western Europe exceeded $2,500, and the world average was nearly $700. So it is not surprising that Africa's share in world industry is very modest, with less than 1 % in 1985[3] out of a total of nearly 13 % for all developing countries. This African share has remained the same since 1975, the year in which the Lima Conference announced its ambition of redeploying world industry to the benefit of developing regions, with an objective of 2.5 % for Africa in the year 2000.

- *An imbalanced industrial structure*

African industrial development has been concentrated on some branches and types of industries.

Light industries were dominant, often involving a short process of transformation, and generally producing consumer goods.

This is why two sub-sectors today represent the bulk of African industry: food processing and textiles which, between them, represent between 50 and 60 % of MVA in the great majority of African countries[4].

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[1] See Table I

[2] See Table III.

[3] Africa in Figures - O.N.U.D.I. 1988. Ref: PPD 95.

[4] Africa in Figures - U.N.I.D.O. 1988. Ref: PPD 95.

There are some exceptions to this structure, for instance in Algeria, Nigeria, Zimbabwe.

Among the food industries, drinks often occupy a predominant place. In several countries, the textile industry is in first place, ahead of food processing: this is the case of Egypt, Madagascar, Angola, Niger and Mali.

Overall, production of non durable consumer goods most often represents more than 70 % of industrial output. The manufacture of durable consumer goods is rare, or limited to assembly activities.

Intermediate goods production is weakly developed, and essentially concerns building materials, wood, and in some countries metal products (corrugated iron, concrete reinforcement bars, etc.). In chemicals, activities are confined to final preparation.

Capital goods and durable consumer goods industries are practically absent, and the few examples that do exist are generally limited to assembly operations.

This imbalanced structure is not present in all the countries. From this point of view, we should single out North Africa (excluding Libya), Nigeria and Zimbabwe. In these countries, the industrial potential is clearly more diversified, and we find important chemical, metallurgical, mechanical and electrical industries, manufacturing semi-products and capital goods.

- Unequal geographical distribution

Within each country, industry is very unequally distributed. In the majority of cases, practically the whole of it is concentrated in a few towns, sometimes one or two: the capital and/or the main port.

Over Africa as a whole, the distribution of the industrial potential reveals considerable differences between North Africa (specific weight of industry, diversification of activities, etc.) and Africa south of the Sahara[1]. On the continental scale, ten or a dozen countries account for the bulk of African industry. More recently, three countries (Algeria, Egypt, Nigeria) represented between them more than 50 % of industrial value added in Africa. Immediately after

[1] See Table II.

them come six countries, headed by Morocco and followed by Libya (thanks to the refining of crude oil), Zimbabwe, Cameroon, the Ivory Coast and Tunisia, which have an industrial value added of between 800 million and 2 billion dollars. After them, we can pick out another group of five countries where average value added lies between 400 and 700 million dollars: Kenya, Ghana, Senegal, Sudan and Zambia. Two countries, whose economy is relatively limited, have a comparatively large industrial sectors: Mauritius and Swaziland. Conversely, there are countries with an extensive economic potential but with weak manufacturing sectors: Angola, Guinea, Madagascar, Mozambique and Zaïre. Finally, the rest of the African countries have, generally speaking, a small industrial sector in an economy that is still weakly developed (Somalia, Togo, for example) or centred on one or two basic products (Niger, for example).

An industry lacking in forward and backward linkages

After more than two decades of industrialization, the industrial systems of the African countries are, in general, characterized by extremely low degrees of integration. This means that input-output relations (domestic or regional) are few or, in many cases, non-existent.

These low degrees of integration appear both as result and as cause of the organizational weaknesses of African industry. They result from the way in which industrialization has been carried out, either through single projects or through direct foreign investments, in which the emphasis was on one particular unit of production or one particular stage of production - a long way upstream (first processing)or a long way downstream (import substitution) - i.e. quite independently of effective or potential inter-industrial linkages. Although in certain exceptional cases, attempts have been made to fill out the empty cells in an input-output table, and to intensify inter-industrial relations, results lagged far behind expectations. And it has often been the case that dissatisfaction with domestic suppliers- in terms of quality, delivery times, prices, etc. - has led industries to prefer imported supplies.

But these low degrees of integration are also a cause: how is one to organize relations that are rare, occasional or even non-existent?

The counterpart of this weakness of integration lies in the high degree of import dependence of African processing industry for their intermediate consumption of goods and services.

Low customs duties usually imposed on raw materials and semi-finished products, as well as currency over-valuation in some countries, have considerably enhanced that trend. Here the usual vicious circle can be seen at work: imports prevent the development of domestic supplies, and the absence of domestic supplies encourages imports.

It is important to note that this characteristic weakness of integration appears even in food processing and textiles, the most highly developed sectors, and those where the need and possibility of integration are more evident than elsewhere. But even in these cases, backward links remain underdeveloped, and these industries remain largely dependant on imports of intermediate products.

It is striking, particularly in the case of food processing that relations between agriculture and industry have remained totally inadequate. Both agriculture and industry have suffered severely as a consequence.

A.2.2. The results in terms of performance

There are several angles from which we can analyse the insufficient performance of African industry.

Insufficiently dynamic growth

The evolution in manufacturing value added suggest two important findings:

1- Weak long-term growth of African industrial activity. Between 1970 and 1985, the rate of growth in industry[1] was 4.8 % for Africa as a whole, whereas the decade 1970 - 1980 had been a period of strong industrial investment. Moreover, this average has little significance since it includes the high rate of growth of the oil-producing countries, and especially those with an important weight in the total, such as Algeria.

Between 1980 and 1987, value added of the industrial sector in Africa south of the Sahara increased from 14.5 to 16.1 billions of 1980 dollars[2], a rate of growth of 1.8 %. This shows Africa has not participated in the world upswing.

1 See Table II.

2 Global Report 1988 - 1989. UNIDO statistical data bank.

This situation of quasi-stagnation, or even of decline for certain countries, is the result of factors inside and outside Africa operating simultaneously.

Outside Africa, the drop in earnings from primary exports, on which the economies of the African countries are strongly dependent, contributed considerably to the decline of activity through both the deduction of domestic demand and import restrictions. Hence, the industrial decline of Africa is only one aspect of a more comprehensive phenomenon.

Inside Africa, the following are the important factors:

- the reduction in - and sometimes almost the disappearance of - new investments which could contribute new types of production or improvements in productivity;
- The degree of capacity utilization is low, far lower than elsewhere. This results from the set of constraints on industry which will be discussed below;
- The closing down of firms at a rate faster than generally applies in industrial life.
- The wearing down and ageing of plant.

2- The erratic short-term movements of industrial value added in some countries, which easily pass from negative to positive rates, and vice versa. Apart from statistical factors that may hide true movements, two main factors are behind these rapid changes.

- The sensitivity of an industrial sector highly dependant, for good or evil, on external factors. It has neither enough specific weight nor internal drive to have its own growth trend. The primary sectors, agriculture and sometimes mining, and the first transformation of their products, still determine industrial activity.
- The excessive importance attached to internal demand in the outlets of industry.

- The limited impact on development

The efforts to industrialize over two decades have had but limited effects on development and have failed to start up a true process of industrialization (in spite of a few exceptions). This can be looked at from different points of view:

1- The inadequacies and limits of the strategy of import substitution as it has been practised. It has led to a very weak integration of industrial activities which have remained dispersed with very little interconnection.

Fundamentally, these activities have in most cases been conceived as the last link in a process of production carried on outside the country, and in this way industry has been made strongly dependent on outside supplies, not only of capital goods, but also of spare parts, raw materials, intermediate products, packaging, technical and management services, etc. The low purchasing power of a broad stratum of urban, and especially of rural population, and the very high costs of industrial production, have limited industrial outlets to narrow social categories.

For all these reasons, this type of industry has proved failed to help broaden the internal market.

Neither has the strategy of import substitution encouraged the emergence of a class of national entrepreneurs, except in certain countries (North Africa, Zimbabwe, for example).

2- The weak impact of the large-scale projects which have dominated industrialization efforts. Apart from the costly support which they have sometimes needed, their development effects were limited in a number of respects:

- The satisfaction of Africa's local needs which remain largely dependent on imports, even in sectors such as textiles (for example in Cameroon, in spite of a strong textile industry).
- The promotion of the export of manufactures which has remained on an excessively modest scale.
- The promotion of an elite of technicians and managers, which remains a task still to be accomplished (with the exception of North Africa).
- The promotion of inter-industrial trade which has made little progress apart from some scattered examples in the food and textile industries. Overall, African agriculture is still linked more to international trade than to local industry, both for its needs and for the disposal of its products.

The processing of mineral and forestry resources is even more disappointing, except in some oil-producing countries.

Thus, despite of the importance accorded to them, the major projects have provided no solution. All the more so because they have generally been organized more as enclaves than as poles of development.

3- The absence of a process of industrial accumulation. This has become apparent both as regards capital, technology and markets.

The industrial surplus, when it exists, is not used for the development of the sector. In most cases, firms are not in a position to generate resources for investment either for extension, modernization or the establishment of new activities. They depend on resources accumulated outside the sector, or contributed from abroad.

At the technological level, the learning process remains extremely slow and spreads only with difficulty. It is extremely rare for imported techniques to lead to adaptations or innovations.

Concerning markets, learning of trade practices has not been sufficient for a cumulative know-how to develop.

This state of affairs has meant that industrialization has continued to consists of a multiplicity of isolated projects, none of them succeeding in setting off a real process of growth. So the sector itself has not experienced an effective take-off and industrialization efforts have led to a strong dependence on outside factors (capital, technology, technical skills, inputs, etc.) and consequently to African industry being extremely vulnerable to balance of payments difficulties. Crisis in this field have had damaging effects on existing industries, especially those dominated by import substitution (as, for example, in Benin, Ghana, Guinea, Madagascar and Mozambique).

- A lack of competitiveness

African industry is not sufficiently competitive and is generally incapable of standing up to international competition. Moreover, the data available on labour productivity suggest the situation is worsening.

Industrial value added per worker for the whole of Africa south of the Sahara, which was $11,255 in 1970, had fallen to $8,673 in 1985 (in constant 1980 dollars)[1]. Some countries have seen productivity per worker drop by more than 50 % between these two dates. This is the case for Benin, the Central African Republic, Ghana, Togo, Somalia, Tanzania and Zaïre. Between 1980 and 1985 twenty countries were affected by a drop in manufacturing productivity, including Tanzania, Ghana, Nigeria, Somalia and the Congo[2].

So not only have levels of productivity remained very low, but there have been no signs of improvement. A whole set of reasons, including the types of projects set up, explain that the learning process has failed, notably in technical mastery. With low productivity in relation to wages, competitiveness remains insufficient, in line with a process of development that has fallen far short of its hopes and ambitions.Further, industrial success depends not only on the control of production costs. It is increasingly dependant on the ability to penetrate markets which has become a hallmark of competitiveness. Product image and differentiation, ability to aim at a group of consumers, speed of reactions, sales strategies, all those are factors important in competition, and often sadly lacking in African firms.

B. THE IMPORTANCE OF STRUCTURAL CONSTRAINTS AND OF ORGANIZATIONAL DEFICIENCIES

The inadequate performances of African Industry are directly dependant on its severe structural constraints and organizational deficiencies.

B.1. In terms of markets for industrial products

As already noted, low purchasing power limits the size of local markets; growth and diversification remained weak as well.

The attempt to broaden markets to neighbouring countries found little official support and offered little relief. Few countries indeed can show significant industrial trade with their neighbours.

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1 Global Report, UNIDO, 1988-89.

2 To assess the proper significance of these figures, one must take into account the effect both of declines in production on labour productivity, because of employment rigidity, and of the fluctuation of the dollar.

Insufficient market size and low purchasing power would have called for an industrial strategy of cooperation, specialization and complementarity. The attempts to develop sub-regional trade have however had little impact because of lack of competitiveness and parallel developments.

More generally, the whole export structure failed, not only for competitive reasons but also because they lacked effective support and were not organized to reach foreign markets.

On domestic markets, firms in some branches have met competition from a growing number of informal units, working outside the law with low labour costs, that enable them to adjust their prices to the purchasing power of the masses, but of course at a lower level of quality.

Also porous African frontiers, together with the variety of fiscal laws and in some cases unrealistic exchange rates, have led to fraudulent trade, further limiting the markets of local producers.

On domestic markets, industry is often in a position of weakness as against trade. The social and sometimes political power of the trading community allows them to lay down the law, all the more so since they enjoy ample facilities to get around customs protection and to manipulate prices.

Other factors impinge as well. The widespread absence of norms (or the inability to manage them where they exist) splits domestic and regional markets. Potential economies of scale fail to appear, maintenance and supply services are affected. Further, the lack of effective quality control is detrimental to the regularity of production flows. Potential buyers often cannot obtain delivery in the quantity or according to the time-table agreed upon, or of constant and adequate quality. Exports can hardly develop on this basis.

Such factors have led to a fragility of markets, which Governments and firms tried to offset through tariff and non tariff protection, as the only means of securing the markets of industrial firms.

B.2. In terms of environmental factors

Any analysis shows that the conditions under which industrial firms operate are marked by inadequacies and deficiencies. The whole set of complementary and support functions are underdeveloped or indeed totally lacking. Thus:

1- Relations with the banks are poor and marked by deep misunderstandings. Needs are badly covered and access to credit is difficult, notably for African promoters. Firms are badly financed and fall back on short-term credits, worsening their structural constraints. On the other side, the banking system, mostly public, is collapsing under the weight of bad loans. As a result in some countries, facilities for long-term industrial credit have all but disappeared with the weakening of the development banks the Governments had set up mainly to finance industrial projects and compensate for the financial weakness of local promoters.

2- Domestic marketing also suffers from weak organization. Trading structures are often archaic, unreliable, lack after-sales facilities, and are generally ill adapted to distribute industrial products. Industries have sometimes had to organize their own network. Trading information flows poorly on the whole, and specially with respect to foreign trade. Both firms and consumers lack data on markets and their characteristics. Business relations with the outside are limited, save for the subsidiaries of foreign firms.

Institutions such as chambers of commerce and industry, set up here and there to promote foreign relations, have had limited impact, usually for lack of human and financial resources.

3- In the technological field, African firm suffer from several handicaps. There is no positive strategy for supporting domestic innovations. Problems arise in three fields: getting and using information, obtaining and mastering techniques, and generating innovations.

Capacity to use technical information is inadequate partly since the environment is specially poor in this respect. There are few agencies that can help acquire information, obtain, master and adapt technology. Little was done to encourage collaboration between industry and the scientific community.

Firms in fact are made aware of world technical evolution mostly through projects that bring African industrialists in touch with foreign centres (firms or consultant groups). They lack the previously acquired know-how to prepare the most useful contracts for the transfer and adaptation of technology.

Owing to the present speed of change, the gap between African and other firms is widening, all the more since plant has often been installed that was already out of date in its country of origin, and that, at high prices and without any consistent strategy.

Finally the changes in processes or products, often desirable for the home or regional markets,were never actively supported.

4- Services needed for the good working of industry are undeveloped in management, engineering, maintenance, consulting and information networks.

Plant maintenance is poorly organized and where firms realize its importance, it carries heavy costs for lack of supporting services.

5- Infrastructure (communication and telecommunication networks, water, industrial estates) are usually inadequate or in poor condition, hindering the setting up or working of industries, and the gap between availability and requirement is widening even further.

B.3. In terms of human resources

One tends to look upon African manpower as abundant and cheap. In fact skilled labour is scarce, at least in Africa south of the Sahara. Its average productivity is low and industrial wages are usually higher than in other developing countries. Incentive system are few. As a result, unit labour costs are much higher in Africa than elsewhere. Of course, training is often inadequate for industrial employment the world over, but the problem is far more acute in Africa where on-the-job learning cannot depend on a sufficient level of general education.

A number of countries have tried to organize professional training but it remains insufficient or ill adapted to the needs of industry. There are other gaps. Thus the only practical training in management and finance has often been in the civil service, with procedures and finalities quite different from those of industry.

The quality of scientific and technical training is also insufficient, sometimes declining, and usually ill fitted to the needs. In addition, scientific and high-level personnel are affected by the brain drain which reduces the effect of local efforts and increases the need for costly expatriates.

While African industry suffers from a general shortage of skilled and management personnel, the problem arises in different forms and with a different level of acuity. There are three typical situations:

- large national enterprises, mostly public;
- large or medium firms with significant or preponderant foreign participation;
- national SMEs.

Problems are usually most acute in the first group, mostly where they involve recent establishments (rather than old firms nationalized after independence). On the one hand, technical assistance contracts have sometimes been badly carried out, or too short to be effective. On the other hand, recruitment has not always paid enough attention to the quality of personnel and management: this may result either from political interference or from the norms of solidarity typical of African societies. Finally, if the need for expatriates was recognized to ensure the transfer of new technologies, other management functions were given less training attention. This applies particularly to finance and accounting, where purely routine procedures do not offer the management the tools of forecasting and control it needs. Human resources management is another example where the job of permanent training is often neglected or ineffective. In the work force, one often finds two under-qualified operatives instead of one skilled worker. The worst effects here concern the wear and tear of equipment, and the lack of quality or consistency in output.

National SMEs meet fewer problems in their traditional trades and sizes. Usually founded by skilled craftsmen, masters of their simple technologies and training their own apprentices, they operate without too much difficulty.

Their problems arise only when they go over at once to new industrial techniques or when success allows them to attain a larger size. The boss can then no longer perform all the management functions and must delegate and hire specialists. Investment, financial management, cost and return calculations,production and sales organization, then raise difficult problems.

B.4. In terms of the working regulations governing industry

By and large, the setting up of an appropriate framework of rules, institutions and procedures needed for the proper working of firms, has not accompanied the industrialization efforts.

Suffering from weak environment and structures, industrial development would have required both strong supporting services and a great freedom of action. Instead of which, regulations were, and still are, heavy, with complex, uncertain and costly procedures. More generally, relations between firms and ministries have degenerated in a number of irksome controls.

In parallel, little has been done from the side of the administration to create a favourable environment or make up for its deficiencies. Thus manufacturing is taxed relatively more heavily then elsewhere. For administrative reasons, personal income taxation remains low, and the burden is transferred to productive activities. More generally, the problem of fiscal incentives for industrial development has hardly been raised.

Planning remained formal, often confined to general development measures and to public initiatives, but without the methods appropriate to the African socio-political context. The requirements of concertation and coordination were little taken into account, and, most important, industrial actors have worked separately.

As a result, planning went little beyond general macroeconomic objectives and failed to identify specific development targets, in term of opportunities and constraints, and needed institutions. Planning as practiced led at best to listing projects. And these were considered in isolation, neglecting their interlinkages with other economic realities.

B.5. In terms of investment incentives

In Africa, investment incentives have failed to provide the engine of industrial growth. This failure has a number of causes. Several types of organizations were made responsible for the promotion of investment. Few of them achieved mastery of the whole process: failures concerned both identification of projects, localization of promoters or investors, and the setting up and financing of investment. Environment has not proved favourable either: insufficient spirit of enterprise, continuing lack of equity resources, while more lucrative short term opportunities, in trade or real estate, attracted the scarce talent available. Further, investment promotion agencies were also saddled, as a natural extension, with the job of assisting new or existing SMEs, in management, trade and finance.

Bureaucratic red tape, the shortage of human and financial resources, weak links with the group of national entrepreneurs, and lack of coordination among the agencies concerned, account for the inefficiency of the system. Tariff protection and tax benefits to new ventures, under the investment code, followed no consistent pattern and failed to generate a sound basis of efficient and competitive firms.

Over time, several African countries changed their investment codes and revamped the agencies responsible for investment promotion. Better guarantees can now foster the climate of confidence needed for the growth of private investment. The new agencies involve increasingly the private sector, are more autonomous and self-financing. It is as yet too early to know if this new structure will effectively succeed and bury past failures.

B.6. In terms of the organization of production

Constraints and deficiencies are both internal and external to the firms. They concern:

- The cost of technical inputs

Energy and transport are often expensive, and their supply unreliable, compelling firms to provide onerous means of complement or replacement. The monopoly position often enjoyed by supplying firms leads to inefficiency and high prices.

- Supply conditions

Firms are usually highly dependant on imports, as already noted, and this leads to uncertainties, excessive stocks or breaks in supply, all causing additional costs. In general, imported inputs pay heavy transportation charges and are subject to strict conditions of settlement. The balance of payment crisis has made supply difficult and devaluation has made it very expensive.

Domestic inputs were undoubtedly cheap for agricultural products but subject to inadequate supply. While this problem has been partly solved in recent years, backward linkages remain poorly organized in terms of prices, quality, timing of delivery etc.These difficulties reflect the weakness of inter-sectoral relations.

- *Internal organization*

By and large, but with some exceptions, the level of management of Africans firms is weak: production processes are incompletely mastered, owing to the shortage of technical personnel; maintenance is inadequate; management is lax and as a rule purely short-term; over-manning is common. Such findings reflect a lack of understanding of,or respect for, the constraints of industry which remains an activity of recent introduction in a socio-cultural context ill prepared for its exigencies. Thus, problems arising from the environment may absorb so much of the time of managers that not enough is left to run their firms.

- *The state of equipment*

Plant is usually in poor condition, poorly maintained and not renewed in time, sometimes getting obsolete even at the time of installation.

This list of deficiencies is not exhaustive, and one could add bureaucratic interference, notably in the day to day management of public enterprises, the lack of experience of managers, the legal, political or sociological difficulties in firing personnel, the widespread waste of resources, and finally the wear and tear arising from facing constant problems. All these factors are sources of inefficiency and extra costs, reducing competitiveness in terms of price and quality, and dampening the drive of even the most enterprising.

The most visible and shocking consequence, even if it is not the most important one, appears in the usually low degree of capacity utilization in African industry. It has frequently been underlined in a number of countries and represents a gross waste of resources, and particularly of scarce capital. It increases the weight of fixed charges par unit of output, and thereby materially raises costs.

The analysis of this under-utilization, where it is possible, shows a variety of causes: planning mistakes leading to excess capacity in relation to markets, supply potential, localization, ability to handle complex plant; lack of working capital; ageing and inadequate maintenance leading to breakdowns; lack of spare parts; poor flow of materials; insufficient technical mastery of processes.

This list of factors, any of which can create a bottle-neck, shows the phenomenon has acquired a structural character[1].

More fundamentally, the amplitude of the phenomenon calls into question the appropriateness of the industrial model copied from developed countries. Indeed, several of the factors listed above suggest that the plant installed in most African countries could not work properly there.

In other words, beyond the planning errors in relation to supply or markets, one should look at the whole process of decision making and organization.

In any case, the loss of efficiency and the resulting costs have fed the need for enhanced protection, as well as the permanent temptation for traders to import, even illegally.

The weaknesses listed above also account for the limited development of sub-contracting. The lack of contact between large firms and those that could supply them, results from a number of factors, among them:

- plant in large firms includes facilities for side processes in order to reduce dependence on domestic or imported supplies; but such facilities are only partly used;
- technical capabilities of small firms are not usually commensurate to the needs of the larger firms;
- national norms are barely defined and at any rate little known;
- there is no organized agency for communication between firms on the demand and the supply side.

[1] It should however be noted that effective capacity may be significantly lower than the rated capacity corresponding to capital expenditure.

The development of sub-contracting in African industry depends on a market system in which information could flow freely regarding the needs and capabilities, as well as the weaknesses; where solutions could evolve and be carried out. At present, no agency exists for that purpose.

The characteristics of African industry which have just been reviewed underline its frailty and its difficulty in competing on international markets.

C. THE CONTEXT OF THE EIGHTIES

C.1. Increasing Economic Unbalance

At the end of the 70s and at the beginning of the 80s, African economies have suffered increasing external disturbances, which have both caused declines in output and revealed earlier weaknesses, particularly in the industrial sector.

As the impact of the rise in energy prices, which had borne heavily on the poorer countries, was abating, other unfavorable international factors emerged. Growth in industrial countries slowed down markedly between 1981 and 86, reducing demand for primary products in traditional African markets, while the multiplication of non tariff barriers further hampered exports.

This led to a downward cycle in commodity prices, as a result of which none of the main African primary exports got back in real terms to their 1980 prices. Petroleum exporters, either important ones such as Algeria, Angola, Gabon, Lybia and Nigeria, or less important such as Egypt, Cameroon, Congo, Mozambique, Tunisia and Zaïre, had the same experience. In toto, Africa suffered a heavy deterioration in its terms of trade, and a decline in export earnings, which was the major factor in external disequilibrium.

Several other factors also impinged negatively, such as the reduction in capital flows, uncertainties due to the fluctuations of the dollar, and the increase in real interest rates.

This whole array led to a financial crisis, from which Africa is still suffering and which is restricting resources for development. In 1986, debt service obligations amounted to 33% of export earnings for the whole of Africa.

In several African countries, domestic policies also contributed to a worsening of economic and financial disequilibria. With few exceptions, inadequate support and incentives for agricultural development, insufficient attention to efficiency notab'y in investment policies and in public management, increasing bureaucratic control leading to rigidities in already fragile systems, laxity in public finance, and in some countries a poor management of the exchange rate, all these factors have contributed in greater or lesser degree to worsening unbalances.

In this context, the industrial sector was both a contributor and a victim. It contributed to the external deficit through excess investment costs, large import requirements, the absence of exports and its low capacity to meet domestic needs. It was a victim in that the infrastructure and supporting services it needed were neglected; poor agricultural policies and external difficulties limited its supplies; excessive regulation hamstrung firm management and created numerous distortions. All these factors have contributed to poor performance, which in turn worsened the deficit.

C.2. The industrialization crisis

This crisis appeared in one country after another from 1980 on and showed up the structural and organizational deficiencies which had remained hidden during the previous period of growth and relative ease. It also revealed how wide was the gap in relation to the hopes nourished for industrialization.

Thus the 80s mark a sharp break with the previous period. Financing dries up, firm fail under the accumulation of difficulties, productivity and capacity to compete decline, neighbouring African markets are invaded by other suppliers. The crisis was no doubt inevitable, but the external shocks and balance of payments problems greatly worsened the industrial situation and showed up its weakness.

- The economic crisis

As was pointed out above, industrial production declined in most countries from the early 80s on. Production stopped in a number of firms, and first in the most fragile of them: large projects, ill conceived and managed, firms without external support, SMEs with a weak basis.

As both a cause and consequence, capacity under-utilization sank further throughout African industry, with a severity depending on sectors and countries. Zaïre and Guinea are extreme cases, with global rates of utilization between 15 and 20%. In Tanzania, Sudan and Liberia, the figure would lie between 25 and 35%. In many cases production could only continue on a hand to mouth basis.

The condition of plant worsened, and the rehabilitation of potentially viable firms has become a first priority in the majority of countries. Many firms must be re-capitalized, re-equipped or modernized, in order to be able to resume normal operation.

Thus the end of the 70s and the early 80s introduce a degradation of African industrial potential, widespread except for a few countries such as Zimbabwe and North Africa.

As a result of declining production, a less favourable environment, and growing doubts about the future, investment projects are declining in number. First of all, the Governments, faced with the problems of public enterprises and their own financial troubles, are withdrawing. Next, foreign private investors have stopped industrial investment in Africa, owing both to international factors and uncertainty about production conditions and profitability. Finally, nationals who have often maintained a flow of projects where favourable openings existed, have limited the scale of operations, both in technical and financial terms.

- The crisis of confidence

It affects the political personnel and the civil service: faced with the worsening industrial problems, they tend to lower their sights and to put less effort into initiatives and actions to support industrialization. Institutional support is weakening, routine replaces initiative. Disappointed or doubtful, politicians place less emphasis on industry (in deeds if not in words), without always realizing the responsibility of inaction or poor policies for the crisis.

Economic promoters also feel less attracted to industry, and their confidence is ebbing in national capacities and in often uncertain and fluctuating policies. Bureaucratic red tape and its increasing complexity have also worn out energies and dissuaded promoters from entering industry. Their interest has often shifted to trade.

- *The crisis in the concepts of industrialization*

Because of declining activity, several earlier concepts are being questioned:

- the role of the State whose excessive interventionism has led to query even its essential promotion functions;
- the dominant strategy of import substitution which appears to lead to increased dependence without bringing about effective industrialization;
- an industrial model which increasingly seems to have copied, without the adaptation needed for the African context, the modes of production, of organization, of financing and of consumption prevalent in developed countries. Doubts now extend to the production techniques, the size of units, the style of management and labour relations.

C.3. Reactions to the crisis

In the 80s, two types of responses to the crisis emerged. The first arises from the strategy and objectives defined by African countries in the Industrial Development Decade for Africa (I.D.D.A.), the second results from the global adjustment policies which an increasing number of African countries have been led to adopt.

C.3.1. The search for a new style of industrial development through the I.D.D.A.

It was getting growingly obvious from the end of the 70s that the industrial strategies and policies used so far would not realize the goals announced. The situation of industry called for a new approach and new methods.

In 1980 already, the African countries, with international support, suggested that the decade of the 80s be proclaimed Decade for Industrial Development in Africa, and this was accepted.

I.D.D.A., based on the Lagos Action Plan, formulated an industrial strategy of self-centred development, based on local needs and the transformation of African resources in the first place for regional requirements. This strategy called for an organized solidarity of African economies and gave first priority to leading sectors defined to include metal fabricating, chemicals, mechanical and electrical engineering. It also stressed the need for an environment favourable to industrial development.

Meeting in Harare in 1989 for their ninth conference, African Ministers of Industry assessed both efforts and results. They called for the preparation and adoption of a second I.D.D.A.

In fact, the first I.D.D.A. ran into severe obstacles which reduced its impact and made its strategy ineffective. Some of the main reasons were:

- the changes in the international context, marked by recession, excess supply of basic industrial products (such as steel, cement, basic chemicals), acute competition and the decline in resources available to Africa;
- the slow progress in regional cooperation. Because of limited national markets, the I.D.D.A. approach could be made effective only through active cooperation to establish the complementarities needed to achieve economies of scale.
- insufficient national efforts to create a better environment and effective support agencies for industrial development. This failure is largely due to growing internal difficulties.

Thus, for lack of adequate international, regional and national support, the I.D.D.A. proved unable to meet the challenges of industrialization, made even more difficult by the trends in the international and African economies. As a result, over most of the 80s, the Governments failed to put new vigour in existing strategies and more or less continued with existing methods.

It is in fact the macroeconomic adjustment process which now raises the issue of new industrial strategies and policies.

C.3.2. Global adjustment policies

The accumulation of both external and internal financial imbalances, until a crisis situation was reached, led a growing number of African countries to install relatively strict macroeconomic policies. In spite of the differences between economies and the resulting differences in application, the same measures and principles are found everywhere.

The programmes of structural adjustment, in fact, almost always contain two components which are more or less linked. One of these is the policy of stabilization aimed at reducing financial deficits, and the other consists of the adjustment measures aimed at creating internal conditions more favourable to economic growth.

The two main instruments of stabilization are monetary devaluation (except in the countries of the CFA zone) and the reduction of the deficits in public finances, most often by a severe compression of expenditure in real terms, sometimes also by an increase in revenue by indirect taxation and/or by more realistic tariffs for public services.

The budgetary austerity measures lead, via a reduction of public investment, of public employment and of net transfers to households and public enterprises, to a shrinking of internal demand, more or less marked according to the case. They imply a reduction of real income for certain strata of the population, and in this way should contribute to the fight against inflation.

Devaluation is seen as a condition for the recovery of exports and for import substitution via changes in the structure of internal demand and via the incentive for the development of local inputs. However, the reduction of imports arises mainly from the deflation of internal demand. In countries maintaining a fixed exchange rate, effects similar to those of devaluation can be obtained by a reform of tariffs and by export premiums. Measures of this type, however, have been strictly limited, since they come into conflict with the objective of rehabilitating public finance (cf. the temporary experience in the Ivory Coast).

The measures of adjustment are more complex and depend even more on individual situations. There are two basic orientations: establishing realistic relative prices capable of supplying the appropriate incentives, and improving the working of the economic system, notably by eliminating the main sources of inefficiency.

Price problems for African countries are mostly those relating to agriculture and to external trade. Generally, the former have been held down at a level that was too low, while the latter have been increased and distorted by systems of quantitative restrictions and tariffs with little economic rationality. Promoting import substitution for instance, had often resulted in the creation of disincentives for exports. And the abolition of such perverse effects is in line with the objectives of exchange rate policy. The success of this policy clearly depends on positive supply effects in the private sector as a result of more remunerative prices.

The improvements in the working of the economic system are obviously much more diversified. The public sector is most often involved, at the level both of the Administration and of public enterprises. For the Administration the need is to rationalize decision-making, to strengthen the control over execution, and to reduce the cost of administration. In addition, a reform of public enterprises is a condition in 60 % of loans: their deficits are a heavy burden on the budget, they are often the main cause of serious distortions in price systems and they are on the whole poorly managed. Here one comes up against the socially and politically difficult problems of reducing the overmanning of the civil service, of abolishing various subsidies and the sensitive choices for public enterprises to be closed down, rehabilitated or privatized.

These two orientations are part of the same philosophy: that a necessary condition for growth is the re-establishment of the mechanisms and signals of an economy of competitive markets. Apart from the liberalization of prices and of external trade, already mentioned above, it leads to a withdrawal of the State from the productive and commercial sector, thus reducing the authorizations required, the controls and barriers of all sorts to which firms are often exposed and which can easily curb initiative. One also finds, though less frequently, a reform or improvement of the working of the financial sector, and an interest rate policy more favourable to the mobilization of savings.

It is clear that such policies were not directly addressed to the problems of industrialization. Their aims and instruments were basically macroeconomic, and they were interested in industry mostly insofar as it could contribute to better economic and financial balance: to fiscal equilibrium, to a better allocation of resources, to increased foreign exchange earnings.

Yet at the same time such policies had important implications for industry. The required decline in domestic demand together with the simultaneous reduction in resources made available to industry, had a depressive effect both on production and investment incentives. No great efforts seem to have been made to offset at least partially the negative consequences of the global adjustment policies.

Further, these policies, though essentially macroeconomic, nevertheless implied a new strategy for industry and set it a new framework and new requirements. They thus raise two basic questions: as they were conceived and set up, do they offer a sufficient answer to the crisis of industrialization? Do they help industry adjust to the new context of national policies and international trends?

The answers to such questions are important for the future of African industry. The next part of this report will go further into the issues.

CHAPTER II
THE PROCESS OF ADJUSTMENT IN THE INDUSTRIAL SECTOR

A. THE PROBLEMS OF THE PROCESS OF ADJUSTMENT IN THE INDUSTRIAL SECTOR

Although essentially macroeconomic, the economic adjustment policies pursued by many African countries did none the less contain, in a more or less implicit fashion and with varying degrees of intensity, an industrial component. Though situations vary, it remains possible to identify the permanent aspects of the industrial approach which is based on some assumptions, is aimed at clearly apparent objectives and implements determined policies and instruments.

- *Assumptions*

Overall, the global policies of adjustment consider that the development of industry does not rest on solid bases:

- industries have expanded behind tariff barriers and quantitative restrictions both unequal and often excessive in amount and in duration;
- the terms of trade between agriculture and industry have generally favoured industry which paid too little for its agricultural inputs;
- the public sector, dominant in many countries, very often survived thanks to various subsidies and facilities;
- the allocation of resources in industrial investment was biased by economic policies and controls and did not reflect the comparative advantages of the country.

In consequence, industrial enterprises are not competitive since in such conditions they have little chance of being efficient and dynamic.

It follows from this that in order to give industrialization, a fresh start full play will once more have to be given to the rules of the market, and in particular, firms must be exposed to competition, in a liberal environment as open as possible to market signals.

- *Objectives*

Based on this analysis, three objectives emerge from the adjustment policies that have been implemented.

- The industrial network will have to be reorganized, firms basically incapable of surviving in a market context open to international competition should be eliminated.
- The competitiveness of firms must be improved. This is one of the key parameters of the existence and permanence of an industrial sector.
- The outlets for industry must be modified and reoriented more towards exporting.

- *Policies and instruments*

The policies and instruments applied were not aimed exclusively at industry, but by seeking macroeconomic balances, they sketched out new rules of the game or new conditions for industry. We may recall:

1- The policy of liberalization which, by aiming at the elimination of restrictions to the free play of market mechanisms, should lead to several reforms affecting:

- the price system by a return to freedom (reduction or abolition of controls, and elimination of direct or indirect subsidies);
- the system of external trade by abolishing QR mechanisms and lowering tariff barriers;
- the exchange system (except in the franc zone countries), where devaluation was often followed by a flexible rate system.

2- The elimination of distortions in the allocation of resources, both through a change in a relative prices and through lowering the tariff barrier, and making effective protection more uniform in order to exploit the comparative advantage of the country.

3- The disengagement of the State, called upon to privatize industrial enterprises, to cease investing in industrial activities, and to leave to the private sector the preponderant role which it should assume in this field.

4- The policy of incentives, which is more directly focussed on the industrial sector, and which affected institutional, statutory and financial aspects. Here, we may recall:

- the reform of the system of industrial promotion, and mainly the investment codes;
- the lightening of all administrative procedures;
- the abolition of tax and customs obstacles to exporting and, in some rare cases, the establishment of a premium for manufacturing exports (only in the franc zone);
- the provision of credit lines and sectoral adjustment credits earmarked, according to the case, for investment, for renovation or for imports intended for the industrial sector.

5- The exchange rate policy, when it was used, was intended to contribute to improving the overall competitiveness of industry, to discourage the consumption of imported products, and to encourage industrialists to purchase locally, by means of new relative prices resulting from the establishment of a realistic and flexible rate of exchange.

These reforms and measures were expected to set off a process of adjustment which would have led:

- to increased competitiveness of existing firms who would have been obliged to react;
- to increased industrial exports, which would have been facilitated and encouraged;
- to a revival of investment, foreign investment in particular, directed to profitable activities and those enjoying a comparative advantage.

In summary, the adjustment process, as concerns industry was based on two basic approaches:

- to force firms to adjust under the pressure of competition,
- to set up general supporting measures to encourage investment and the search for improved competitiveness.

To what extent has the implementation of the reforms permitted the process of adjustment to provide the best possible development of African industry i.e. to consolidate viable activities and relaunch investment?

B. THE IMPLEMENTATION OF THE INDUSTRIAL ADJUSTMENT PROCESS

What observations can we make on the conditions in which the adjustment of the industrial sector has been carried out? What lessons can be learnt that could make the process of adjustment more effective?

The experience of African countries is very diversified, and for some of them it is too recent to permit definitive analyses. So caution is needed in proposing any generalization. Moreover, the heterogeneity of sources of information and of concepts used means that different analysts may interpret the facts differently. Finally, the approach by survey which has been used for this analysis, even if it is the best approach for revealing perceptions and behaviours, carries the risk of introducing a dose of subjectivity particularly where existing protection is concerned. Nevertheless, the examination, based on actual experience, of the conditions of implementation of the process of adjustment and of the impact of the reforms and measures on the industrial sector does make it possible to identify not only trends but also a certain number of problems and questions which are dealt with in the following paragraphs. Here we recall that the following analyses are essentially based on the basic studies and surveys carried out by U.N.I.D.O. for the needs of the Workshop[1].

B.1. - Problems in the conditions of implementation

By and large, the programmes on which the process of adjustment was based were designed and carried out under conditions which did not satisfy all those involved in the industrial system, in particular the firms. Firms appear to have been very littie involved in the process of adjustment, and their support of it was very unequal. The observations of actual situations shows that, apart from the validity and the appropriateness of the programmes and measures adopted, the manner and the conditions of implementation were decisive for the behaviour of those involved in the industrial process. This fact is now

[1] See introduction, page 6.

acknowledged and understood by, among others, the international institutions who are most often involved and who are aware of the need to approach the process of adjustment differently today.

Four aspects should be mentioned here:

B.1.1. The knowledge of industrial realities

The concrete knowledge of situations, reactions and behaviours is obviously important, where an economic system is being fundamentally reformed.

Now in several countries the feeling is, both in industrial administration and among industrialists, that the in-depth analysis of the industrial sector, in respect of its constraints and capacities of adaptation, was inadequate for an accurate assessment of the nature and extent of measures to be taken. In some cases it was felt that the programme did not take into account the specific features of the different sectors of industry or the real speed and possibilities of adaptation by firms.

These observations appear clearly in the Ivory Coast or in Nigeria, where a number of firms would have liked preliminary studies and concertations by sub-sector. In Ghana, the authorities responsible for the adjustment programmes consider that better knowledge of the industrial sector would have eased the transition. In Senegal the study was very general, was undertaken only after the launch of the new industrial policy, and the industrialists questioned the methodology of the study. In Morocco, on the other hand, a preliminary exchange of ideas on the industrial sector seems to have been useful in the process of adjustment.

Overall, more micro-economic analysis is desired, with a clear preference for sub-sectoral approaches.

Finally, it must be pointed out that the deterioration of statistical systems and their inadequacies should have led to reorganizing industrial information in order to have a proper base of knowledge and an instrument for following up and recording the reactions of the industrial system. Apparently this necessity was not taken into account at the outset.

B.1.2. Concertation and coordination

Both the principles and the programmes of adjustment were generally worked out in restricted circles where the arrangements were decided on without broad discussion and concertation. In almost all the countries studied, the Ministry responsible for industry took little part in the process of decision. Nor, as a general rule, were the industrialists consulted through their representative organizations, even when the profession was highly structured. If we take the case of the Ivory Coast, where the industrial sector is large and highly organized, the process was conducted essentially by the Ministry of Economy and Finance, while the Ministry of Industry, the banks, and the industrialists in particular consider that they were insufficiently associated.

Generally speaking, the programmes prepared in this way by the administrations responsible for Finance and/or the Plan are perceived as imposed, even if they contain provisions which are beneficial and useful to the industrial sector. This absence of a concertation to obtain information on the point of view of the sector, on its needs and problems, and capacities of adaptation, is almost unanimously deplored by the firms. It has let to reticence about, or even resistance to, the process of adjustment and, at the very least, recriminations even where the adjustment was appreciated on the whole positively, as in Ghana.

In the case of Senegal, the employer's representatives considered that they had drawn the attention of the public authorities to certain problems and to the need for appropriate measures of accompaniment - but all in vain.

On the contrary, the example of Morocco shows that broad concertation with the industrialists had beneficial effects on the process of adjustment insofar as the profession there supported the general approach.

The fact is that industrialists were often canvassed, but rather as suppliers of information than as partners in a process which concerns them, and this may explain their somewhat negative reaction.

This reaction was strengthened by the feeling that the authoritarian practice of the State were continuing. And it was not sufficiently explained that the process, so far, was essentially a macroeconomic one which did not necessarily mean that consensus had to be sought. Finally, views often diverged on the role of industry, and this did not encourage support for the process.

In the light of these experiences, it is today clear for all the partners that any important change, if it is to succeed, must involve the protagonists.

On the other hand, it must be emphasized that the nature of some measures is such that they must be taken "by surprise" (for instance, currency devaluation). The same may apply, in the views of some Governments, for measures involving relative prices (and therefore income distribution), which otherwise lead to difficult negotiations.

B.1.3. Transparency

Those acting in the economy, industrialists or otherwise, concerned by the process of adjustment, often considered that the whole approach was not clearly presented and explained to them in respect of its purposes, its components and the course it would take. This is why they complain when measures appear one by one and they can neither place them in context nor know what the next measure is going to be.

Sometimes, the intention of the measures taken was misinterpreted. An example of this are the increased complaints about banks (as in Nigeria) whose behaviour, tied to monetary and demand restriction policy, was not understood by the firms who held these institutions responsible for the stricter conditions of access to credit. And in the Ivory Coast, some firms considered that the revision of the Investment Code was contrary to the announced policy of incentives, because the new Code abolished customs exemption on intermediate goods and introduced the degressivity of advantages.

Other misinterpretations have led some people to think that the process of adjustment was aimed only at restructuring the State; or, "faute de mieux", the measures were attributed to a doctrinal prejudice (Nigeria, Ivory Coast, etc).. Even in Morocco, where there was no lack of concertation, firms complained of a lack of transparency, and some of them perceived the approach and the programme of adjustment as no more than pin-point actions. And this lack of transparency is corroborated by the fact that in some countries, the declaration of industrial policy which set off the implementation of a process of adjustment or of one of the stages in the process, remained a more or less confidential document, restricted in circulation to decision makers.

All this created uncertainties not only for industrialists but for others such as bankers and investors, which were expressed in hesitations and wait-and-see policies, all of them factors reducing the effectiveness of the process of industrial adjustment. In the Ivory Coast, the climate of mutual mistrust which seems to be been created between the State and the industrialists can, perhaps, be partly explained by this lack of transparency and explanation.

B.1.4. The linkage of sequences

Experience in the countries studied reveals insufficient linkage between the sequences of the adjustment process, from several points of view. The macroeconomic objectives over-shadowed the particular problems of industry which were not taken into account at the outset of the adjustment process, creating a hiatus between the global measures and awareness of the impact on the industrial sector.

This situation is illustrated by the case of the Ivory Coast. There, it was only after several adjustment programmes that attention was paid to solving some of the sector's key problems. Only several years after the launch of the adjustment process, and while industry was in the midst of a crisis, was a start made on the examination of problems as fundamental as factor costs or industrial taxation. So it is only progressively that the problems of the sector can be rightly assessed.

In Nigeria, the adjustment programme was postponed until the 1986 budget speech, and the agreement with IMF was signed only in 1989.

In Senegal, too, industrialists considered that the indispensable accompanying measures, even those that had been foreseen and announced, were not taken in good time. Firms feeling the effects of the adjustment programmes considered that they were not receiving the necessary support from the public authorities.

In Ghana on the other hand drastic reforms were introduced overnight in 1983. Shocks were such that relief measures were introduced by the Government a few years later.

And there were often considerable time lags between the policy announced and its translation into effective measures, or between decisions and their application. Reversals, even partial ones, cast doubt on the significance and the scope of sequences of measures taken or announced. Examples abound; a programme is announced and not implemented (Kenya); a reduction of customs duties is announced and the reverse is practised (Morocco); a premium for exporting is established and then discontinued, thus discrediting the whole system of aid to exporting (Ivory Coast). But above all, administrations rarely gave themselves adequate means of applying the measures that had been enacted. Many measures remained far too long in the state of decision in principle, either because the implementing texts were lacking, or because the actions necessary to implement them were not taken. In the Ivory Coast, the trade valuation office, an essential instrument in the fight against widespread fraud, existed only on paper. So doubt creeps in as to the validity and permanence of the adjustment programmes and measures.

In a word, the conditions of implementation show that the political and psycho-sociological implications of the programmes and measures were insufficiently apprehended at the outset. The hesitations, the uncertainties, the delays in implementation certainly damaged the effectiveness of the adjustment and led to behaviour unfavorable to the objectives of the adjustment policies and programmes.

In this way, the insufficiency of in-depth analyses targeted on the sector, the absence or near-absence of concertation with the main agents in the industrial system, the absence of diffusion or of clarity in the programmes and measures envisaged, and the inadequate mastery of the sequences of the adjustment programme seem notably to have reduced its effectiveness. To be supported by both the deciders and the protagonists, the programmes must be understood, accepted, and organized in their implementation. How can decisive progress on all these levels be achieved. In any case, there are some obvious requirements: account must be taken of all the problems and constraints of the industrial sector; it must be done together with all the interested parties; it must be done at a pertinent level of analysis and action, taking into account the specific nature of industrial activities, in a way which commits the protagonists of the industrial system.

B.2. Problems at the level of markets

It was at the level of the markets of firms that the programmes and measures of adjustment introduced and expected the greatest amount of change. The conditions of protection were, in general, radically altered in favour of broad opening to international competition. It was expected that the modification of relative prices would lead to a re-orientation of demand towards the products of the home sector. Finally, firms were given incentives to turn towards exports.

So it was by constraint and signals from the market that firms were to be forced to adjust, and in particular to become more competitive. Similarly, it was expected that eliminating price distortions and maintaining uniform protection would lead to a more effective allocation of resources, more in line with the comparative advantages of the country, and contribute to a revival of industrial investment.

By and large, the measures affecting the market did contribute to industrial firms two important elements on which there is unanimous satisfaction: better conditions of supply, and the freedom to fix their prices. These positive aspects were of particular benefit to firms working on local inputs for the local market, especially when they enjoy geographical protection and address a relatively inelastic demand.

This being so, experience shows that important problems remain. These will be examined in the context of two essential themes of adjustment policies: competition and exporting.

B.2.1. The organization of competition, of markets and prices

At the level of the market, the programmes and measures of adjustment aimed at re-establishing, as widely as possible, the free play of the mechanisms of competition. Here we shall analyse three aspects of the approach: the decontrol of prices, the working of the market, and opening up to the outside.

B.2.1.1. The decontrol of prices

By and large, price control and the procedures for importing are the two areas in which liberalization has produced the most lightening of those bureaucratic constraints which disturbed the play of the market and hampered the working of firms. The objective in these areas was to generate supply side-effects.

We should however note that price decontrol, which was applauded by industrial firms, did nevertheless create problems of adjustment and of competitiveness for them. Firms complain widely of the resultant increases in the prices of their supplies, which has affected firms using a large proportion of local inputs. This evolution has been particularly felt by agro-industrial firms because of the deliberate policy in respect of terms of trade between town and country, and the abolition of subsidies to agricultural production.

Agricultural prices were formerly tightly controlled and had often been maintained at low levels which both favoured the urban economy and discouraged agricultural production; The liberalization of prices, or the readjustments of the official agricultural prices have sometimes led to problems of adaptation and, in certain cases, to high supply costs. At best, this trend has led to the absorption of progress in productivity as is the case in Morocco.

Thus, some agro-industries have been trapped between the anvil of the high costs of agricultural supplies and the hammer of a market for finished products much more open to outside competition. This situation has sometimes led to going back on the liberalization measures (the case of oil-yielding products in the Ivory Coast).

As regards prices, it should be noted that decontrol has made it possible, in principle, for firms to adapt their selling prices to real costs: something they could do only with difficulty in many countries and for many products.

B.2.1.2. The working of the market

In countries where the adjustment programmes led to the liberalization of markets which were tightly organized and controlled, this approach has been greatly welcomed by firms. Various problems, however have still not been solved. The three main problems mentioned by firms are:

- *The shrinking of markets:*

Firms often point out that demand has shrunk in their sector. It is difficult to make the distinction between what is due to the persistence of the economic crisis and what can be directly attributed to the compression of demand through budgetary and monetary restrictions.

It should also be pointed out that the subregional markets have not worked as they should to support the adjustment programmes. Neighbouring markets already presented structural obstacles: development of similar productions, organizational weaknesses, insufficient cooperation, etc. Despite weak communication between markets, the shrinking of demand did have a certain repercussion on neighbours. This was experienced by the Ivory Coast, Nigeria and Senegal.

- *The imperfection of the markets and of the system of marketing*

For the market mechanisms to provide in full the favourable effects expected of them, there has to be a real market. Now, in African countries, there are many obstacles to this. The markets are very imperfect, often partitioned into micro-markets, working on bases other than free competition. We have already emphasized the weakness of marketing networks, ill-adapted to the requirements of industrial production.

In this context, liberalization seems to have been of more benefit to the commercial sector. We mentioned above the pre-eminence of this sector: this pre-eminence and its competitive capacity as against industry have been strengthened. The possibility of higher margins on imported finished products creates discriminatory behaviour even when local products are competitive.

In many countries, including Morocco, some industrialists point to the hardening attitude of traders on delivery times and prices. This behaviour is also attributable to the greater opening of the market to imports.

B.2.1.3. The opening of the market

It is in the field of external commercial relations that the greatest problems of adjustment have been created for industrial firms. Here, the dominant orientation aimed at two objectives:

- changing incentives resulting from the system of protection so as to orient production to areas where the country has a comparative advantage;
- encouraging the progress of competitiveness by forcing firms to face up to international competition on the local market.

To do this, quantitative restrictions and the complex procedures connected with them have been abolished, and the instrument of customs tariffs has been used. The reforms generally carried out aimed at reducing nominal rates and making effective protection uniform around a value situated between 20 and 40 %. In the majority of countries, the ensuing loss of protection has, in fact, been selective as a result of the uniform import duties.

At the same time, the preferential systems for imports of raw materials and semi-products for industry, either via tariffs or, as in the Ivory Coast, through the exemptions provided by the Investment Code, were abolished. In this way, it was thought that another objective could be attained, aimed at encouraging the use of local inputs and thus encouraging occasions for investment.

It is certain that the accumulation of the factors of inefficiency had led many countries to overprotect their industry by cumulating tariff protection and quantitative restrictions on imports. But in these practices we should not underestimate the aspects linked to the policy of public and external finances, and the desire of the public authorities to economize on foreign currencies to face up to their balance of payments difficulties or, in certain countries, to compensate for the over-valuation of their currencies (as in the Franc zone).

In addition, the high protection enjoyed by African industry can be linked to its preferential orientation towards the internal market. The dominant thesis would have it that excessive protection gave rise to this orientation. But it seems more reasonable to consider that the two phenomena reinforced each other, and it is difficult to single out which of them is cause and which is effect. Nor can we we blame excessive protection for the industrial decline of the 1980s.

Protection should stay within reasonable limits, and here the problem for industrial policy is to find a level compatible, on the one hand, with the real needs of industry and the reality of its constraints and, on the other hand, avoiding large distortions and easy options. Further, protection cannot be offset by the exchange rate policy.

By and large, firms in all the countries complain of the reduction of protection - either of the size or of the rapidity of the reduction; even in the Ivory Coast where the transitions were gradual, and even in Morocco where they were far better equipped to face up to competition. This is clearly a very sensitive area where firms may perhaps too easily tend to complain as soon as existing situations are touched

Firms working with imported inputs and for the national market are obviously those most affected by deprotection, all the more so since these reforms have often abolished duty exemptions on imported inputs.

It is certain that modifications of considerable breadth, compared to the context of protection African industries were accustomed to, created major problems of adjustment for firms, these problems being all the more difficult to solve since they occurred in an economic climate a low rates of capacity utilization, financial weakness, and depressed local demand.

The objections most frequently expressed by firms were:

- all countries protect their industries;
- infant industries need lengthy protection;
- the dumping practices of foreign firms are eased by the opening of frontiers;
- reducing protection has not eliminated fraud, which appears to haven increased.

And above all, the economic context penalizes industrial firms which therefore have a need for compensation. Firms consider that, the more difficult are their conditions of production, the more they are entitled to be protected against foreign competition, since they are hindered by exceptional burdens and constraints specific to the African scene (size of markets, cost of internal and external factors, insufficient environment of support, etc.).

In Senegal, the reactions of firms were very strong. There, they ran smack into deprotection because of the rapidity of the measures taken, in particular for certain sectors such as textiles.

In Morocco, where industry has fewer problems and loss of protection is better accepted, some firms feel the new policy increases uncertainty and could hand over the domestic market to imports.

In quite a different way, this feeling of uncertainty is also encouraged by the uneven progress of liberalization measures: hesitations on tariff policy in several countries, administrative measures for protecting certain products in the Ivory Coast.

In the latter country, moreover, where there was a gradual transition period of five years, using surtaxes and surcharges, both the firms and some administrations consider that loss of protection had a negative effect on industry and increased the vulnerability of the sector. In fact, the combined effect of the crisis and the opening up of the market proved fatal to the most fragile sectors such as the assembly industries. So there appears to be quite a strong attitude of resistance to deprotection. That is the case in Senegal, where the opening up of the market appears to have had particularly depressing effects on industry.

These findings raise several important questions:

- Should we not examine the specific production and market conditions of the different categories of industrial activities, to define a system of incentives more effective than macroeconomic measures?
- Here, the central problem is knowing whether the firms have the capacity to adapt and respond rapidly to new conditions on the market. Can they stand up to international competition? Can they do this on their own?

B.2.2. The re-orientation to exports

In the first chapter, we emphasized the low share of manufacturing industries in exports. Often this situation is explained by the lack of competitiveness of industry, due mainly to excessive protection, via both tariffs and quantitative restrictions, enjoyed by the manufacturing sector which, at the same time, has diverted investments towards inefficient productions, fostered a sloppy attitude towards costs, and discouraged efforts at exporting.

Some questions need to be put raised about this analysis:

1. Is this explanation sufficient to account for the weak development of exporting industries?

Probably not altogether. The fact is that in some countries such as Kenya, the Ivory Coast, Senegal and Zaïre one finds, within the same activity, firms that are competitive, other much less so, and some that have improved or maintained their competitiveness in spite of strong protection or a reinforcement of protection. And we find that the context of protection has not prevented exporting industries from developing, even if they are in the minority.

Other causes must be added to this explanation and two of these are essential.

First of all, the fact that the dominant strategies were directed at import substitution and it was hoped in this way to attain a certain economic independence and reduce the burden of external expenditure. Admittedly, there were also efforts at further transformation of local primary products, but probably with insufficient conviction to overcome strong resistance from foreign markets and traders and from penalizing factors (such as transportation).

Then, no real policy of support for manufacturing exports was established, complete with a strategy, institutions, and supporting mechanisms. Although the objective of exporting has been often affirmed, it has rarely been accompanied by an effective system of support. On the contrary, there were often restraining factors: authorizations, taxes, failure of traditional procedures for easing exports (such as temporary admission, etc.).

But the existence of a strategy, a "climate" and conditions for exporting are essential.

2. Has the reduction and standardization of protection been effective in reorienting African industry towards exporting?

Few improvements of industrial exports are significant even in a country like the Ivory Coast which already had an established export tradition. Morocco, on the other hand, has recorded more significant progress.

Generally speaking, the objective of reorienting the allocation of resources towards exporting industries has been confined to traditional export.

In particular, very few examples can be found of firms used to working for the internal market, being subjected to competition on the local market, and clearly turning towards exporting. The case of the textile industry of the Ivory Coast which seems to be going in for world exports, is a rare example, although this industry already had a tradition of exporting to a sub-region in which the markets have shrunk. Generally speaking, the firms studied, who were not in a position to export before the adjustment programmes, have remained in that position. This is very clearly seen in Ghana or Nigeria, for example.

In the absence of basic and systematic action on all the conditions that affect exports, measures as important as devaluation or the granting of premiums have turned out to be insufficient. The experience of the Ivory Coast, where a system of premiums was established, is particularly disappointing in that the measure seems to have had very little impact[1] and its discontinuation transformed it into a factor of discouragement. The very strong devaluations of certain countries such as Ghana[2] do not seem to have had any effect on manufacturing exports. On the other hand, a proper adaptation of exchange rates made it possible for Kenya to maintain its manufacturing exports.

This basic and systematic action should at removing the causes of inefficiency as they affect firms in the different types of industrial activity. The liberalization of external trade and competition do not appear sufficient to develop a manufacturing sector that is competitive internationally and oriented towards exporting. It is necessary to act on the many factors intervening in competitiveness and apply incentives to change or measures of support, in order to improve technology, management and access to human resources, commercial organization, financial, infrastructure and support services, etc.

Another aspect, which is just as fundamental, should be recalled. The firms do not possess the technical and commercial capacities to penetrate new international markets, they have neither the financial resources, nor the information, nor the necessary relations for doing so, and they need support.

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1 The exporting firms consider that the premium did not fundamentally modify their behaviour.

2 The real exchange rate (taking into account domestic and international prices) may not have moved or not much.

The improvement of all these conditions does not depend solely on the strategies of firms and often calls for support from the State.

On the other hand, the case of Morocco shows that when firms can be fundamentally competitive, the change to a situation of free trade has positive effects on the growth of exports. But conversely, the recourse to local supplies is not necessarily encouraged.

Does African industry, have the chance and the possibility of gaining a greater foothold in the international market as it stands today?

Here we see that the specific weakness of African industry makes it even more difficult to surmount the numerous obstacles barring the way to international markets.

In spite of the professions of faith about liberalizing international trade, non-tariff barriers multiply, and protectionism reappears in increasingly subtle disguises. Subsidies assume indirect forms, quality standards are reinforced, particularly in the agro-industry where Africa might well entertain exporting ambitions, and new competitors from developing countries are appearing on Africa's traditional markets.

Moreover, the large markets of the developed countries are increasingly complex and diversified. Information has become crucial, and reaction capacities need to be rapid and closely adapted to the slightest changes in the market. At the same time, products are personalized, technology is developing very rapidly and is increasingly reinforcing competitiveness, even in sub-sectors recently considered as fields of expatriation where there might be chances for Africa (textiles, for example). At the commercial level, partnerships and links between industry and trade are being strengthened, and the commercial function in firms is becoming of prime importance.

At all these levels, African industry is in a position of weakness and does not have the means of facing up to all these challenges without substantial support. The subregional market, which could have offered a more accessible field for action, is itself presenting the constraints mentioned above, in particular the parallelism of productions and the insufficient commitment of the countries concerned. Moreover, firms are sometimes complaining that the rules of regional agreements are not respected and that there are numerous obstacles to intra-African trade.

Further more, the downward trend of protection in Africa puts African industrial exports in competition with products from developed regions or from more competitive - generally Asiatic - economies.

B.3. Problems of the production system and its environment

The programmes and measures of adjustment had very little direct bearing on the system of industrial production. On the other hand, various reforms and accompanying measures did concern the environment of industry, and the financial system in particular.

It is relevant to ask to what extent the working of the industrial system has been made more effective by these programmes and measures. In what way have the firms needed to adjust, and how have they reacted? Has their adaptation been helped via the network of relations between industry and its environment?

The question is an essential one, since the environment of firms is very quick to determine their performances and progress in forward and backward linkages. Moreover, the problems it raises are often specific when they concern industry.

In this field, firms consider in general that their problems and constraints have remained as they were, or have even become worse.

The main conclusion is that the programmes and measures of adjustment have contributed only very little beneficial change. In Nigeria, for example, the accent is more on the additional constraints represented by the now undivided power of the banks, the uncertainty and difficulty of forecasting introduced by exchange rate fluctuations, or the increased costs of supplies and transportation.

So in some countries, firms assess the environment rather as more uncertain (Nigeria) and they feel themselves more vulnerable (Ivory Coast). In Morocco, on the other hand, the programmes and measures of adjustment have not fundamentally changed the conditions of activity, (apart from the freedom of prices and the modifications of the exchange rate) nor have they modified the behaviour of those involved in the environment of industry, and certain industries consider that the State has shown little initiative in removing the obstacles.

By and large, overall assessments range from seeing the conditions of the industrial environment as stable to regarding them as aggravated, sometimes stressing their uncertainty. A survey of the different fields concerned makes a more precise and detailed appreciation of the matters possible:

- *Concerning procedures and relations with the State*

We have already pointed out how the expansion of State bureaucratic control made procedures more cumbersome.

The objectives of the process of adjustment included the elimination or reduction of the many controls and procedures that were hampering the working of industrial activities. And in the majority of countries, there has been an effort to lighten constricting procedures and controls, with a fair measure of success. Firms are unanimous in welcoming this relief and the greater understanding by the State and its agents of the weight of the constraints. The most striking exception to this trend seems to be the Ivory Coast, where industrialists complain of procedures that are more complicated or uncertain and of an even more niggling bureaucracy. In Senegal, industrialists complain that the lightening of procedures has been mainly of benefit to importers, whose numbers have increased considerably.

- - *In respect of financing*

Firms often remark on the restriction of availability and the increased cost of credit at a moment when firms have greater needs of finance for working capital and investment, to cope with the increase of costs and the renewal of their equipment. Their judgements on the financial system are quite systematically negative and all mention greater difficulty of access to credit (hardening attitude of the banks, more guarantees required, etc.). Morocco is no exception to this although here, as is often the case, the situation is less acute. It is clear that the rift in Africa between bankers and industrialists has tended to widen, and that the lack of understanding has tended to increase.

In the majority of countries, this rift results from the conjunction of the following factors:

- first of all, the persistence of macroeconomic constraints;
- secondly, the maintenance of the traditional unwieldiness of the credit policies of financing systems, which offer hardly any incentive to them to shift in favour of industry or of private national firms (SMEs of the formal sector) an increased share of a limited lending potential;
- but also the profound deterioration, which we have already been commented on, of the systems of financing themselves (both commercial and development banks) for which no real remedy has so far been found;
- finally, the perception by lenders that industries are in serious trouble, that their financial balance is problematic and could in any case be long deferred. This perception, whether justified or otherwise, is obviously not going to encourage them to intervene during an uncertain phase of adaptation in which, moreover, the branch strategies are not apparent. In certain countries, such as Nigeria, it seems that a power of control has de facto been delegated to the banks. One may ask if it is appropriate to entrust a more important role to the banking system when it is still extremely fragile and may not be capable of playing a real supporting role. Some bankers have confirmed these misgivings.

The positive element which has appeared to offset these factors is the setting up of specific finance facilities on external funds as part of the adjustment programmes. Nearly all the countries benefit from this. These financial stimulants have generally been aimed first at financing priority imports then productive equipment, sometimes with a priority for restructuring as in Zaïre. Kenya has also set up a Capital Market Development Authority, with World Bank financing.

These external funds are often distributed by the commercial banks, whose terms and conditions (duration, deferred payment, bank margins, exchange risks) seem to be accepted by lenders and beneficiaries. But the latter express the opinion that these arrangements often arrived too late, that their mechanisms are cumbersome and, in particular, that the funds released in this way fall far short of the adjustment needs of the industrial sector, and there is no guarantee that they will be renewed.

- Concerning taxation

Tax changes have generally been significant in the adjustment programmes. But they were aimed more at comprehensive reform to increase effectiveness and to simplify and modernize the system. Successive tax measures have mostly appeared in the annual finance laws. Among these concerning industry are, for example, the measures in the Ivory Coast aimed at improving the reinvestment of profits, at instituting a system of accelerated amortization and introducing tax relief measures for SMEs, or the measures taken in Zaïre to abolish taxes on exports.

But the problem of industrial taxation as such and the role it can play in the process of adjustment and of supporting industrial development has not really been taken into account, or only partially so. Only the Ivory Coast seems to be about to tackle the problem via the work of an inter-ministerial commission.

Generally speaking, industrialists continue to complain of the burden of taxation which is sometimes considered penalizing, as in Senegal; the general judgement is that it is not selective and offers few incentives, and that conditions of taxation have remained unchanged when they have not been aggravated (the case of Ghana).

- On factors costs

This is a key element in the competitiveness of industrial firms, but we should note that it is completely beyond their control, with the exception of wage costs where they do have some room for manoeuvre. Generally speaking, developments have been marked by a twofold trend: real wage costs have been subjected to downward pressures by general policies of demand limitation and/or devaluation, whereas the technical factors (energy, water, etc.) and transportation have tended - the latter especially - to increase their prices. Recriminations are practically unanimous about energy costs which are seen as always too high, and transport as becoming constantly more expensive while remaining unreliable.

In some countries, notably Senegal, firms are worried about lack of flexibility in labour legislation (firing and supplementary costs). In Ghana the deep decrease in real wages evoked strong resistance from organized labour, and its effects on demand did not allow for improvement in employment. In Kenya on the other hand, where adjustments were less radical, firms benefited from some reduction in real labour costs.

In most countries, it is also stressed that manpower is expensive in relation to both the competition and its productivity. Generally speaking, the firms consider that the adjustment programmes have not provided any improvement in the factor costs, and that the only evolutions observed - due, among other things, to the elimination of subsidies - have only increased the burdens of industrial production.

The authorities in some countries are beginning to be concerned about these problems. This, at any rate, is the case in the Ivory Coast where a systematic study on the costs of factors is proposed, and should produce reforms.

- Concerning supplies

The deterioration in the external supplies of industry was one key consequence of the balance payment crisis affecting African countries. In addition, there were the difficulties connected with agricultural policies, in particular price policies which have limited the local supplies of agro-industries.

In both these respect, the policies and programmes of adjustment have improved the situation of firms. They have had easier access to outside inputs, partly thanks to sectoral adjustment loans which have been set up in certain countries. We may quote the cases of Nigeria and Ghana as good examples of this improvement in external supplies.

The improvement in agricultural supplies, although very marked, has not been systematic enough. The freedom of markets has sometimes worked to the detriment of industry, as in the case of the cocoa processing industry in Nigeria whose capacity utilization rate plunged abruptly to 10 %.

It must, however, be pointed out that environmental constraints connected either with transport or with financing have hampered the regular and/or sufficient supply to firms. Zaïre and Senegal, or even Ghana may be quoted as examples.

In the latter country, industry ended up by passing through in their prices the increased cost of inputs, but with negative effects on domestic sales.

Generally speaking, almost all the firms complain of increasing supply costs, either because of devaluation (Nigeria, Ghana) or because of the abolition of tariff advantages on inputs (Senegal, Ivory Cost) or because of agricultural prices (in all the countries studied). Moroccan firms have the least recriminations as regards supplies. In several countries, it seems that a balance still has to be found between the administered agricultural prices and the needs of an industry facing increased competition and persistent constraints.

- *On marketing*

No specific action was included in the programmes and measures of adjustment on structures and methods of marketing or on the organization of markets for industrial products. Here the approach was that freedom of markets and prices, opening up to the outside world, and competition would force a development towards greater effectiveness.

The experience of the countries studied however does not justify this optimism. On the contrary, as already pointed out, it seems that this new situation has in fact strengthened the pre-eminence of the commercial sector, and some industrial firms point either to the hardening attitudes of traders or to the fact that traders are increasingly distancing themselves from national industry. In particular, this was mentioned in the Ivory Coast, Ghana, Senegal and Morocco.

- *On physical infrastructures.*

Thee lack of any action targeted on industry (equipment of industrial parks) implies that firms generally point to the persistence of constraints in this area. Budgetary restrictions have led some public authorities to reduce the resources assigned to new investments and to concentrate on maintenance and rehabilitation. This has sometimes had beneficial effects on the existing infrastructure, as in Zaïre.

- *On capacities of support.*

Apart from the aspects directly connected with the promotion of investment which will be examined later, the adjustment programmes have generally neglected activities of support for industry. No specific action has been taken either to strengthen industrial training, to solve technological problems, or to organize support services for industry. On the contrary, budgetary restrictions have probably been one of the factors causing institutions supporting SMEs to reduce their activities, as was seen in the Ivory Coast.

In fact, action has been left to the firms themselves and to private initiatives . One may ask if that is enough.

In the field of technology for instance, global approaches are not enough. Specific action is needed: what, for example, should be done in the textile sector which has its own profile of technological evolution? What conditions should be established? The problems should be addressed in terms of concrete strategy, in the light of the strengths and restrictions of each industry: what technology is appropriate and how to achieve its mastery, taking into account the African environment, foreign strategies, the characteristics and importance of the sector.

This is the only way to strike a balance between slavish copying of foreign models sometimes obsolete), the single minded pursuit of state of -the-arts technology and the search - often somewhat abstract - for an intermediate technology.

This is of course requires an adequate organizational framework and instruments of support.

The same sorts of questions arise for other activities of support, and in particular for the most essential among them - training. In the African context, it is not sufficient just to rely on general schooling and the additional training that may be provided by firms.

To summarize the discussion of environmental factors and behaviours, the following conclusions emerge from the countries studied:

- factors exist helping the adjustment of the sector, essentially in respect of physical supplies and lightening of procedures and controls;
- additional adjustment requirements have emerged, in particular:
    - a marked growth in the costs borne by firms, which could not always be passed on to selling prices,
    - a hardening of the relations with the banking system and with the commercial sector;

- the persistence of constraints in all the rest of the industrial environment, which has not helped the adjustment of individual firms.

It must also be pointed out that the widening of inter-industrial linkages, a key element in the consolidation of industrialization, has also not been specifically addressed in the adjustment programmes. Some measures, such as the abolition of exemptions from tariff duties, or the increase of these duties on raw materials and semi-products could, in fact, encourage firms to turn to national production. But it seems that this type of incentive could prove effective only if the relations between industry and its environment, both upstream and downstream in particular, were better organized, and if better solutions were found for the problems they raise. This applies in particular to all the question of quality, price, delivery periods and reliability in inter-industrial exchanges.

B.4. Problems connected with adjustment behaviour

Here we shall successively examine the action taken by firms, the process of adjustment at the level of the sub-sectors, and finally investment behaviour.

B.4.1. The adjustment action of the firms

The developments described above have shown the extent of the adjustment needs created for firms by global economic policies. Firms have been compelled to improve their competitiveness strongly and rapidly, while at the same time confronted with factors that aggravated their inefficiency, and with little outside support, although many constraints or factors of competitiveness did not directly depend on the firms.

Admittedly, there is still quite a broad area in which firms can operate and act on their sources of inefficiency: the whole technical organization of production, labour skills, management, commercial organization, production equipment and its maintenance, etc., all elements making it possible for firms to increase productivity, improve quality and reduce costs - given the will and the means.

And in fact both the reactions of firms and their means differ widely. Firms working on local inputs for the local market seem have the least problems. This is particularly true when they have been able to pass on their additional costs into their selling prices, which was the case for many firms supplying basic needs, the volume of demand for which was maintained in spite of the decline of incomes and/or the increase of prices.

In Ghana, however, all firms were affected in the first stage of adjustment, because of the extremely sharp fall in the purchasing power of the population. Relief for the poorer sections was organized only later.

All in all, the firms most affected by the process of adjustment are those working on imported inputs, since their products are more sensitive to the reduction in demand and these firms are, as a whole, more exposed to foreign competition. But even among these firms, the reactions differ.

- Where there were major problems of external supplies (Zaïre, Ghana or even Nigeria, for example), firms tend to react favourably to the measures of the adjustment programmes, even if they criticize certain aspects of them. These programmes have opened up for them better possibilities of supply and a marked slowing-down of inflation, even if this has been accompanied by an increase in import prices and a heavier burden of tax together with a higher cost of credit, as in Zaïre.
- Where problems of external supplies were not so keenly felt (Ivory Coast, Senegal, for example), the reaction of firms to the measures is clearly more negative, either because of the shrinking of the market and competition from outside, or because of the increased cost of imports as a result of higher tariffs on raw materials and semi-products.

Local SMEs have the largest number of complaints about the new conditions, particularly where credit is concerned. They are the firms most weakened, least well equipped to face up to competition, and least able to mobilize the material and human resources to profit from the opportunities offered.

They also point to their lack of resources. Their adaptation has sometimes been a downwards one, as seems to have been the case in the Ivory Coast and Senegal where certain SMEs are said to have taken refuge in the informal sector.

Firms which are affiliates of foreign companies seem to have stood up best and made the best adjustment, when they have not opted for disengagement, as certain companies in Senegal have done. The dominant trend is more difficult to identify for State enterprises, except in Morocco, where most of them seem to have improved their situation thanks to the adjustment programme.

The differences recorded in reactions and results between Morocco and the other countries seem to indicate that the effectiveness of the process of adjustment is directly linked to the situation of the industrial sector and to its strengths and weaknesses. Good results can hardly be expected in the recovery of weak and shaky firms.

Thus, in the Ivory Coast, the firms have said clearly that they cannot adjust on their own and in such short periods of time. In Nigeria, several firms have stressed financial constraints. In Ghana, the firms have declared themselves incapable of overcoming the constraints they have referred to and which relate in particular to their environment. A large number of firms in Senegal consider that they cannot cope on their own.

Finally, it is likely that the prevailing malaise has brought about a certain degree of disinterest in some firms owing to three main factors:

- the economic context of crisis;
- the inadequate efforts to ensure that the process of adjustment is understood;
- the widespread feeling among industrialists that they have not been listened to, or in any case not understood.

The surveys carried out via case studies show that firms were, by and large, aware of the need to improve their competitiveness. Firms in Nigeria, for example, say clearly that the process of adjustment has made them more attentive to costs. In all countries, many firms say they had the necessary capacities to adjust, and they point to an internal action which seems far from negligible. The exact significance of this answer is not always clear.

The fact is that results often seem disappointing when measured against the action announced: sales have progressed slightly or not at all; there has been no turning to outside markets in spite of the stagnation or shrinking of the internal market; cases of increased profitability are rare, even though gains are announced in performance and productivity, through manpower reductions.

Thus firms seen to have tried to react, on the whole - they have been willing to adjust, but they have come up against limits.

All this perhaps explains why the firms take a very short view of their adaptation, and it is striking to note that any sort of long term strategy is a rare exception.

The most favourable case is certainly that of Morocco where a more elaborate industrial fabric exists in a better industrial environment. Here, firms have clearly grasped the necessity of adjustment, and in general they have had the capacity to carry it out. So they have taken action on all the parameters available to them: manpower reductions, training, organization of production, improvement of quality and of installations. Almost all these firms announce an improvement in productivity and profitability and an increase - sometimes quite marked - in sales. On the other hand, even for this country, the firms advance very few cases of progress in exporting.

B.4.2. The process of adjustment at the level of sub-sectors

Two main sub-sectors have been observed: agro-business and textile industries, which generally represent between half and one third of manufacturing. The degree of integration in these sub-sectors, contrary to what might be expected, was very weak, reflecting the organizational weaknesses pointed out above. Relations, both technical and economic, between agriculture and industry, were neither really organized nor managed.

The question then is how adjustment worked in these industries. Reactions vary from branch to branch and from country to country. Generally speaking firms have failed to exploit jointly new opportunities or to get together to fight obstacles. Dispersed action has even sometimes been contrary to common medium-term interests.

In textiles and clothing, industrial supply conditions remained on the whole precarious; thus despite some attempts at using domestic resources, preference was often given to the importation of intermediate products and thus the attempts at import substitution did not result in a significant reduction of imports.

Apart from the fact that firms have not had the necessary information - concerning the programmes and the new rules of the game in general, and the rules governing the relations with agriculture in particular - the programmes of adjustment have involved two types of reactions which have not helped to clear up the situation. The attitude of wait-and-see, has often prevailed, and the necessary adjustments have been put off. Moreover, the prospect and the reality of increased competition had led firms to take short term and every-man-for-himself action. This has accentuated the divergence of interests, making the sub-systems concerned still more fragile.

Within the structural adjustment process, the responding firms have mostly borne passively the changes in controls and incentives. Few have defined new strategies. In fact, the adjustment policies have affected firms in several ways.

The first concerns price liberalization. In the very short run, inputs were more costly to purchase, but output prices were raised as well. Where demand was relatively inelastic to prices (implying unchanged availability of substitutes), firms improved their lot. Where demand was relatively elastic, firms had either to accept a fall in profit margins (absorbing increased input prices), or to reduce production costs (which was anyway a purpose of the policy). This was possible only where labour market controls were relaxed as part of the adjustment policy (labour costs usually being the main other variable cost in production).

In the longer run, increased input prices have sometimes stimulated supply, improving domestic availability and permitting a better degree of capacity utilization. Also domestic demand reacted little to price rises since local products and import substitutes increased simultaneously.

The second point concerns harmonization of effective protection rates. As a result, some firms enjoyed better protection. But for most, their competitive position was weakened, both because former duty exemptions on imported inputs were abolished and because of tariff reduction on finished products. It must be stressed that increased competition did not occur immediately. Also, where imported inputs were meant for exports, custom duties paid on entry were repaid on export. In fact, a more uniform effective protection and increased competition have affected mostly multinational firms, which have reacted by rationalizing their world-wide production operations. Such firms had often set up facilities in order to reach the domestic market, while avoiding trade restrictions and enjoying the tax advantages offered by Governments. At present, this rationalization process is operating to the benefit of some African countries and to the detriment of others, without any systematic bias.

The third point concerns public finance. The effort to increase revenue, through rises in tax rates and improved collection, has put more pressure on African firms and reduced economic incentives, as well as sometimes increasing inequality of treatment. Thus, maintaining a high price for petroleum products (usually imported), despite declines on international markets, has led in several countries to a significant loss of competitiveness in relation to imports. In the same way, increased tax rates, where large segments of the economy escape tax altogether, has biased competition against 'legal' firms.

The fourth point arises from the inconsistent and incomplete application of industrial adjustment measures. Thus in the case of Senegal, industrial protection was lowered at the same time as a high duty was retained on oil products, as protection was retained for sugar (with a local price far higher than international quotations); as labour laws were kept on the book; as the tax basis was not widened, nor its collection made more equitable. Further, financial resources for adjustment were inadequate. And unfortunately, the case of Senegal is no exception. Industrial performance has of course suffered.

Finally, there were two areas where a favourable response was expected from firms, however so far without significant results. The first concerns supply side effects, where examples are few and far between, except for agricultural products as already noted. The other concerns imports. The revamping of the incentives system was supposed to stimulate exports. This took the form of eliminating implicit anti-export biases, but did not include active support measures (except in some countries of the franc zone where devaluation was excluded). Yet, selling abroad required more than the elimination of disincentives. This constitutes no more than a necessary condition, mostly where competition focuses on prices and therefore production costs, but it is nearly never a sufficient condition. Particularly in textiles and food processing, there are more important variables, such as the quality of products, the choice of specialities with a low price elasticity, a commercial strategy, the setting up of an appropriate distribution network.

Individual firms thus found themselves at sea, without any support from their environment. This has reduced their capacity for adjustment.

B.4.3. Investment behaviour

One of the results expected from the global policies of adjustment was the revival of industrial investment more effectively directed towards production for which a comparative advantage existed. Apart from the reform of prices and customs tariffs, and exchange rate policies when these were possible, accompanying measures have often been put into effect to increase incentives. These measures essentially concerned the reform of the Investment Code and the strengthening of promotion institutions with a marked priority for small and medium companies, considered as the priority target for policies of industrial investment.

The reforms of controls and of institutions seem to have had a limited effect. Revamping the institutions of promotion proved difficult to carry out, and the SMEs are still faced with the same specific difficulties, in particular the weak financial resources of the promoters, their lack of preparation for the different requirements of industry, and the difficulty of access to services and to markets. Also, the institutions of promotion are still looking for new forms of organization and more efficient means of intervention.

A general question mark may be set against the effectiveness of the Investment Code. It did not appear to offer incentives and advantages which would be decisive in the present international context, and these incentives and advantages soon ended up being nearly the same in all countries.

The record hows that for Africa as a whole investment is weak and has been regularly declining over recent years.

The absence of any clear recovery of the economy, the withdrawal of the State which used to be a major investor, partly explain this movement. It is clear in any case that private investors, national and foreign, have not for the moment replaced State action.

In the present context and the new orientations, foreign investment should assume a major importance: it can supply capital which will help the external balance, open up possibilities for exporting manufactured products, permit a transfer of techniques and an integration into technological evolutions. Also such firms in general have the capacity to train personnel.

But for the time being, these foreign investors are biding their time, and private national investments are still subject to the same limiting factors.

The ebb of investment recorded in Africa for nearly a decade has not been reversed. It may be noted that the flow of direct foreign investment which remains comes essentially from Europe.

These general findings are confirmed by the case studies. In the Ivory Coast, industrial investment has slowed down significantly after the global adjustment policies were implemented, and over the period 1982-1988 the bulk of investment was still carried out by the State. More than half of the investments are in the processing of local raw materials (rubber, oil, sugar, textiles, etc.) with an agricultural component (hevea and palm plantations, cotton, etc.). The private sector, with the exception of the sub-sectors of textiles, plastics, packaging and wood (under public pressure) is showing an obvious wait-and-see attitude.

The investment reaction seems to be more significant in Kenya and in Zaïre. In Zaïre, where is it directed mainly at re-equipment and rehabilitation, it appears that firms have made extensive use of financing available under the adjustment programme to improve their plant which had particularly suffered from ageing and insufficient maintenance. The firms consider, however, that the high interest rates (linked to the persistent high rate of inflation), their sadly worsened financial situation and, in some sectors, the continuing reduction of demand (metal-working industries, for example) constitute obstacle to their re-equipment.

Although it is difficult to obtain exact data, some disinvestment by foreign operators has occurred. In Senegal, for example, many international firms have withdrawn in quite recent years.

In Morocco, investments have held up better, although a growth in value of 0.4 % per year expresses a real slowing-down. Some sectors such as chemicals and para-chemicals show a very marked decline in investment.

For the global policies of adjustment, an increase in productive investment is indispensable to improve supply, either for local needs or for exports.

This process is in fact handicapped:

- by deflationary measures;
- by the increased costs of financing, even if this increase can be otherwise justified;
- finally by the measures of trade liberalization which have weakened incentives to invest because of stronger competitive pressures.

These behaviours and the previous results allow the conclusion that, by and large, both the basic measures (liberalization, customs reform, etc.) and the accompanying measures applied as part of the global policies do not seem to have been sufficiently attractive, in any case not in a context of recession still characterized by important constraints. The measures of adjustment have remedied only to a modest extent the structural and organizational deficiencies which are a bar to investment. Hence, the evolutions recorded confirm the apprehensions that may have been entertained on the effectiveness at the sectoral level of an essentially macroeconomic approach.

Perhaps what is required is an action much more fine-tuned and better targeted to the problems of each type of activity. A more concrete and voluntary policy to improve the climate and the conditions which could help local investors and attract foreign investors; and also a less systematic and more active attitude towards the role of the State in the promotion of investment.

C. INTERMEDIATE LESSONS AND CONCLUSIONS

The observations made throughout the foregoing analysis permit the conclusion that the adjustment of the industrial sector has been insufficient, at least when compared with the objectives aimed at.

Clearly, not enough time has lapsed to allow for final conclusions but it is already clear that the constraints and weaknesses of the industrial sector have not allowed it to adjust correctly, and that the global policies have not done much to solve the structural and organizational problems.

The industrial sector seems to have suffered from two aspects of the approach to adjustment:

1. Doubts as to the role and place of industry

As scepticism of African leaders about industry were becoming prevalent, the adjustment programmes contributed little to making industry the driving force of development. Instead it focussed on the negative impacts of industry on economic growth: monopolizing of resources (external and budgetary), distortion of internal terms of trade, etc. and on the mediocrity of its potentialities and results: lack of competitiveness, low capacity utilization, etc.

At best, the long term development ambitions confined industry mainly to supporting agriculture and focussed on small and medium firms. In the short term, the programmes often aimed at making the sector viable, possibly through the removal of its lame ducks, rather than a strategy of starting afresh.

All in all, the industrial sector was rarely considered as a centre of adjustment, complete with strategies, objectives and resources. In particular, the industrial policy of the process of adjustment was everywhere more implicit than explicit, expressed through global reforms and a few supportive measures.

These new approaches, which contrasted with former policies and strategies, particularly in the importance formerly accorded by African governments to industrial development, discouraged both the industrial administration called upon to change its methods and the firms and promoters who were seeking a clear vision of how industry could be mobilized in the service of development.

2. The essentially macroeconomic approach.

Setting up global mechanisms designed to control from outside the behaviour of industrial agents and the fate of industries, is no guarantee, in the African context, that the necessary adaptations will be made and that industrial development will take concrete shape. On the contrary, there is a considerable risk that phenomena of disindustrialization will appear, weakening still further the meagre industrial bases of African countries. The fact is that:

- Left to itself African industry is badly placed to resist the play of market forces. Its fragility makes it particularly vulnerable to international competition (notably dumping). Its capacity of response to changes in the market, on both the supply and the demand side, is weak.

- African industry is, with very rare exceptions, at a absolute disadvantage because of its burdens, its particular conditions of development, and the extra costs due to its environment.
- African industry is ill-equipped to respond to technological changes which it has neither the human nor the material resources to adapt, in the absence of large scale support from the public authorities or external contributors.

For the liberalization of market conditions to be useful, firms must be in a position to respond adequately to the new opportunities and have the capacity to adjust.

We have seen that there were obstacles to this process in the context of African industrial economies, due to:

- the fragility of production structures and the burdens imposed on them, so that they are unable to resist an abrupt increase in competition,
- rigidities and defects in the organization of the industrial system which considerably reduce the degrees of freedom and prevent the adoption of new solutions.

Industrial firms and promoters are in need of effective State support if they are to overcome these constraints, whatever their own responsibilities in such a process.

The same factors also prevent proper responses to the incentives offered by economic policy measures: examples are the limited effects of devaluation on exports, of interest rates on savings, or of trade liberalization on fraud.

So it is not surprising that the global approach adopted introduces considerable margins of uncertainty as to the evolution of the industrial fabric and the achievement of the objectives aimed at.

The review we have made of the conditions of implementation of the process of adjustment in the industrial sector, via the case studies which were carried out, justify some observations which point to more efficient approaches:

1. Admittedly, proper macroeconomic management is indispensable, but it is not sufficient for the rehabilitation of the industrial sector.

2. Faced with economic choices which were often complex and conflictual, it seems that the decision process has never given priority to the safeguarding of industrial potential: the supports needed by industry (infrastructure, training and others) have been sacrificed to budgetary economies, industrial costs to agricultural prices, financing of industry to monetary restriction, etc. In other words, the needs of industry have not been taken into account in a global approach.

3. The global and sectoral policies of adjustment create strong needs of adaptation for firms.

4. In order to adjust, the firms need a perfect knowledge of the programmes and processes of global adjustment. It seems that the way in which the policies, programmes and measures of adjustment are formulated and applied are just as important as their content for the process of adjustment to progress smoothly.

5. Only the firms really know the problems of industry, in particular those created by changes in economic policy, and can inform the authorities when they are adequately represented.

6. Industry's needs of adjustment are neither uniform nor unequivocal. They can differ from one activity to another and generate feedbacks which have to be managed and adverse effects which have to be countered.

7. The process of the adjustment of industry is largely dependent both on factors over which the firms have no control and on relations with the other parties involved in the industrial environment.

8. The disengagement of the State should not mean withdrawing from the orientation of the economy nor forsaking the use of controls.

9. The re-establishment of the mechanisms of the market economy does not mean that all the problems of adjustment of industry will be solved spontaneously and positively for the development of industrial activities.

10. The State is the sole actor in the industrial system capable both of bringing all the actors together and of arbitrating between divergent interests and unequal relations of force.

The programmes and measures of adjustment, and the observations which may be made on the process of adjustment of the industrial sector, do in fact raise a crucial question for the future of African industry. After making excessive use of interventionism which ended up by creating additional constraints for industries, are not African countries now in the process of lapsing into the opposite extreme: leaving it to the play of market forces and the impulses from the market to promote and stimulate the creation of an efficient industrial fabric in their economies?

Perhaps one should look for a happy medium which would combine respect for the ineluctable requirements of the market and the use of competition as a potent stimulant and a factor of balance, with a lucid and appropriate policy of intervention, capable of organizing the best conditions for industry by acting on its constraints and on its weaknesses.

Some people believe many African countries are not ready for industrialization. If the opposite view is taken, problems must be faced and the necessary approaches defined. In the long run, alternative models must be sought, better adapted to the African context. In the short run, one should look for management techniques and organizations, both public and private, that can help with the required adjustments and improve performance.

CHAPTER III
THE STRATEGIC MANAGEMENT OF INDUSTRIAL DEVELOPMENT

A - GLOBAL ADJUSTMENT AND STRATEGIC MANAGEMENT OF INDUSTRIAL DEVELOPMENT

There is no doubt that the former strategies, implicitly or explicitly based on high and lasting protection of industries, high production costs, insufficient international competiveness and a dominant - if not exclusive - orientation towards the internal market, have not proved effective and have contributed to the growing frailty of industry in Africa.

Obviously, major structural changes had to be made to make industrial activities more effective, to give a fresh start to industrialization and make it play the role of a driving force in the process of economic and social development of African economies. To do this, industry had to become competitive and dynamic, and cease to be a burden on the resources of African countries.

After the mistakes and difficulties of the past, there is today a consensus on some basic imperatives which should from now on guide strategies and policies to create the right conditions for a new start of industrialization.

- Industry must find new markets. It cannot be strengthened and expanded with the depressed internal markets of recent years and the half-hearted opening to exports which has characterized it so far.
- Industry must be able to dispose of the financial, human and technological resources necessary to be competitive and ensure its development.
- Industry must enjoy an environment more favourable to the emergence and strengthening of industrial activities which have been so seriously restricted in respect of all the factors and support services which they need.

Apart from these major necessities, without which the strategies and programmes of action run the risk of being inoperative, there are also some essential guide-lines now agreed on by all the partners in industrial development, both national and international:

- the role of the State must be changed. Its activities as promoter and manager have not been decisive, and the excess of regulations has hampered the expansion of industries.
- The mechanisms of the market economy, the signals it gives, and the yardstick of competitiveness it provides, should no longer be rejected and ignored as they have sometimes been in the past.
- A major role now devolves on private initiative in the process of industrialization, and in consequence this process will have to be more open to help from outside.

These general imperatives and orientations, which make up the common ground of the industrial approach in the Africa of today, have still not found their final and unequivocal expression in complete, detailed and firmly established industrial strategies and policies, or in methods of action which will ensure that these strategies and policies are expressed in effective operational approaches.

Strategic management applied to the process of adjustment can help to define more effective approaches and more efficient means of action, so as to help the industrial sector both to adapt and to resume growth in its activities.

It is clear that the internal and external context of African economies makes it impossible to dodge global policies of adjustment and/or of stabilization aimed at re-establishing the fundamental economic and financial balances and creating conditions more favourable to a resumption of economic growth. It is also clear that these policies will be - for what seems a long time - the framework in which the sectoral strategies and policies of development will have to be thought out, formulated and carried out.

Where the industrial system is concerned, it seems that the analysis of African industry and the observation of the process of adjustment justify two essential and related findings:

- the programmes and measures applied in the context of the global process of adjustment have not dealt with all the problems and restrictions experienced by the industrial sector, and probably were not intended to do so;
- but at the same time it appeared that industrial firms could not adjust and change their relations to these problems and restrictions, unless their envi-

ronment was improved. This environment is still too uncertain and fluctuating, and still contains too many sources of inefficiency which limit the efforts firms can make in respect of their internal organization.

So to make industry more effective and more dynamic, it is not enough to establish rules of the game that are pertinent, clear and neutral, and then sit back and wait. Obtaining a positive response from the production system calls for a more active and better targeted approach from the economic authorities. That is what will determine the success or failure of the objectives of better competitiveness, capacity for exporting, integration of activities, capacity for accumulation and growth. This is how industrial firms will be able to adapt and adjust in the new context of competition which is being established. The strategic management of industrial development can contribute to this process.

B - BASIC PRINCIPLES OF THE STRATEGIC MANAGEMENT OF INDUSTRIAL DEVELOPMENT

To make the adjustment of the industrial sector effective, a concerted action is necessary. This calls for the articulation of strategies and objectives which are clear and supported by those concerned, and for effective programmes of action.

If we are to give appropriate expression to the strategies and programmes of action, experience in industrial development allows to put forward three principles for action, the indispensable keys to success. They are the pillars of the strategic management of industrial development.

B.1. Industrial sub-systems are the proper level for action

Experience has shown that any strategy or programme of action has little chance of being effective at the level of industry as a whole. And action at the level of individual firms runs the risk of being fragmentary and insufficient. A more appropriate level must be defined.

Now, industrial activity is not isolated and uniform over the whole range of branches of industry. It is dependant on a whole complex of relations between industrial firms and other economic operators, and this network differs from one activity to another.

This is in fact the way in which industrial sub-systems[1] are organized; they are more or less homogeneous and more or less structured. They appear around the processing stages of a resource (e.g. the cotton industry downstream from the production of cotton), around the distribution to a final market (e.g. the drinks industry), around a technological process (e.g. engineering or, more narrowly, the automobile industry) or again around a type of supply (e.g. the packaging or maintenance industries). One could also be dealing with a sub-system of rural industries organized around a type of agricultural product.

So an industrial sub-system can be defined as a set of operators all involved, more or less directly and more or less as a main activity, in the production of products of a certain type and/or the satisfaction of a certain type of market. This includes not only production companies but all the operators involved: these may be financial or transport services, supply or distribution firms, training structures, administrations issuing regulations, etc.

In fact, the behaviour of all the actors concerned and the relations between them determine the organization, the working and performance of the industrial sub-system; on this the global efficiency of industry depends.

Thus, individual sub-systems are the appropriate level of action. This is where constraints can be removed, organizational deficiencies remedied and support provided to those engaged in industrial development.

At the global level, one can do no further than detect and deplore a certain number of defects, without being able to do anything about them since, at this level, one cannot get much grip on them. Problems of supplies, of technical inputs, of inventories, of taxes, of financing, of capacity utilization, can be noted and recorded: they are general problems in the sense that they are encountered constantly and everywhere. But often there is no global solution to problems of this type. In each case, in each industrial sub-system, they appear in different form.

So the conditions of efficiency and competitiveness differ from one industry to another; in fact from one sub-system to another. The characteristics of the markets are different, the commercial networks more or less complex, the conditions of competition vary, the behaviour of suppliers is not the same, the

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1 Other similar but less appropriate concepts could have been used, the most current being those of the French term "filière" and the English term "value chain".

organization and the weight of factors change, the technology does not evolve at the same pace, etc. This is to say that each industrial sub-system has its own conditions of effectiveness and competitiveness, and each one has a different logic of organization. Thus, the working and development of a pharmaceutical industry proceeds from principles which differ from those of a wearing apparel industry. In the former, technological innovation is essential, in the other, social behaviour is decisive. So in order to act on the development of the different industries, one needs, over and above the common basic rules, strategies and programmes of action well adapted to the structural and organizational characteristics of each sub-system, taking account both of its present state, of its degree of development and its evolutionary trends.

It is clear that in firmly established industrial systems where the industrial fabric is very dense, where the practices and rules governing the relations between the operators are well established, where the professions are highly structured, where behaviours are stable and known, the relations between those involved are, to a considerable degree, self-organizing. This considerably reduces the additional organization and support requirements of the sub-systems. Incentives can be geared to changing known patterns of behaviour. Obviously, such circumstances do not prevail in African countries.

B.2. Action must be concerted

The strategies and plans of action necessary at the level of the sub-systems must be thought out and carried out with the involvement of all concerned.

Today, the failure of central planning is there for all to see, and not only in Africa. Moreover, the industrial policies of the adjustment programmes do not seem to produce positive supply responses - or at least not to produce them fast enough.

In the context of adjustment, industrial firms need help and support, they need a stronger organization and the effectiveness of their environment; all this requires concertation. And we hardly need to recall the fact that change ca' e carried out efficiently only if those concerned are involved in the change and support it.

Industrial firms, indeed, operate in sub-systems where actions are interdependent and complementary, converging towards productions which must be competitive. In this interplay, there are opposing interests and competitive conflicts, but also common interests and convergences. Improving the effectiveness of an industrial sub-system involves strengthening the convergences by making use of the common interests, but without eliminating economic competition and individual motivations. For example, it is obvious that all manufacturers of cotton fabrics have an interest in cooperating - including cooperation with the spinners - so that the conditions of supply of cotton thread should be the best possible in terms of quantities, prices, quality, delivery times, etc., but this does not prevent their competing on the same markets.

So the objective is to attain the best working conditions for, and performance from, the sub-system, to be shared by all and from which all can benefit.

Only concertation between those involved can produce that such a result. This means that the operators involve must meet together, must discuss not only possibilities and objectives but also the means of attaining them.

It is also necessary for the resulting strategies and programmes of action to be built around the consolidation or emergence of convergent interests. Only in this way, can behaviours and relations be changed, commitments for action be obtained and, in a word, the efficiency of the sub-system be improved. Then the strategies and programmes of action become, quasi contracts between those involved in an industrial sub-system.

B.3. Action must be continuous and progressive

Too often in the history of African industrial development, action has been specific to a project, a firm, a regulation, etc. Thus, have often neglected the conditions of the environment, the requirements of a particular sub-system, the preliminary studies, the necessary sequences and especially the permanent hazards and changes that affect the real life of industries.

Experience shows that all this has to be managed and managed over time, as industrial life ebbs and flows with the internal or external factors which act on it.

So it is not enough to define once and for all strategies and programmes of action for some industrial sub-system and then to imagine that each of the parties involved will do what they ought to do so that, by a sort of spontaneous convergence, all these actions will join together to attain the expected result. One must first of all check that the commitments made by each of the parties are, in fact, carried out, and that the measures adopted in the action programmes are progressively implemented in concrete terms according to defined deadlines. Then the impact of these actions must be recorded and compared with expectations.

One must also be ready, at times, to take the measures necessary to overcome inadequacies, solve unforeseen problems, and act more strongly on one point or another. Finally, one must be capable of analysing changing circumstances and factors, external or internal, and where necessary of rectifying actions and objectives.

This permanent and necessary follow-up of the implementation of strategies and programmes of action at the level of the sub-systems necessarily implies continuous management, which the organizers of the concertation must provide.

So, in the light of the three basic principles just recalled, the strategic management of industrial development appears:

- on the one hand, as a purposeful process of action aimed at improving competitiveness and encouraging investment in industry by continuous intervention on the conditions in which industrial enterprises operate,
- and on the other hand, as a process of concerted organization via a systematic approach not just to one project, not just to production firms or to one branch of industry, but to a whole set of operators, related and interdependent in a given industrial sub-system.

C. THE PRACTICE OF THE STRATEGIC MANAGEMENT OF INDUSTRIAL DEVELOPMENT

It is on the basis of these principles of action that UNIDO has in recent years developed methodologies and assistance in for the strategic management of industrial development in several African countries[1] It is through this technical assistance that the experience has been gained and the methods of action worked out with the aim of gaining greater mastery over both the adjustment and the development of the industrial sector. There is still ample scope for perfecting this experience and these methods of action. Here the key aspects will be recalled.

C.1. Identifying the industrial sub-systems

The identification of the industrial sub-systems is an element of the greatest importance, for it is here that strategic management begins: what sub-system is relevant in terms of a network of relations between the operators involved.

The relevant sub-system is not simply a set of operators linked functionally by the nature of their activity (for example, food processing firms); it is an set of operators who are concretely in relation and hence interdependent.

In an food processing sub-system, there will of course be industrial transformers as well as agricultural producers, farmers' organizations perhaps, suppliers, possibly collectors, storage structures, transporters, a stabilization fund, bankers who grant seasonal credits, commercial distributors, administrations enacting specific regulations, etc., each of these operators having a more of less important role according to the sub-system.

It is obviously the existence of sufficient links of complementarity and interdependence between those involved, and a minimum of convergent interests that makes it possible to define the sub-system and its components. The UNIDO experience has led to operate in a very pragmatic manner, taking into account the configuration of the industrial fabric and the de facto relations which have been developed between those involved.

This being so, it is seldom possible to intervene on all the industrial sub-systems identified - in particular for reasons of resources and capacities. This

[1] This type of action has been developed - or is on the point of being developed - in Burkina Faso, Senegal, the Ivory Coast, Zaïre, Cameroon, Niger, Congo, Guinea, Madagascar and Nigeria.

limitation has led to the selection of a limited number to start off with, with the prospect of gradually extending the action.

This selection is also made on a pragmatic case by case basis, in the light of some obvious criteria for ensuring that the action is as effective as possible:

- The extent of the constraints and organizational deficiencies and/or the complexity of the relations of industrial enterprises with their environment. In other words,the necessity and utility of concertation, on the one hand, and on the other hand a possible supporting role for the State to eliminate constraints and deficiencies.
- The possibility of producing effects of synergy in the field of production and technology (i.e. accelerating a process of innovation, achieving economies of scale, etc.), in the commercial field (i.e. reducing distribution or promotion costs, etc.), in the field of costs and prices (i.e. better negotiation of the prices of inputs, reducing certain expenses such as the costs of training personnel etc.).
- Picking out potentialities for the development of effective and competitive industrial activities. In other terms, the existence of a possible cumulative trend either for improving the effectiveness of existing industries or for developing markets, or for establishing an effective new production potential.
- The weight of the sub-system in the industrial economy.
- The degree to which the sub-system contributes to the country's socio-economic objectives such as, for example promoting agricultural development or adding value to a primary resource.

C.2. The organization of concertation

Concertation is at the core of the strategic management of an industrial sub-system. It is the key factor for mobilizing effort and the commitment of those involved to improving the economic effectiveness of the sub-system. It is through concertation that one can arrive at the most concrete analytical diagnosis of the working of a sub-system and of the problems it raises. Thanks to concertation, strategies and programmes for action that deal with the real problems can be worked out, that are accepted by those involved and that enhance the potential for action represented by the convergent interests of the partners. Finally, it is through concertation that it will be possible to follow up on these strategies and programmes and to see that commitments are respected.

The point of this concertation is to be operational, to affect objectives, and reciprocal commitments. In fact, it is on the quality of this concertation that the whole exercise depends.

This shows how essential it is for the concertation to be organized. Success is not easy and to be effective, some basic requirements must be respected. Here are the most important.

- First of all, the key actors must participate effectively, not only the industrialists, other agents specific to each industrial sub-system. Obviously in a sub-system for the processing of resources, the actors upstream from industry are very important. The decisive actors in another case may be in distribution, or packing activities, or transportation.

  All those whose role is essential must be present: industrialists, suppliers, banks, supporting institutions, administrations, etc. On the other hand, if the circle becomes too large, there is the risk of making concertation impracticable or too dispersed.

- The concertation must be recognized as such by those involved, and this implies that the common interests must be brought out and concertation organized around them. This is the condition for producing a shared willingness to make commitments. For the concertation to be recognized as such, it seems necessary to formalize or institutionalize it and to give it working methods and procedures.

- The concertation must be "fed". This implies that information be gathered and analysis made to supply the elements necessary for concertation and to give shape to the resulting scenarios and measures for action. This requires a structure. Care should be taken however less it be transformed into a technical or planning commission and leave the field of action and convergence of interests.

- Finally, it must be effective. This means that it must amount to real action by those involved and, in particular, produce something more than two or three people getting together for a meeting, or going to knock on the door of a Ministry.

These are the bases on which concertation groups have been set up for a limited number of industrial sub-systems in the countries which have been recipients of UNIDO assistance for the strategic management of industrial development. Each of these groups was assigned the responsibility for formulating and implementing a strategy and an action programme for its sub-system.

C.3. Preparing and carrying out strategies and action programmes

Three stages are involved in preparation: The first is to establish a well founded *diagnostic* on:

- the organization and working of the sub-system;
- the role of the State in its organization and performance.

Organization and working conditions must be analysed in relation to the performance of industrial activities within the group. Constraints and causes of malfunctioning, of uncertainty, of over-costs must be identified, concerning markets (for inputs and outputs),services (supply, distribution, transport, financing, public utilities), facilities for training, for consulting on management and engineering, for repair and maintenance.

Concerning the public authorities, the following points must be covered:

- rules and controls, taxes and investment incentives, domestic and foreign markets, credit, foreign exchange availability, technical factors, labour market regulations;
- role and performance of public enterprises in production,trade and finance;
- support institutions and their programmes: promotion, finance, technological transfers and development, training,norms and quality control, infrastructure investment, technical and financial assistance from funding agencies.

The next step is to define a *strategy* for the development (or the restructuring) of the sub-system.

This covers:

- choice of products and markets;

- industrial organization and technologies;
- goals to be reached.

The definition of an *action programme* is the final step. It includes:

- a set of measures to improve the industrial framework, in terms of administration, regulation, ince: .ves and taxation.
- a consistent set of actions and investments to improve the efficiency of services required by the firms in the sub-system:supply, marketing, transport, financial and industrial services,technical training and mastery, infrastructure etc.
- the identification of investment needs or opportunities, to develop the subsystem in integrated and effective fashion. Such investment may concern the establishment of new facilities, or the restructuring and modernization of existing plant.

Three important points must be made concerning these strategies and action programmes.

- They must be realistic, clear and operational. This presupposes that the targets are in fact attainable, that those involved have made precise mutual commitments and that actions expected from the partners are concretely defined.
- They must be translated into terms of resources, both human and financial, to be mobilized both by the actors involved and by the State. Consequently, the action programmes must identify their needs for technical and financial assistance.
- Finally, and above all, they must be consistent with the global and sectoral economic policies pursued by the country. For example, there would be no point in providing for subsidies if budgetary policy did not permit subsidies.

Once the strategies of the action programmes have been prepared, they have to be carried out and this implies three levels of action:

- to carry out the decisions of the concertation groups: those that concern the public authorities, and those for which private firms and organizations are responsible;

- to mobilize the resources needed to carry out the programmes, be it for technical assistance or finance;
- to follow the development of the sub-system, evaluate and if need be, modify the strategies and action programmes.

C.4. The role of the State

Without going back to the valid criticisms of the former role of the State and of the constraints it had created, its new function, as it arises from the strategic management of industrial development, must be underlined. First responsibility here belongs to the firms, supported by the State where needed. This implies that public authorities participate, as well as the other agents involved, in the concertation process and in the creation of favourable conditions for an effective development of the sub-system.

In other words, in relation to earlier practice, strategic management implies a shift in initiative to the "private sector", and hence an enhancement of the role of firms and a lessening of the public role. The group dominated by firms conceives and carries out industrial development in each sub-sector. This in no way excludes the active presence of the authorities directly concerned, whose role remains important.

This role need not be the the same in all sub-systems. It will vary with the type of problem and the state of development of each, with the strategies and action programmes. Thus the State could still appear as an industrialist in some fields of transformation of primary products, while in another sub-system, it might have practically no role in the organization of its development.

Still, three aspects of strategic management will normally call for State contribution:

- it can initiate the process, set up the concertation group, and ensure its good working, creating procedures, supplying data and studies, arbitrating conflicts;
- it must bring its own contribution to action programmes in the areas of its competence. It may also set up some supporting services, such as training, promotion, institutions for norms or technology;

- it must ensure the consistency of strategies and action programmes with both macroeconomic and sectoral policies. Public authority representatives must take care of interministerial coordination and make sure all departments of the State will concur in the actions within their competence.

C.5. Technical support

To analyse the working of sub-systems, define strategies and action programmes, follow up their application, two things are needed, adequate information systems and methodology. Assistance supplied by UNIDO for strategic management is increasingly concerned with these two instruments.

It is well known that in many African countries data collection has deteriorated to the point of sometimes becoming almost non existent. The object here is not to re-create an ambitious statistical basis, but rather to organize a supply of information, more modest in width, but more precisely targeted and to the point. Its aims would be:

- to help define industrial sub-systems and understand their working;
- to supply the data and analysis needed to formulate strategies and action programmes;
- to follow the development and performance of sub-systems, and therefore of industry as a whole.

With regards to methodology, the aim is to find the tools that allow both for a better understanding of the mainsprings of development and for its more effective management.

Both data and methods aim only at helping decision and should thus be developed in the groups of concertation between the administration and the firms. This should prevent them from turning into vacuous bureaucratic tools.

It is also clear, and was noted above, that the strategic management process must be supplied with specialized studies and analysis, as required by the concertation groups; this may sometimes involve external support.

C.6. Resources mobilization

Industrial development, which strategic management addresses, clearly needs considerable resources. Africa does not possess them, and even less than a few years ago, owing to the problems it faces and the austerity commanded by adjustment policies.

More than ever therefore, Africa needs additional external resources to cover development needs, be it in the form of technical assistance or investment. The action programmes discussed above thus offer a sound basis to mobilize and coordinate foreign technical assistance and funding around well defined objectives, and to prevent their dispersal.

Two procedures are used for the purpose:

- meetings of donors to define and coordinate the technical assistance needed for carrying out strategies and action programmes;
- promotion campaigns to inform domestic and foreign investors about both identified opportunities and the whole set of means of support to industrial activities in the various sub-systems.

CONCLUSION

From the point of view of industrial development, all the policies of structural adjustment are betting on a positive reaction from private supply. The strategic approach can help to win this bet and make *the adjustment of the industrial sector effective*. Then the strategic management of industrial development would act as catalyst of adjustment within industry.

Policies of adjustment tend, in fact, to realign national productive structures in terms of comparative international advantage. By exposing national firms to competition from outside and by eliminating distortions, one should in the longer term o expect greater specialization, a higher degree of effectiveness and an increase in exports. Now, even though everyone agrees on the necessity for policies of structural adjustment, it is clear today that the positive results expected are slow to appear in the industrial sector. All the economies in the process of adjustment appear to remain at the transitional stage, and that the re-allocation of factors of production within industry merely consists so far in abandoning a number of productions without new ones coming to take their place.

Adjustment programmes set the stage, and it is up to the economic actors, and mainly those in the private sector, to take advantage of the new setting. The strategic approach makes it possible for private operators to pass from the "wait" mode to the "action" mode by discerning the opportunities, having access to information on promising sectors, identifying the obstacles to be eliminated and, more generally, by coordinating their development actions and strategies. By giving priority to concertation between the different national actors, the institutional solution provided by the strategic management approach favours the emergence of those behaviours desired by the adjustment policies.

The strategic management of industrial development is able to support adjustment:

1° by strengthening the institutional capacity for managing the programme;

- (i) through building a permanent consensus around it;
- (ii) through making transparent the policies which affect industrial activities;

(iii) through updating and adapting adjustment measures to the constraints experienced by firms;

(iv) through adopting an orderly and realistic sequence in installing the policies.

2° by encouraging directly positive supply reactions by means of the action programmes of individual firms, by strengthening their competitiveness and by providing incentives for new investments.

Adaptation for firms requires the opening up of a field of action within which the firm would, on the one hand, retain control over the main variables entering its strategic and operational decisions and would, on the other hand, coordinate its actions with the other actors who have a decisive effect on its development. This field is, in fact, the industrial sub-system to which the firm belongs. The State would automatically be part of it.

But there are factors outside the field of direct responsibility of the firm, such as exchange rates, customs tariffs, the rules for imports and exports, the elements of direct and indirect taxation, the legal rules relating to the transfer of capital and dividends, the conditions of credit, the rules for approval of projects, labour laws and price control. Firms take these constraints as given, by internalizing them while establishing, via strategic management, a dialogue with the public authorities to modify those which they deem inappropriate. Moreover, firms express themselves through their choices of markets, of technology, of supplies, and more particularly through their acts of management. Their decisions, which reflect their competitive position and their constraints, take shape around contracts, alliances and agreements with the other actors and in interaction with them.

Strategic management offers a platform for coordinated action on both the parameters of regulations and on the interactions of firms with their environment.

The relations between economic agents, in particular between the State and the industrial private sector, are not clearly articulated in the adjustment programmes. The degree, the type and the substance of concertation between the public authorities and the private operators vary from one country to another, and no general form can be discerned. The strategic management of industrial development can fill this gap by proposing a scheme for both concertation and action between private economic operators and those in the public sector.

Such actions arising from concertation will make it possible not only to eliminate sources of distortion, as structural adjustment intends, but to provide benefits which could not be enjoyed by the firms separately (for example, those generated by infrastructure and investment in national manpower). Action by the concertation groups will also help build up and consolidate comparative advantages which are not permanent in time and space.

In this way, structural adjustment accompanied by the strategic management of industrial development could, jointly appear as the necessary and sufficient conditions for industrial growth. The industrial strategies and action programmes could contain the adequate and harmonious measures of adjustment and, at the same time, a clear vision of the objectives and resources of all kinds to be put in hand with a view to the development of industry.

Then, by means of strategic management, the adjustment of the industrial sector would have a greater chance of proving both efficient and effective.

STATISTICAL APPENDIX

TABLE I
Share of Manufacturing Value Added in GDP
(% based on constant 1980 dollars)

COUNTRIES	1975	1985
Algeria	7.6	9.5
Angola	3.0	2.5
Benin	7.8	5.7
Botswana	9.2	3.8
Burkina Faso	12.5	12.2
Burundi	6.7	7.2
Cameroon	10.0	17.0
Cape Verde	5.7	5.3
Central African Rep.	13.1	8.9
Chad	9.3	8.6
Comoros	8.0	5.4
Congo	5.8	8.3
Djibouti	6.2	7.2
Egypt	14.0	13.6
Equatorial Guinea	7.2	5.7
Ethiopia	9.2	10.6
Gabon	4.6	6.2
Gambia	6.1	12.9
Ghana	10.5	6.3
Guinea	3.1	3.2
Guinea Bissau	1.5	1.5
Ivory Coast	11.0	10.4
Kenya	8.7	12.1
Lesotho	4.0	5.7
Liberia	8.2	7.5
Libya	1.3	4.1
Madagascar	11.9	13.6
Malawi	16.8	14.6

COUNTRIES	1975	1985
Mali	3.9	5.1
Mauritania	3.5	4.2
Mauritius	11.5	15.3
Morocco	18.7	15.5
Mozambique	11.3	6.6
Niger	4.7	3.6
Nigeria	2.9	4.7
Reunion	9.5	8.8
Rwanda	15.3	17.1
Sao Tome and Principe	9.1	10.2
Senegal	14.7	13.9
Seychelles	7.4	7.2
Sierra Leone	7.3	5.8
Somalia	5.7	4.9
Sudan	8.0	8.0
Swaziland	17.1	17.8
Togo	7.0	6.7
Tunisia	11.8	13.6
Tanzania	9.7	7.3
Uganda	4.1	4.0
Zaïre	3.0	2.5
Zambia	18.5	19.8
Zimbabwe	23.3	20.4
North Africa	8.8	10.5
Central Africa	7.1	10.1
West Africa	5.9	5.7
East and Southern Africa	10.7	10.2
Least Developed Countries in Africa	7.1	6.7
Africa	7.5	8.9

Source: Africa in Figures. ONUDI PPD.95.

TABLE II
Value Added in Manufacturing and its Growth Rate

COUNTRIES	1985 [1]	Growth Rate 1980 - 1985 [2]
Algeria	4 787	9.2
Angola	40	2.3
Benin	51	3.2
Botswana	52	1.6
Burkina Faso	125	3.2
Burundi	83	1.4
Cameroon	1 201	21.1
Cape Verde	5	6.5
Central African Rep.	52	3.0
Chad	50	-5.9
Comoros	5	4.6
Congo	101	8.9
Djibouti	28	0.7
Egypt	8 311	8.2
Equatorial Guinea	3	3.6
Ethiopia	481	4.0
Gabon	223	-0.7
Gambia	20	14.7
Ghana	742	-5.6
Guinea	65	3.4
Guinea Bissau	1	-0.8
Ivory Coast	808	-1.4
Kenya	631	3.8
Lesotho	21	4.2
Liberia	59	-4.8
Libya	1 530	10.0
Madagascar	265	3.3
Malawi	166	3.4
Mali	82	8.2
Mauritania	43	-2.4

COUNTRIES	1985 [1]	Growth Rate 1980 - 1985 [2]
Mauritius	177	7.4
Morocco	1 972	0.7
Mozambique	331	-8.7
Niger	68	0.6
Nigeria	3 020	-5.6
Reunion	168	2.6
Rwanda	268	5.2
Sao Tome et Principe	3	-1.7
Senegal	465	2.5
Seychelles	15	1.2
Sierra Leone	54	-7.1
Somalia	96	1.3
Sudan	488	0.4
Swaziland	70	3.3
Togo	43	-3.3
Tunisia	990	6.8
Tanzania	393	-4.7
Uganda	21	5.4
Zaïre	31	-2.8
Zambia	593	0.2
Zimbabwe	1 314	0.9
North Africa	18 079	6.1
Central Africa	2 056	12.0
West Africa	5 651	-3.7
East and Southern Africa	4 825	1.5
Least Dev. Countries in Africa	2 767	1.4
Africa	30 610	3.3

[1] in current dollars.
[2] in constant dollars (1980).

Source: Africa in Figures. ONUDI PPD.95.

TABLE III

Manufacturing Value Added per capita

COUNTRIES	1975 [1]	Growth Rates 1980 - 1985 [2]
Algeria	220	5.9
Angola	5	-0.2
Benin	13	0.2
Botswana	47	-2.2
Burkina Faso	18	0.7
Burundi	18	-1.4
Cameroon	122	17.9
Cape Verde	16	4.4
Central African Rep.	20	0.7
Chad	10	-8.0
Comoros	11	1.5
Congo	58	6.1
Djibouti	77	-2.4
Egypt	177	5.6
Guinea Equatorial	9	1.4
Ethiopia	11	1.5
Gabon	193	-2.3
Gambia	31	12.5
Ghana	55	-8.6
Guinea	11	1.0
Guinea Bissau	1	-2.6
Ivory Coast	82	-4.9
Kenya	31	-0.4
Lesotho	14	1.6
Liberia	27	-7.7
Libya	424	5.8
Madagascar	26	0.5
Malawi	24	0.3
Mali	10	5.1
Mauritania	23	-5.2

COUNTRIES	1975 [1]	Growth Rates 1980 - 1985 [2]
Mauritius	169	5.4
Morocco	90	-1.7
Mozambique	24	-11.2
Niger	11	-2.2
Nigeria	32	-8.7
Reunion	315	1.7
Rwanda	44	1.7
Sao Tome et Principe	32	-4.3
Senegal	72	-0.0
Seychelles	194	-1.9
Sierra Leone	15	-8.8
Somalia	21	-1.6
Sudan	23	-2.4
Swaziland	108	0.2
Togo	14	-6.1
Tunisia	140	4.6
Tanzania	17	-8.0
Uganda	1	2.0
Zaïre	1	-5.6
Zambia	89	-3.1
Zimbabwe	150	-2.6
North Africa	147	3.4
Central Africa	29	8.9
West Africa	33	-6.7
East and Southern Africa	30	-1.6
Least Developed Countries in Africa	15	-1.4
Africa	220	5.9

1 in current dollars.
2 in constant dollars (1980).

Source: Africa in Figures. ONUDI PPD.95.

LISTE OF DOCUMENTS

A. Case Studies

- Ivory Coast	Mr A. Lungart
- Ghana	MM R.C. Riddell and E. Taylor
- Kenya	MM I. Karmiloff and T. Killik
- Nigeria	MM U.O. Eleazu and A. Hewitt
- Morocco	MM F. Oualalou. L. Jaidi and Mme T. Zhiri
- Senegal	MM J. de Bandt. S. N'Diaye and H. Tilliole
- Zaïre	Mr B. Beaudonnet

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- Textiles	Mr J. de Bandt

C. Studies on special topics

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- Financing Problems	Mr J.J. Deveaud
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