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# REGENERATING MANUFACTURING INDUSTRY IN AFRICA: COUNTRY BRIEFS

4/14

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## ALGERIA

### 1. General introduction

Hydrocarbons account for about nine tenths of exports, about a third of government revenue and about a quarter of GDP. Unlike most other members of Opec, Algeria's hydrocarbons sector is relatively diversified and is therefore partially protected from world price shifts. The current emphasis is on conserving crude oil reserves and expanding output of natural gas, condensates and LPG to account for 90 per cent of hydrocarbon exports by the end of the century. Oil reserves, estimated at about 6,800 million barrels of high quality, low sulphur oil, are enough to last 25-30 years at current rates of extraction. Proven natural gas reserves are over 3,000 billion cubic metres, the fourth largest in the world. Algeria is rich in minerals including iron-ore, uranium, zinc, phosphates, gold, antimony, bituminous coal, tungsten, manganese, lead, mercury and salt. Mining of iron-ore and phosphate is the most important both as input to local industry and for export. Agriculture although employing about a quarter of the labour force, has declined and contributes under 10 per cent of GDP. The government plans to increase output and to reduce import dependence through measures including new technology, stimuli to the private sector, financial incentives for state and private sector farms and tree planting to halt desertification. The main cash crops are grapes, oranges, olives, dates, tobacco, sugar beet and tomatoes.

Economic growth has been less vulnerable to oil price changes than in other OPEC countries owing to successful early efforts to diversify away from crude oil. Although the rate of population is over 3 per cent, the average real per capita growth rate was positive from 1970 to 1983 when oil prices collapsed and market conditions for gas exports became tighter. From the early 1960s economic policy was based largely on centralized planning entailing tight controls on investment, imports and prices. Between 1975 and 1985 hydrocarbon earnings, accounting for over 90 per cent of merchandise exports, helped finance a high level of investment. In response to weakening oil prices, the government tightened financial policies in 1984 and introduced several structural reforms. Following the collapse of world oil prices in 1986, the government tried to boost non-hydrocarbon revenues and reduce imports and investment while seeking to improve the efficiency of resource allocation (see also 4). Although the government had limited borrowing since 1980, external debt as a percentage of exports more than doubled to 283 per cent in 1988. Debt servicing commitments, owed mainly to commercial banks, have also continued to rise and were equivalent to 96.5 per cent of exports in 1988.

In 1989 the government agreed a twelve month IMF standby loan and a compensatory and contingency financing facility over three years, to help finance shortfalls in merchandise exports and the rising cost of cereals imports. IMF approval is based on a three year Algerian programme of reforms including subsidies and exchange rate policy. The government also agreed in 1989 its first World Bank structural adjustment loan, the Economic Reform Support Loan (ERSL). In addition to macroeconomic policies, the loan will also be directed at the financial and productive sectors, public and private entreprise, and agriculture.

2. The manufacturing sector

Manufacturing contributes about 10 per cent of GDP. In the ten years before the oil price collapse in 1986 investment averaged 40 per cent of GDP and contributed to the development of a relatively large industrial public entreprise sector focusing mainly on the domestic market. This triggered rapid annual growth of the non-oil sector which averaged 6 per cent in real terms. Industrialised development is centralized in the northern coastal strip but plans exist to extend industry to the high plateaux in the south.

Production is dominated by state-owned heavy industries such as steel, petrochemicals, fertilisers and cement. Traditional agro-based industries which are also important include textiles, food processing and tobacco and cigarette processing, all of which are being expanded.

Food processing which has been the main subsector since before independence is dominated by two leading state entreprises: Sogedia, responsible for a dozen fruit and vegetable processing and canning factories, a sugar packaging plant near Oran and a beet mill at El Khemis; and SN-Sempac, producing semolina and pasta at over a hundred units. Both of these companies have recently [illegible]en restructured and divided into smaller units.

Milk production and distribution is now also organised on a regional basis with three companies (Orelait, Orlac and Orolait) isuing from the restructuring of Onalait in 1981. There are three breweries and several small manufacturers of soft drinks.

One of the government's priority projects in this subsector is the production of tomato concentrate; output of tomatoes for processing rose to 30,000 tons in 1988 (over double that in 1977) from about 15,000 hectares cultivated. There are plans to extend industrial tomato cultivation to 20,000 hectares.

SNTA manufactures cigarettes and matches at Blida.

Based on the 3.5 million hectares of forest, the timber industry, run by state monopolies, processes about 272,000 cubic metres annually. Algeria is the world's third largest cork producer after Spain and Portugal with output of about 80,000 tons annually. The cork industry was nationalised in 1967 and restructured again in 1983.

Fishing is relatively underdeveloped and efforts to modernise it since 1969 have been largely unsuccessful. Algeria has 1,000 km of Mediterranean coast and has formed joint companies to exploit rich Atlantic fishing waters in partnership with West African states such as Mauritania, Senegal and Guinea Bissau. Although Mediterranean fishing ports are being modernised and expanded, most fishing boats are small and family owned and the industry employs about 33,000, a third of whom are fishermen.

The textiles and clothing subsector has contributed about a sixth of value added since the mid-1970s. Production is dominated by the state companies Cotitex (for cotton), Inditex (for industrial textiles) and Elatex (for wool) which operate about 40 mills and account for about two thirds of production in these subsectors. The main factory is the Cotitex plant at Draa Ben Khedda and important blanket factories have been commissioned at Batna and Tissemsilt. Since the restructuring of Sonipec in 1983, the state shoe and leather producer is Emac, whose goods are distributed by Distrech (e.g. 18.4

million pairs of shoes in 1986). Output is planned at about 50 million pairs with the coming on stream of a new factory at Mascara.

Iron and steel is the second largest subsector in terms of employment. The main production unit, the Al Hadjar steel works near Annaba with a capacity of 2.2 million tons/year, includes a sintering plant, blast furnace and cold rolling mill which were opened in 1969. A series of smaller steel works located in various parts of the country are under way or planned including one at Bellara, near El Milia, with a capacity of 1 million tons annually, which is due to come on stream during the mid-1990s. Many plants stil operate far below capacity although the development of Algeria's manufacturing industries is expected to boost domestic consumption of steel and the government is also stimulating export sales (worth about US$ 55 million a year at current levels and 1989 average exchange rates) by selling cheaply to countries such as Italy, West Germany and the UK.

The metallurgy industry, now divided into several companies issuing from SN Metal, is a major user of steel and iron. The Entreprise Nationale de Charpente et de Chaudronnerie (ENCC) has emerged as a leading local company.

The 40,000 tons a year zinc electrolysis plant at Ghazaouet is being modernised.

An aluminium smelter costing estimated $1,000 million is to be built in 1990 on the west coast in a joint venture between International Development Corporation of Dubai (IDC) and a group of local entreprises. The project, which is expected to take three years, includes construction of a 400 mw dedicated gas-fired power station and upgrading of a port. Initial capacity will be 220,000 tons annually rising to 330,000. All output will be for export.

Heavy vehicles (1.5 million tons and over) are manufactured by SNVI, at Rouiba where Berliet and Renault used to operate vehicle assembly plants. In 1970 Berliet sold out its majority interest to Sonacome and agreed to triple capacity at its Rouiba plant, a task completed during 1978, when output totalled 6,300 units. In 1986 Algeria produced 6,672 lotties and 730 buses.

A joint venture established in 1987 between Fiat of Italy and the Entreprise Nationale de Production de Véhicules Particuliers (ENPVP) aims to produce 30,000 units annually in the 1990s at its plant at Ain-Bouchekif near Tiaret. A second car plant, agreed with Peugeot of France in 1989, is due to start production later in 1990 with an estimated annual capacity of 4,400 units. Domestic demand for light vehicles such as cars is estimated at 100,000 units annually.

Cement production, controlled by four regional Entreprises des Ciments et Dérivés, is about 6.5 million tons annually.

Petroleum refining has been a rapidly expanding subsector with annual value added growth averaging about 20 per cent since the mid-1970s.

The electronics industry includes, radio and television sets at a plant at Sidi Bel Abbès run by the Enie company;

household equipment (refigerators, cookers, irons) by Eniem at Tizi-Ouzou;

batteries by Enpec at a factory in Setif.

These companies issued from the restructuring of Sonelec in 1983. Electronics has also been one of the fastest growing subsectors since the mid-1970s.

The Chemicals industry includes an 800,000 ton/year nitrogenous fertiliser plant at Arzew and a 500,000 ton/year phosphate fertiliser plant at Annaba. Other fertiliser and chemical factories are planned or being built. At Skikda, there is a 120,000 ton/year plastics and PVC plant and a benzene refinery.

Ownership is still mainly in the state sector with private companies limited largely to small scale consumer-oriented industries, especially light engineering and food processing. The state still controls 90 per cent of the industrial economy and remains the main motor for planning and investment. Although the role of the private sector is still relatively small, the government is committed to broadening its scope (see also under 4).

The trend has been to encourage private entreprise and to decentralise. Since 1981 over ninety of Algeria's big state corporations including those in manufacturing have been divided into about three hundred more specialised units. Sonacome which until 1982 had the monopoly in manufacturing and marketing machine tools, tractors, agricultural equipment, lorries and cars has been split into four companies. The non-hydrocarbons sector has performed relatively favourably owing to increased flexibility in management and in pricing procedures combined with improved capacity utilisation of existing plants and the coming on stream of new production units.

Linkages particularly between heavy industries and other sectors of the economy are still weak.

Manufactured exports are negligible, consisting mainly of petroleum products, pig iron, zinc and industial chemicals such as methanol, glycerine and ammonia. Manufactured imports account for about 90 per cent of total. The main trading partners are France, Federal Republic of Germany and Italy for imports and the United States, France and Italy for exports.

3. Obstacles to production

The main constraint to development has been the shortage of foreign exchange. Owing to reduced oil export earnings the government has restricted imports particularly of consumption goods although this has also resulted in shortages of vital raw materials and spare parts. Lower export earnings have also resulted in reduced domestic demand.

In addition, manufacturing suffers from a lack of skilled labour, high production and transport costs and poor maintenance. A complicated bureaucracy tends to delay decisions and Algeria's export promotion is hindered by low quality, high prices and protection in EC countries.

4. Policies directed towards the manufacturing sector

Since the 1980s economic policy has become more flexible and there has been a growing acceptance that private enterprise should be stimulated to assist the public sector in its development goals. There has also a tendency towards decentralization, and even competition, between scaled down national companies and a realization that profitability as well as social benefit is essential in assessing projects and making economic decisions. In 1984 the government introduced structural reforms including a major reorganisation of public entreprises and some relaxation of import and price controls especially in the agricultural sector. This stimulated improved entreprise performance and higher agricultural output.

Priorities have changed from emphasis on developing a heavy industrial base (which has led to a rise in Algeria's external debt burden) to using that base for viable light industries that can satisfy growing domestic demand for both consumer goods and industrial equipment and become a major earner of foreign exchange to fill the gap left by declining hydrocarbon revenues. The 5-year Development Plan up to 1989 emphasised agricultural expansion and increased employment opportunities through expansion of medium and light industry. Priority was given to the development of manufactured exports. The plan also encouraged private entreprise. Privatization in industry is politically more controversial than in agriculture although the private sector is to be given an increased role in setting up manufacturing industries to process raw materials.

In early 1988 the government introduced a 3-year reform programme in public entreprise management to increase their efficiency and reduce reliance on treasury funding. The changes include full financial autonomy for 'non-strategic' public entreprises with economic decision making based on the rules of the market and contractural relationships. The government is to exercise its ownership rights indirectly through holding companies responsible for overseeing the activities of a group of public entreprises. Each public entreprise is to replace the detailed import programme with a foreign exchange budget and investment decisions are to be decentralised. Public entreprise managers are expected to discuss their financial needs independently with domestic banks.

New legislation on national private investment was adopted in mid-1988 with a view to stimulating private intitiative. Several joint ventures with foreign firms have been approved particularly in the telecommunications, transport and tourism sectors.

Emphasis is on integrating rather than increasing the existing network of small-scale light industries. This will include extension of existing units rather than investment in new factories (e.g. the cement works) to meet rising domestic demand. High-tech industries including clock manufacturing and synthetic fibres are planned for the 1990s.

The administrative framework has also been overhauled with the replacement in 1987 of the Ministry of Planning by a Planning Commission attached to the Prime Minister's Office. In addition, the ministries supervising industrial activities will now play only a supportive, as opposed to a direct management, role in relation to public entreprises. Economic decision making has also been decentralised at the local government level.

The government has improved relations with the international financial institutions such as the World Bank. In addition to a structural adjustment loan (see under 1), the Bank is also expected to provide additional funds to tackle problems in manufacturing including bottlenecks in the cement industry.

## 5. The scope for rehabilitation

The scope for rehabilitation is substantial particularly in conjunction with the IMF and World Bank supported reforms. Opportunities would include training, advice on marketing and proposals for increased linkages with other economic sectors. Priority candidates would be the longer established industries such as food processing, beverages, textiles and clothing. Additional targets would be industries such as iron and steel and chemicals in which capacity utilisation has been falling markedly over the past years. The government is planning some rehabilitation including the Al Hadjat steelworks. Much will depend on increased availability of finance from foreign donor countries, at present mainly France and Austria, and from multilateral sources, currently limited to World Bank support for water projects.

(For ongoing UNIDO projects, please see Appendix.)

## ANGOLA

1. General Introduction.

Angola is potentially one of Africa's most prosperous countries. With recoverable oil reserves estimated at over 20,000 million barrels, equivalent to 20 years' supply, Angola is sub-Saharan Africa's second biggest oil producer after Nigeria. It also has plentiful unused agricultural land, substantial hydroelectric potential and deposits of over 30 minerals, of which iron ore, coal, copper and manganese are the most important. Other commercially viable deposits are diamonds, phosphates, uranium, titanium, gold, bauxite, mica, nickel, limestone and asphalt rock.

Before independence Angola enjoyed a high-output economy compared with other African countries. Oil production was well under way, reaching 172,282 barrels a day by 1974 and, with the rise in world oil prices, oil became the main export, outstripping earnings from coffee, of which Angola was at that time the fourth largest producer in the world. It was also the world's fourth largest producer of diamonds (by value) and a medium size producer of iron ore. Angola was almost self-sufficient in food, had a large fishing industry and was a net exporter of agricultural produce. Though still small, the manufacturing sector was expanding in the 1960s and early 1970s, due to the growth of the expatriate market, generous investment incentives and the protectionist policies of the colonial regime.

Since independence in 1975, the Angolan economy has suffered several severe shocks. The mass exodus of the white settlers left factories and commercial farms abandoned and deprived the country of managerial, professional and technical skills. Civil war since 1975-76 has disrupted output, made transport and distribution increasingly difficult and led to the displacement of a large part of the population. Resources have been diverted towards defence which absorbed 40 per cent of total government expenditure in 1988. Per capita GDP fell from US$ 1,015 in 1970 to US$ 356 in 1988 (measured in 1980 prices).

Oil, the only sector to have been largely insulated from the effects of the civil war, has become the engine to economic growth and the principal source of fiscal revenue and foreign exchange earnings. Output rose from 155,000 barrels a day in 1982 to 455,000 barrels a day in 1989 and is expected to reach 500,000 barrels a day in 1990. Angola is not an Opec member and therefore not subject to output ceilings. Nevertheless, its economy has lost its pre-independence strength based on a diversified output range and has become vulnerable to changes in world oil prices. The trade balance which has traditionally been insufficient to offset persistent net deficits on invisibles narrowed in 1986 owing to the collapse in world oil prices, causing the current account deficit to widen and substantial debt servicing arrears to accumulate.

The economic and financial restructuring programme (SEF) started in January 1988, aims to reduce the state sector and to increase productivity, purchasing power and consumption levels. IMF membership in 1989 will pave the way for formal rescheduling of payments on Angola's external debt, estimated at US$ 4,000 million, about two thirds of which is owed to the USSR. In May 1989 a prefinancing loan of US$ 220 million was made by nine international banks to help repay short term debts and buy imports of capital goods in support of the SEF. Angola's accession to the Lome Convention is expected to make more EC funds available and to increase trading opportunities.

2. The manufacturing sector

The contribution of manufacturing to GDP declined from 16 per cent before independence in 1973 to about 10 per cent by the late 1980s. Although the main sub-sectors are currently oil refining and cement production, Angola has a relatively diversified manufacturing base including food processing, textiles, metallurgical industries including equipment for the oil industry, electrical goods and vehicle assembly. Output has declined to a fraction of pre-independence levels.

Continuing civil unrest, shortages of raw materials, unreliability of power supplies and disruption of transport have all contributed to the sharp decline in output. Official figures of manufacturing output in 1985 were only 54 per cent of their 1973 level. The sector suffered further during the ensuing three years when a decline in petroleum export earnings caused by the sharp fall in oil prices reduced the supply of foreign exchange needed to buy essential raw materials and capital goods.

Oil refining, apart from small oil facilities at Cabinda, is centred on the conventional hydroskimming plant at Luanda, owned jointly by Sonangol and Petrofina. Investments in 1986 raised capacity from 1.5 million tons to 1.7 million tons covering a wide range of products including domestic gas, 90 octane petrol, two grades of jet fuel, kerosene, diesel oil, three types of fuel oil and bitumen. The refinery meets most of Angola's domestic requirements producing an exportable surplus of fuel oil. Before the reported attack on the refinery in March 1986 output had increased to 1.39 million tons.

The main cement works, Cimangola (a joint venture in which Danish companies have a 32 per cent stake) has undergone extensive rehabilitation since 1982. Cement production which had failed to meet increased demand since independence was increased from 126,400 tons in 1984 to 205,000 tons in 1985, although still less than a third of pre-independence levels (767,500 tons in 1973). By 1986 the plant was producing enough to resume cement exports (182,700 tons in 1973 but halted entirely by 1982-85). The installation of a fourth kiln, with a production capacity of 850,000 tons of clinker a year, is expected to double annual capacity to 1.5 million tons of cement.

Food processing in pre-independence Angola, along with the brewing and tobacco sectors, was the most developed. Up to the early 1970s, a large number of food processing industries set up to process the increasing output from agriculture. These included flour mills, bakeries, dairies, meat processing, fish canneries and vegetable oil processing plants as well as breweries and soft drink plants. Output in the subsector in the 1980s was only a third of its real value in 1973. In 1987 manufacturing value added (MVA) fell by estimated 7.5 per cent. Estimated capacity utilization in 1987 of maize flour was only 31 per cent, wheat flour 42 per cent, noodles 33 per cent, biscuits 32 per cent, margarine only 9 per cent, beer 33 per cent, fermented drinks 46 per cent, soft drinks 20 per cent and wine 12 per cent. The drop in production of most agro-food industries is due mainly to the lack of agricultural inputs caused largely by the effects of the civil war (see under section 3). This is exemplified by the vegetable oil processing and flour milling branches.

Vegetable oil processing before independence used locally produced raw materials (sunflower seed, palm oil seed and cotton seed). Since the collapse of the agricultural sector, raw materials have to be imported for instance from Argentina. Owing to the government's fixed price system the companies cannot operate profitably. The industry is now limited to INDUVE with nominal

capacity estimated at 100 tons a day. Of the five other crushing plants in existence before independence none are currently operational. The branch also includes the soap industry consisting of four plants: INDUVE (capacity 6,500 tons a year), OLMAG (12,690), BARATA & BARATA (3,480) and SODETE (4,693).

Flour milling consists of 22 plants (7 wheat and 15 maize mills) with estimated total processing capacity of about 156,414 tons. Most plants are either operating below capacity owing to lack of raw materials and the poor state of equipment in the plants. Imported grain was initially substituted for domestic raw materials but these imports have been limited owing to the shortage of foreign exchange. Ten of the 15 maize mills are said to be closed.

Textiles, based on locally produced cotton, flourished after the ban on the creation of industries competing against metropolitan manufacturers was repealed in 1966. Substantial investment continued after independence, notably in the construction of the 17 million metres/year Africa Textil plant in Benguela in 1977-79. In 1973 French industrialists built a new textile plant at Lobito with a capacity of 16 million metres/year, with a second plant planned for Luanda with an annual capacity of 18 millions metres/year. Total cloth production in million square metres was estimated at only 5.9 in 1987 compared with 18 in 1973 and available capacity of 21.9. The output of blankets fell from 972,000 in 1973 to estimated 106,000 in 1987 compared with available capacity of 899,000. Shortages of cotton have been one of the main causes of low capacity utilization and plant closures.

A steelplant (capacity of 40,000 tons/year and 60,000 tons/year of reinforcing bars), built in 1972-73, was largely inoperative after independence until it was rehabilitated and reopened in 1984. In 1986 production of steel bars was 6,500 tons, only 24 per cent of its 1973 level while that of steel tubes was 4,000) only 28 per cent of the 1973 level.

There are several metal working companies in Luanda but information on them is scant. The company producing steel bars employs about 460, the plant producing steel pipes employs 304 and a third factory (80 workers) manufactures corrugated iron. In Huambo a plant (106 workers) produces cast iron and animal ploughs. More detailed information is available on the five companies in the provinces. TUBO-FRIO (in Huila) is a private company which started in 1980 as a service unit for domestic refrigerators and has since developed its own designing and manufacturing capacity for household, institutional and commercial refrigerators. It has a capacity of 100 units a year subject to the availability of imported components such as compressors, evaporators and electronic controls. The shortage of foreign exchange for spare parts has limited output to 10-15 refrigerators and 3-5 industrial units a year. METAFUS, established in 1974 in Huila, has expanded to become the biggest private industry in the region for foundry production for aluminium, bronze and iron casting. Alvaro Vicente (Huila) was set up in 1971 to produce steel furniture but suffers from poor management and lack of raw materials. The Empresa de Recauchutagem (in Namibe), with estimated retreading capacity of 2,500 units a year, is publicly owned and equipped to produce castings. It is currently out of operation. ERMANAL (Namibe), employing 218, has shipyards and a marine workshop although, unlike FOREFAM in Lobito, it does not currently have facilities for steel boat production.

Offshore oil equipment including platforms and jackets is constructed at a yard at Ambriz in 1984-85. One of the most successful investments since independence, the yard belongs to Petromar, a joint company involving Bouygues Offshore (90 per cent) and Sonagol (10 per cent). New platform orders from

Cabinda Gulf (Chevron) and Elf were expected to more than double Petromar's turnover in 1989 to US$ 100 million.

Non-ferrous metal production consists mainly of zinc sheets manufactured by a plant 50 per cent owned by Mitsubishi with output running at only 3,700 tons in 1986, only a third of its 1973 level.

Vehicle assembly should revive following the contract in September 1987 between the state-owned company, Enacma, and a Dutch company, involving the import and assembly of trucks at a plant in Luanda, The assembly of cars and buses declined sharply after independence. Only 3 cars were assembled in 1986 compared with 621 in 1973. The assembly of buses has fell from 150 in 1973 to 18 in 1985 before recovering to 101 in 1986. Production of bicycles fell from 36,518 in 1973 to only 1,824 in 1985, before recovering to 8,303 in 1986.

Electrical goods: Although production in other subsectors and branches failed to develop after independence, the notable exception was the local assembly of radio and television sets. Output in 1982 reached 86,600 radios and 10,700 televisions but it has since fluctuated and the latest available statistics show it at 21,000 radios and 4,900 televisions in 1986. Figures for local production of refrigerators show a rise from 3,100 units in 1984 to 4,500 in 1986. The production of batteries on the other hand fell steeply from 4.4 million in 1973 to 676,000 in 1986.

Paper: The biggest plant in this branch is the Alto Catumbela Paper and Pulp Mill with an annual capacity of 35,000 tons. Having ceased operations in 1975 it is said to be operating again.

Pharmaceuticals (including vaccines, antibiotics and oral rehydration salts) are to be produced locally at three plants, one of which was started in February 1989.

Other manufactures include oxygen (estimated 482,000 m3 in 1986), acetylene (estimated 158,00 m3 in 1986), tyres (31,000 in 1986), paint, soap, and matches.

Ownership in the early 1970's was largely Portuguese but they abandoned most of the enterprises when Angola became independent in 1975. The nationalization law of March 1975 brought most of manufacturing under state control and the mid-1980's about 80 per cent of manufacturing workers were employed in state-owned companies. Recent policy trends aim to increase the role of private enterprise and to encourage foreign investment (see also section 4).

Exports of manufactured goods, currently limited to refined petroleum, account for only about 5 per cent of total whereas almost all manufactured goods have to be imported.

3.Obstacles to production.

The government aims to revive manufacturing output to pre-independence levels once peace has been restored. Most manufacturing units were small settler-owned businesses which grew rapidly in the pre-independence period but ceased to be operational after the exodus of expatriate skilled workers and management in 1975. Shortages of managerial skills, bureaucratic inefficiency and over-centeralization have been compounded by the effects of civil war such

as cuts in power and water supplies and by shortages of foreign exchange, to import necessary raw materials, machinery and spare parts.

Most agro-based activities have registered a sbbstantial reduction in output since the mid-1970's owing to the fall in domestic agricultural production, the collapse of the rural marketing system, the disruption of transport between rural and urban areas and the deficient supply of spare parts.

4. Policies directed towards the manufacturing sector.

The 1988 foreign investment code is directed at stimulating and reviving manufacturing. It offers tax concessions and allows repatriation of profits and capital, access to domestic sources of credit and compensation in the event of nationalization. It increases the rights of foreign companies operating in Angola and permits foreign investment through mixed entreprises (at least 51 per cent of capital held by the government), and joint companies with private Angolan interests including joint ventures. In return, foreign investors are expected to expand transfer of technical and managerial skills to Angolan industrial personnel. This includes the employment of Angolans in important posts, as and when they have been trained. Sectors barred to foreign investors under the new code include postal and telecommunications services; the news media; air transport and shipping; defence and security; and state banking.

Manufacturing will also be stimulated by the general decentralization initiatives if the SEF including improvement in the supply and distribution systems, the privatization of much of the retail and wholesale sector, the restructuring of state enterprises allowing for increased financial and managerial autonomy, regional decentralization, the introduction of a foreign exchange retention scheme as an incentive for non-oil export industries, liberalization of the traditional rigid price control system, more restrictive monetary measures to soak up excess liquidity, changes in interest rate policy and eventual devaluation of the overvalued kwanza.

5. The scope for rehabilitation.

There is substantial scope for rehabilitation in conjunction with the government's economic recovering programme including training, technical assistance and advice on aspects such as productivity, management, financing, marketing. Opportunities will also stem to improve linkages with other sectors of the economy notably to provide reliable supplies of raw materials. Rehabilitation at plant level will be necessary in almost all branches of manufacturing. The machinery and equipment of existing factories, given the requisite spare parts and technical expertise, could be restored relatively quickly. The existing metallurgical infrastructure, although plants need substantial rehabilitation, could provide a basis to support small-scale metallurgical industries supplying regional as well as national markets. In the case of agro-based industries, rehabilitation should be combined with effective domestic policies for stimulating agricultural production and marketing. Priority industries include vegetable oil processing, fish processing, flour milling. Improved security conditions will, however be a prerequisite for successful rehabilitation and increased capacity utilization.

(For ongoing UNIDO projects, please see Appendix.)

## BENIN

1. General Introduction

Agriculture is the cornerstone of the economy providing food and commercial crops both for national consumption and for export. Commerce, including transit trade and entrepot facilities mainly for Nigeria, is the other main economic activity, providing about a quarter of GDP. Much of this trade is unrecorded. Although phosphates, chromium and iron ore have been discovered in the north, the only minerals to be exploited so far are petroleum since 1982 and limestone which supplies the national cement factory. Oil production which had been falling since its peak of 10,000 b/d in 1985 recovered to over 4,000 b/d by mid-1989 following remedial work on the three active wells. Further exploration continues.

Monitoring economic performance is difficult because of the substantial amount of unrecorded trade, legal and illegal, with Nigeria. Changes in economic growth are largely determined by trends in Nigeria. According to the World Bank real GDP growth averaged estimated 2.8 per cent over the period 1980-87. Estimates by the Franc Zone and the IMF show that real GDP has fallen since 1986 and that real per capita income has declined even more sharply. Development planning has been limited by the country's meagre financial resources and Benin remains heavily reliant on foreign sources of development capital.

Benin's economy went into crisis following the sharp deterioration in the external environment after 1985 marked by declines in world prices for oil and cotton which were compounded by the impact of the depreciation of the US dollar on the CFA franc. In response to economic contraction and unsustainable fiscal and balance of payments deficits, the government introduced policies during 1978-88 aiming to strengthen public finances, improve the working of public enterprises, deregulate economic activity and stimulate export crops. These measures were only partially successful.

In June 1989 the IMF approved a three year structural adjustment facility (SAF) in support of Benin's structural adjustment programme (SAP). This was the first time that Benin had borrowed from the Fund. The IMF supported programme aims to reduce the government's role in the economy while bolstering the private sector through greater reliance on market mechanisms. Targets under the 1989-92 programme include annual average GDP growth of about 3 per cent; reduction in the current account deficit to 2 per cent of GDP; and the elimination of external payments arrears. The government also aims to restructure the banking system and to reduce the budget deficit through tax reform and strict expenditure restraint. The IMF agreement was preceded in May by the approval by the World Bank of a loan of SDR 33.5 million also in support of Benin's adjustment efforts.

Although the SAP is to be supported by other multilateral and bilateral agencies, Benin was not offered access to the Fund's enhanced structural adjustment facility (ESAF) which had recently been granted to neighbouring Togo and which allows borrowing up to 250 per cent of quota instead of 70 per cent under the SAF. Although classified as one of the poorest 'debt distressed' countries* for which the ESAF had been created, Benin was not

eligible for the ESAF which is generally available only to countries which have already proved themselves through adherence to an IMF supported SAP.

On the strength of the IMF SAF the government is negotiating a rescheduling of Paris Club debt. However, owing to heavy commercial borrowing in 1980 to finance oil development, only 46 per cent of total external debt ($1,055 million) was on concessional terms in 1988. The USA is cancelling US$ 32.7 million of government debt under an agreement signed in Cotonou in December 1989.

*'debt distressed' ( countries with debt service ratios over 30 per cent in 1988-90 on the basis of present commitments

2. The manufacturing sector

The manufacturing sector accounting for only about 4 per cent of GDP is still small-scale. Apart from the construction materials industry including a cement plant, most activity takes the form of processing primary products for export (cotton ginning and palm oil processing) or import substitution of simple consumer goods (food, drink and tobacco, ceramics, cycle and motor vehicle assembly).

Oil palm processing with a capacity of 215,000 tons is the most important activity but has declined over the past decade and is currently grossly under-utilised. The Société Nationale pour l'Industrie des Corps Gras (Sonicog) has a mill at Bohicon capable of processing cotton seed (115 tons/day), groundnuts (70 tons/day) or karité (70 tons/day). It also runs six small palm oil mills only three of which were in operation in 1988 when palm oil production rose by 44 per cent to 12,676 tons and palm kernel output fell by 32 per cent to 3,712 tons. Studies are under way to revitalise this subsector with French assistance.

Cotton ginning capacity is 78,000 tons at six plants at Zou and Borgou and is the responsibility of the Société Nationale pour la Promotion Agricole pour le Coton (Sonaco). Capacity should be expanded to 120,000 tons by 1990 as two new ginning plants come on stream at Banikoara and Bembéréké.

An integrated textile complex at Parakou, which began production in 1975 primarily for the export market, has a capacity of 3,000 metric tons and has been consistently under-utilised. The plant is currently being rehabilitated with aid from the West African Development Bank (BOAD). Capacity is scheduled to reach 3.5 million metric tons of cotton fabric and 1,254 tons of finished garments.

The following two joint ventures in cement and sugar with Nigeria, planned during the oil boom of the 1970s, came into operation in the 1980s but have remained unprofitable. They are currently being reassessed.

The cement plant at Onigbolo began production in 1982. Plans to sell one half of the scheduled annual output of 600,000 tons to Nigeria have yet to materialise owing to the downturn in the Nigerian economy and general overcapacity in cement production throughout West Africa. The plant had attained an annual production level of 85,000 tons by 1985 but the first deliveries to Nigeria were not made until mid-1988.

The other joint venture, a sugar complex at Savé, with an annual capacity of 45,000 tons, has been operating only intermittently since its commissioning in 1983. Production reached 7,000 tons in 1985/86 from 4,400 ha planted. The targetted cultivation area is 5,200 ha. Prospects for exporting to Nigeria are unfavourable owing to economic recession. Furthermore world sugar prices are still considerably lower than the project's production costs.

Plans for an oil refinery, earlier postponed, have been revived and there have been discussions with US interests concerning a proposed venture costing about $900 million.

At the Société Beninoise de Siderurgie (SBS) wire and steel mill, two of the three production lines became fully operational in mid-1989. The third line, for producing welded mesh, was to be commissioned before the end of 1989. SBS is the first significant private foreign investment since the government adopted its liberalisation policy. SBS has set up in the former Bata shoe factory in Cotonou, converting the premises to house two production lines for steel reinforcing bars and galvanised corrugated sheet roofing, with installed capacities of 7,000 and 4,000 tons respectively. The wire mesh line's initial annual production is estimated at 3,000 tons. The entire mill is expected to be operating at full capacity by the end of 1990. SBS aims to satisfy not only total domestic demand but also the regional export market, particularly Nigeria. Its clients already include the major construction companies which are operating in the region.

## 3. Obstacles to production

In common with other African countries constraints include shortage of foreign exchange, lack of entrepreneurial and manufacturing skills and inadequate infrastructure.

However, Benin has other distinctive limitations. Firstly, it is economically dependent on Nigeria. This was particularly evident when Nigeria closed the border with Benin between 1984 and 1986; subsequently the Nigerian economy went into a recession following the collapse in world oil prices. Secondly, drought can limit inputs for the agri-industries. Thirdly, although the SAP should change international attitude towards investing in Benin, the political situation has previously tended to discourage western investors and donors from financing Benin's development.

## 4. Policies directed towards the manufacturing sector

When President Kerekou came to power in 1972 there was increased emphasis on central planning and state participation in industry. Several private enterprises were nationalized and major companies controlled by the government. However, deteriorating budget finances during the 1980s forced the government to reconsider the cost effectiveness of maintaining parastatals which cover a wide range of services and products. Several are candidates for privatization while others are likely to be merged and converted into mixed state-private companies or liquidated. As part of the government's divestiture programme, the Savé sugar complex was transferred to private ownership in 1988. In 1989 the state-run Manufacture Beninoise des Cigarettes et Allumettes (Manucia) was put up for tender and the contract won by Rothmans International. Manucia, employing 150, was a prime candidate for privatization. Obsolete manufacturing equipment, installed by the Chinese several years ago, had resulted in declining performance. The IMF and World

Bank supported structural adjustment programme (see also 1. above) aims to rehabilitate or sell loss-making public entreprises.

As part of the 1989-91 structural adjustment programme approved with the World Bank in May 1989, the State aims to

. provide an enhanced role for the private sector;

. liberalise trade;

. deregulate markets;

. restructure the banking system;

. develop agriculture including expansion of the cotton, food and livestock;

. and encourage the creation of small and medium sized entreprises.

5. The scope for rehabilitation

There is substantial scope for rehabilitation in conjunction with the structural adjustment programme in general and the privatization plans in particular. Technical and financial assistance would cover a wide range of activities including training, technology transfer and improved marketing with the aim of integrating the industries with other sectors of the economy. Although the existing manufacturing base and the domestic market are both small, there is potential for developing regional export markets while satisfying domestic demand. Candidates for rehabilitation at individual plant level would be in the palm oil processing and textile subsectors, not least because they are based on locally produced inputs and can serve both to substitute imports and increase foreign exchange earnings.

(For UNIDO supported projects, please see Appendix).

**BOTSWANA**

1. General Introduction

Botswana was one of the 20 poorest countries in the world at independence in 1966, with minimal infrastructure and a predominantly subsistence economy. Government revenues were critically dependent on foreign aid and the remittances of Botswana males employed in South Africa. There was no obvious prospect for economic development outside the beef sector which was the largest contributor to GDP and export earnings but tended to be dominated by a few large-scale, predominantly expatriate, farmers. By the end of the 1980s Botswana had a middle-income economy with relatively well developed infrastructure and social services. About 80 per cent of the population relies on livestock activity mainly outside the cash economy.

Economic growth in the 1980s exceeded that of all other non-oil producing African countries with real GDP rising by an annual average of over 11 per cent in the 21 years to 1987/88. Although partly attributable to the rapid expansion of the beef industry, it was mainly due to the discovery and development of valuable mineral resources, especially diamonds. Mining's contribution to GDP rose from 0 per cent at independence to 51 per cent in 1986/87 while agriculture's fell from 40 per cent to about 3 per cent. Similarly, diamonds rose from 0 per cent to 79 per cent of total exports and, combined with copper-nickel matte, minerals have accounted for 66-82 per cent of total export earnings since the mid-1970s. Diamond deposits which were discovered just one year after independence in 1966 are responsible for the healthy state of the foreign exchange reserves and for rapid economic and social development.

Botswana also has abundant reserves of coal,copper-nickel,soda ash,potash and sodium sulphate. Although substantial deposits of salt and plutonium as well as smaller reserves of gold,silver and a variety of industrial minerals have also been identified, Botswana's full mir ral potential remains unknown. The geology of the eastern area of the country,where most discoveries have been made,is well-mapped. Nevertheless,much work still needs to be done on the geology of western Botswana where the overlying Kalahari sands make geological exploration very difficult. Mapping this area is under way with external assistance and is a priority under the 1985-91 Development Plan. In particular, aeromagnetic surveys in the mid-1970s indicated potential oil and gas bearing structures in the Nossop, Ncojane and Passarge sedimentary basins in the west and north-west. A more detailed geophysical survey of the western Kalahari, funded by Canadian aid, was completed in late 1988, and was reported to have yielded encouraging results. Government approval for the drilling of a test well in the area was expected during 1989 and it was hoped that this would yield results by early 1990.

The sixth National Development Plan (1985-91) assumed that economic growth would slow to an annual average of 4.8 per cent owing to a levelling off of diamond and beef output and lack of alternative means of sustaining growth particularly in the minerals sector. However, higher than predicted diamond production and prices have meant that the projections for the first four years of the Plan were too pessimistic. Real GDP growth averaged 14 per cent in 1985/86 and 1986/87 and although it slowed to an average of 8.7 per cent in 1987/88 and 1988/89 it was substantialy higher than population growth rates of

over 3 per cent. The trend towards slower growth in GDP indicates that the 1990s will be a major challenge if job creation is to keep pace with growth in the labour force and if high income differentials, particularly between the formal and traditional sectors, are to be reduced.

The balance of payments has remained in surplus, buoyed by strong diamond exports (about 75 per cent of total), substantial aid inflows and capital inflows mainly from foreign investment in the mining sector. External debt burden is negligible and any rise in debt service commitments is unlikely to raise the debt service ratio significantly above 7 per cent.

2. The manufacturing sector

Accounting for only about 7% of GDP, manufacturing has emerged since the late 1970s as one of Botswana's most dynamic economic sectors, despite constraints (see Obstacles to production). The number of companies rose from 83 in 1979 to 276 in 1984, reducing the near total dominance of the export abattoir run by the parastatal Botswana Meat Commission (BMC) whose share of industrial employment declined from 36% to 18% over the period 1979-84. Although the manufacturing base has become more diversified, with textiles, beverages, chemicals, paper, metal, plastics and electrical products showing the largest rates of expansion,

Food remains the largest subsector.

Beverages are the second biggest subsector, dominated by one important brewery, the Kgalakgadi Breweries plant in Gaborone.

Textiles, produced mainly at the Everest Mills factory in Francistown, include knitted and woven polyester/cotton fabrics.

Metal-working includes transport equipment and machinery.

Production of paper and paper products has expanded since the late 1970s.

Production of Chemicals has started recently.

Production of copper-nickel matte at Selebi-Phikwe began in 1974 and output has steadily risen, reaching a peak of 50,171 metric tons in 1983/84.

Industry is predominantly small scale and available data show a definitive trend towards firms with 10 or less employees. Large and medium-sized firms in the private sector are mainly foreign owned and available data suggest that firms with majority foreign ownership, excluding BMC, accounted for about half of output and MVA by the mid-1980s.

Botswana is a member of the Southern African Customs Union which provides access to duty free imports from South Africa. This in addition to geographical proximity to South Africa means that about 75 per cent of imports, mostly manufactures, come from South Africa. By contrast, only about 6 per cent of exports go to South Africa. With the exception of beef, textiles and clothing, most manufacturing output is geared to the domestic market.

3. Obstacles to production

Although Botswana has a raw material base for industrial development it has relatively less arable agricultural land than neighbouring countries. Infrastructure, while thinly spread, functions relatively well.

Energy demand rose by 68 per cent between 1978/79 and 1984/85. Since the late 1970s the main aim of investment by Botswana Power Coporation (BPC) has been to fill the requirements of the urban areas,including industrial consumers and the mines. The largest scheme has been the Moropule power station. Using coal mined on site, the station is the focus of a new national grid system linking the existing northern and southern networks based on Selebi-Phikwe and Gaborone power stations.The first P250m.phase of the power station, comprising three 30MW units,was commissioned at the beginning of May 1987, and work on a fourth 30 MW unit was completed in 1989. Units five and six are planned for the early 1990's and up to 14 units could be operational by the year 2000,if demand grows as predicted. In parallel with this small-scale upgrading, work has been done at Gaborone and Selebi-Phikwe stations. BPC now estimates that supplies are sufficient to satisfy demand until the early 1990's, allowing Botswana to minimise imports of electricity from South Africa.

Oil imports have been less of a burden on foreign exchange than in many other African countries. Their share of total import costs has risen from just under 9 per cent in 1979 to almost 15 per cent owing partly to expansion of the mining industry which is the major consumer. The government has maintained a high retail price policy for petroleum products with the aim of encouraging efficient use and has also begun to build up a three-month strategic stockpile in recognition of the vulnerability of its supply route through South Africa.

A more critical constraint on production is that Botswana has minimal surface water supplies outside the remote Okavango and Chobe areas. 80 per cent of national demand is currently met from groundwater sources. Although not fully assessed, these supplies are not expected to exceed 4,000m cum per year; already real competition for water is emerging in the main urban-mining areas in the east,leading to the postponement of plans for development of industrial sites, particularly in Gaborone.

Political risk associated with developments in South Africa is a major brake on increased investment and production: for instance, import dependence on South Africa means that manufacturing is potentially vulnerable to international trade sanctions.

In addition to obstacles to production in common with other sub-Saharan African countries (shortages of skilled manpower, small domestic market and limited export markets) Botswana also has disadvantages such as the following:

. competition from Zimbabwe and South Africa and its 'homelands', notably Bophuthatswana;

. high cost of equipment;

. expensive housing and land in urban areas.

4. Policies directed towards the manufacturing sector

The government remains committed to pragmatic planning linked with annual budgets but allowing for medium term projects. The government is trying to develop new engines of economic growth to diversify away from reliance on mining, particularly diamond production, and to create job opportunities.

The manufacturing sector's strong performance was due to a number of goverment policies, based on a financial assistance programme(FAP), inaugurated in 1982,which provides a wide range of subsidies to potential entrepreneurs, particularly in the small-scale sector,and a highly attractive foreign investment code.

The FAP channels substantial resources to manufacturing and provides incentives for diversification emphasising job creation and geographical dispersal of activities. Apart from offering a wide range of subsidies to potential entrepreneurs, the policy's foreign investment scheme allows complete foreign control with generous incentives and unconditional repatriation of profits and dividends.

The state-owned Botswana Development Corporation (BDC), established in 1970, has shares in or provides financial assistance to 96 firms (33 owned by Botswana citizens); it aims to set up and promote viable local businesses, encourage local ownership, generate employment and help nationals to develop their technical and managerial skills.

BDC has been a major promoter of industrial development, identifying projects and potential joint-venture partners,and establishing industrial sites for small firms to rent. The value of BDC's investment holdings more than doubled between 1979 and 1984. Its interests include brewing, sugar packaging, furniture and clothing manufacturing, tourism, milling and concrete products. In 1984 BDC established the Setshaba Investment Trust Co. as a vehicle for offering shares in its subsidiaries to the public. The revenue from the sale of shares has been used to promote further industrial and commercial ventures. The BDC investment portfolio by 1991 is expected to include projects such as a new international hotel in Gaborone,improved reservation and maintenance facilities for Air Botswana, and development of a financial market system centred on the Setshaba Investment Trust and Tswelelo, a joint venture between BDC and the National Development Bank to provide financial and management services to small businesses.

A crucial element has been the development of new industrial interests in Gaborone, Francistown and Selebi-Phikwe. Since 1986, Botswana's strong foreign exchange position has proved an increasing attraction for foreign companies, notably those from Zimbabwe and South Africa. The increasing interest of South Africa, which already dominates foreign investment, has created concern because of the political implications. This situation is, however, being alleviated, to some extent, by the country's increasing success in attracting other international investment interest. The UK's Lonrho and Metal Box, and Heinz and Colgate Palmolive of the USA, have made investments since the beginning of 1988.

The 1985-91 Development Plan's growth target of 8.3 per cent for manufacturing is higher than that of any other sector.

The government has enlisted support from the World Bank including US$2.3 million for small scale agricultural and industrial projects and UNDP/UNIDO for the building materials and textiles subsectors.

By early 1991 the government plans to raise the supplies of water to Gaborone dam by 50 per cent through financing by the EDF, the CDC, the ADB and Gaborone's Water Utilities Corporation(WUC). Meanwhile, the WUC has also partly funded a project due to be finished in early 1990 to bring water from the Molatedi dam. However, the two projects will satisfy Gaborone's requirements only until 1995, and, with urban and agricultural demand expanding rapidly in the south-east of the country, the government has instigated an accelerated water development programme.. Studies on four potential dam sites in the north and east are to completed by early 1990 and the results will be incorportated into a national master plan for water development.

5. The scope for rehabilitation

The scope for rehabilitation in Botswana is generally promising considering its relatively prudent budget and balance of payments management and its political stability. Owing to the limited size of the existing manufacturing base, 'rehabilitation' should include the development of new activities in order to create interlinkages between existing capacity and overall economic potential. This is reflected in government policy emphasis and in ongoing UNIDO rehabilitation projects (see Appendix) which include a $24,000 management consultancy project for a small silversmiths cooperative.

(For ongoing UNIDO projects, please see Appendex.)

**BURKINA FASO**

1. General Introduction

Burkina Faso is one of the world's poorest countries with limited natural resources. Over 80 per cent of the population depends on subsistence agriculture and even urban dwellers maintain strong links with the rural sector. The problem of rural-urban migration, prevalent in other Sahalian countries, is partly offset by labour exports of Burkinabe who find seasonal or permanent employment in neighbouring countries, notably Cote d'Ivoire and Ghana.

Economic growth, which was steady during the late 1970s, slowed during the mid-1980s owing to intermittent drought, political uncertainties inside Burkina and declining workers' remittances resulting from economic problems in Cote d'Ivoire and Ghana. The Sankara government emphasised the need for self-reliance, a policy reasserted in 1987 when the population was urged to consume locally made goods in preference to imports in order to save foreign exchange. Nevertheless, by the end of the Sankara period, the economy was more reliant on foreign aid than before. The policy was abandoned by the Compaoré administration whose first move was to ease restrictions on the import of fruit and vegetables.

The 1986-90 Development Plan, like its predecessor, emphasised national economic independence and the mobilization of the population in support of development schemes. Its objectives included important investments in

. agriculture (almost 20 per cent of planned expenditure);

. development of water resources (24 per cent);

. continued fight against desertification;

. improved quality of life;

. greater integration between the different sectors of the economy;

. reduction in regional disparities.

Projects included a power station, now finished, at Kompienga, and the construction of hospitals and schools. Other planned projects were the Sahal railway and, linked to it, the development of the manganese resources in Timbao. However, the plan's results were disappointing in its first two years owing not only to lack of financing but also to weakness in administrative follow up on projects.

Burkina Faso has a substantial structural trade deficit. France and Cote d'Ivoire are the main trading partners, together providing 47.5 per cent of Burkina's imports and taking about 49 per cent of its exports. Taiwan's demand for cotton ranks it as the next most important outlet for Burkina's exports. Since 1985 exports of gold have raised Switzerland to the top five export destinations. Net inflows of workers remittances and foreign aid and grants only partly offset the traditional deficit on goods and services.

Despite its intrinsic poverty, Burkina Faso is not one of Africa's major debtor nations and does not qualify as one of the World Bank's 'debt distress' sub-Saharan African countries. Nevertheless, the external debt burden rose by about 60 per cent over the past two years owing mainly to the effect of the depreciation of the dollar. Almost 80 per cent of lending is on highly concessional terms.

In late 1989 the government started discussing a structural adjustment programme with the World Bank and the IMF for the first time. The programme is expected to include measures to stabilize public finances, settle external debt payments and finance new projects with a target of 6 per cent growth by 1992.

2. The manufacturing sector

Manufacturing activity is still rudimentary and focuses almost entirely on food processing and the substitution of consumer goods imports. Although its share of GDP has increased from 8% in 1960 to 15% in 1987, it employs only 1 per cent of the population.

The first industrial plant of any significance was the textile plant at Koudougou, which entered production in 1970 with an annual capacity of 500 tons of yarn and 760 tons of woven material,using local supplies of cotton. Sales are entirely in the domestic market. Société Burkinabè des Fibres Textiles (Sofitex) is the biggest company in terms of turnover and its assets increased in 1989 with the addition of the new Bobo III complex at Bobo-Diolasso. This is expected to increase the country's ginning capacity by 50,000 tons/year making mattresses for export. France is providing funds towards a project to re-equip production lines.

A second important project was the sugar processing plant at Banfora, which began production in the late 1970s with an annual capacity of 21,000 tons of refined sugar from local cultivation. The Société Sucrière de la Comoé (Sosuco) is the biggest employer with 4,447 workers, but capacity is limited to 31,000 tons/ year. Work has begun on a second sugar complex in the Sourrou area.

The Grands Moulins Burkinabè (GMB) flour mill at Banfora had a new branch inaugurated in Bobo-Diouasso in July 1989. The new GMB will grind wheat, maize, millet and sorghum. This new development was welcomed by the brewing industry which will be able to reduce imports of wheat and maize.

The beverages subsector is the second largest after food processing. Brakina and Sovobra are two private companies operating breweries and soft drink plants. Although to increase economic self-reliance, the Sankara government prohibited the import of hops, the Compaoré administration reversed this policy when it took office in 1987 mainly because millet beer was considered to be inferior.

A plastics company, Société des Plastiques du Faso (Fasoplast) was established in 1980 and manufactures goods including PVC tubes, mats, plastic bags and plastic plumbing equipment. The company received US$2 million from the European Investment Bank (EIB) in 1989 for modernization and extension work.

Ownership is mainly government controlled in the food processing and textile subsectors with the textile company Voltex 55 per cent state-owned and the sugar company Sosuco 69 per cent state-owned. The plastic company, Fasoplas was financed both by the state and the private sector.

Privately-owned factories and plants include the following:

. Société des Huiles et Savons du Burkina Faso (SHSBF) an oil seed and soap factory at Banfora with 225-300 employees;

. Manufacture Burkinabè de Cigarettes (Mabucig), a cigarette factory;

. Brasseries du Burkina Faso (Brakina) and Société Burkinabè des Brasseries (Sovobra), breweries and soft drinks plants;

. the Bata shoe factory;

. Industrie Burkinabè du Cycle et du Cyclomoteur, a bicycle and scooter assembly plant;

. Société Africaine des Pneumatiques (Sap), a tyre factory.

3. Obstacles to production

Manufacturing activity during the late 1970s and early 1980s slowed as a result of political changes. The government is now trying to restore both foreign and domestic investor confidence in the economy.

Potential expansion is limited however, as in the case of many other sub-Saharan African countries, by

. the small size of the domestic market;

. the lack of raw materials and skilled labour;

. shortages of finance and management skills.

In the case of Burkina Faso, these factors are compounded by the need to import all fuel requirements; the high cost of transport due to the lack of roads, long distances from seaports; and rigidly controlled prices which are often far below costs.

4. Policies directed towards the manufacturing sector

The capacity of the Planning & Cooperation Ministry to carry out macroeconomic management, investment programming and development planning is to be expanded as part of a project by the UN Department for Technical Cooperation & Development.

The government has been trying since 1985 to improve the financial situation of public sector companies through changes in management and cuts in personnel expenditure or other operating costs. In some cases, official factory-gate prices have been raised. The import tax was reduced in 1984 by 75 per cent as a means of reducing companies' operating costs. The government has also favoured a dialogue with private entrepreneurs in order to try to restore confidence in private sector investment.

Although under the 1986-90 plan the State hopes to see further expansion of manufacturing, it is not clear how it plans to tackle continuing problems such as shortages of skilled labour and managers and the country's landlocked position.

## 5. The scope for rehabilitation

Despite the limited size of the local market and the existing manufacturing base, there should be many opportunities for rehabilitation projects in Burkina Faso in conjunction with the structural adjustment programme which is currently being discussed with the World Bank and the IMF. It is assumed that agreement will be reached on reforms to liberalize and decentralize the economy. Apart from opportunities linked with an expected ptivatization programme, there will be potential for rehabilitation in forms such as training and management schemes; improved linkages between manufacturing and other sectors of the economy; incentives to divert finance and investment into manufacturing. At a subsector level, priority candidates are likely to be the textiles and food processing plants in order to maximise on locally produced raw materials, provide employment opportunities and conserve scarce foreign exchange for imports essential for economic development.

(For ongoing UNIDO projects, please see Appendix)

**BURUNDI**

1. General Introduction

Burundi's economy, one of the poorest in the world in terms of per capita Gross National Product (US$ 208 per capita in current prices in 1988), relies heavily on coffee exports and foreign aid. With a relatively small land area, population density is high. Infrastructure is weak and many natural resources such as uranium and important deposits of vanadium, believed to be the richest in the world, have yet to be developed. Oil has been detected beneath Lake Tanganyika and in the Ruzizi valley and a contract to drill under the lake was signed between Amoco Burundi Petroleum Co and the government in 1987. If earlier discovered nickel deposits, estimated at 5 per cent of total world reserves, prove to be commercially viable, Burundi could start processing ore from copper, cobalt and platinum-group metals as well as nickel. The African Development Fund agreed in late 1989 to fund a feasibility study on fertiser production from the Matongo phosphate deposits.

However, agriculture, employing about 90 per cent of the population, will remain the mainstay of the economy and the major source of employment in the foreseeable future. Only about 25 per cent of land is under cultivation of which 90 per cent is devoted to subsistence crops and the rest almost entirely to coffee. A World Bank loan approved in May 1989 aims to stimulate agricultural productivity in five provinces by improving links between research and extension services. The project is also expected to strengthen the adjustment programme begun in agriculture in 1986 (see also under 5).

Economic policy, supported by the IMF and the World Bank, centres on further liberalisation of the economy including the privatization of Burundi's fifty eight state entreprises which account for about 8 per cent of GDP and 44 per cent of the country's total external debt. The IMF approved a loan in July 1989 in support of Burundi's growth oriented programme with targetted real GDP growth of 4.5 per cent for 1989. Apart from reducing inflation to under 5 per cent, the government is using a combination of tariff reforms, market oriented interest rates and flexible pricing policies as instruments to liberalize the economy and improve the balance of payments position.

In support of Burundi's structural adjustment programme (SAP) Japan has lent US$12 million, Belgium US$7 million and the EEC has provided an import programme geared to the needs of the private sector. The EEC is Burundi's main donor and trading partner and provides special treatment under the Lomé Convention's STABEX scheme to stabilise export earnings for products sold to the EEC.

Burundi is one of the countries to benefit in 1990 from the proposed debt write off announced by France at the francophone summit in Dakar in May 1989. Although the move has been welcomed, it involves the cancelling of some US$90 million, only about 12 per cent of Burundi's total external debt. Belgium cancelled US$ 12.7 million of debt owed by Burundi in addition to providing aid including US$ 11 million for special projects and US$ 1.3 million for small and medium sized firms.

2. The manufacturing sector

Manufacturing activity, centred largely around the capital, Bujembura, provides only about 5 per cent of GDP and is based on the processing of agricultural products such as coffee, cotton, tea, vegetable oil extraction and small scale wood mills.

Brewing has several foreign participators including Heineken and Amstel of the Netherlands. Construction of a brewery, a joint venture with a Netherlands company, was completed at Gitega in 1985.

Textiles are produced by the state textile organization, COTEBU, which developed with aid from the People's Republic of China. In 1980 COTEBU was producing three times Burundi's domestic needs and by 1986 one-third of total textile production was exported, earning an estimated 400m Burundi francs.

Wood in July 1985 the World Bank affiliate IDA provided a credit of US$12.8 million for forestry. The IDA will help to finance a long-term programme to develop basic forestry services and to promote tree planting to supply wood for fuel,building poles and timber. The project will benefit 60,000 rural families and accords with the government's desire for productive projects.

Sugar refining is dominated by the Société Sucrière du Moso (Sosumo) which began to market sugar in July 1989, estimated at 23,000 tons annually. This is expected to alleviate sugar shortages in the shops caused by reduced imports from Malawi, Zambia and Swaziland.

Ownership is mixed but the state owns most of the bigger manufacturing units such as COTEBU (textiles) and the glass factory supplying the breweries. Foreign private interests dominate brewing and domestic private interests dominate the smaller locally-based activities.

Exports are dominated by coffee to the EEC, North America and Japan. A potential export market for manufactured goods exists regionally between other members of the Great Lakes Economic Community, notably Zaire and Rwanda. Imports consist mainly of manufactured goods and equipment from the EEC and Japan and oil from Iran.

3.Obstacles to Production

Industrial development is hampered by Burundi's geographic location, notably its distance from a sea port (about 1,400km to Dar es Salaam and 2,000km to Matadi), which means that only manufactures capable of bearing the high costs of transport can be developed. In addition, daily production is often hindered by uneven power supply.

In common with other sub-Saharan African countries, Burundi's manufacturing sector also suffers from constraints such as small domestic and regional markets, shortage of foreign exchange and lack of skilled manpower.

## 4. Policies directed towards the manufacturing sector

Policies, which under the previous four 5-year plans favoured central control of prices and production through public companies or agricultural cooperatives, have changed to give the private sector a more prominent role. These include the government's plan to privatise the 58 state companies, employing about 11,000 people.

The five year Plans for 1978-82 and 1983-87 aimed at revitalizing the stagnant economy by increasing and diversifying production, both for export and for import-substitution, and by encouraging businesses in unfavorable areas. By 1983 several small enterprises, including cement, footwear and insecticide factories, had been established.

The fifth Development Plan (1988-92), considered by donors at 1988's consultative group meeting, emphasises mining, water and energy including provision for a 25 Mw power station at Kugunzi which should reduce the need to import electricity from Zaire. France's Caisse Centrale de Cooperation Economique (CCCE) agreed in 1989 to fund a project to expand Burundi's power network including the installation of transformers and a low voltage network for several towns.

The State is encouraging agriculturally based activities and the integration of the primary and secondary sectors as in the case of the Sosumo sugar project. Within the framework of the May 1989 World Bank loan for agriculture, the State plans to strengthen the Agriculture & Livestock Ministry's central services; improve agricultural research, particularly of fertiliser and pest control; rehabilitate cooperatives; and reorganise and strengthen extension services including training and development. There is also a plan to reintegrate rural development company employees into the government and to increase fertiliser prices as a step towards the removal of price subsidies. Other reforms include the privatization of parastatals' input distribution and the introduction of civil service salary scales in the agricultural sector. These changes reflect the shift away from rural development companies, set up fifteen ago, when they were regarded as the best way of promoting agricultural development.

## 5. The scope for rehabilitation

Partly in view of the potential for expanding Burundi's manufactured exports regionally, there is substantial scope for rehabilitation and extension of the existing manufacturing base. The rehabilitation programme would best be coordinated in conjunction with the overall restructuring of the economy in line with the World Bank and IMF supported structural adjustment programme in general and the privatization plan in particular. There is a need to improve the efficiency and profitability of the existing plants (for instance through increased training, improved management techniques, better maintenance of equipment); to create the appropriate macro economic incentives to ensure the plentiful supply of raw materials and factors of production; and to stimulate demand for Burundi's exports through suitable export promotion instruments such as export credits and tax incentives.

(For ongoing Unido projects, please see Appendix)

## CAPE VERDE

1. General Introduction

Until recently Cape Verde has failed to exploit its strategic position between Africa, Europe and America. Since independence a significant expansion of sea transport has taken place to establish regular links between most of the islands and mainland Africa and Portugal. The main port, Mindelo, has played a transatlantic role albeit a declining one since 1976.

A shipbuilding and repairing yard (Cabnave) was opened in Mindelo in 1983 and in 1987 the African Development Bank lent US$681,000 to finance feasibility studies for upgrading the shipyard.

The ports at Praia and Porto Grande are being enlarged and in 1982 work started on the construction of a port at Palmeira.

In 1985 Cape Verde agreed with Angola on arrangements for the sharing of port facilities and shipping repair and refrigeration services. In 1986 an accord was signed with Brazil making Cape Verde a commercial platform for Brazilian goods destined for West Africa and Europe; in addition, the Brazilian state-owned oil company, Petróleo Brasileiro (PETROBRAS) planned a joint venture with the Cape Verdean oil company ENACOL to develop a 'spot' market in light and heavy fuels which would operate from Cape Verde.

The Amilcar Cabral International airport with a capacity of 1 million passengers/year is used as a strategic refuelling point, mainly by airlines from South Africa, Portugal, the USSR, Cuba, Guinea-Bissau and Angola. In 1988 discussisons were held with Italian, Zambian and Botswana airlines over the introduction of stop-overs for flights to the USA; a Belgian company contracted to establish a catering service and two restaurants at the airport.

Tourism is being developed and a complex at Praia and a 90-bed hotel on Sal has been finished. In 1989 it was announced that Swiss, Finnish and W German companies had expressed interest in participating in hotel development on Sal. In 1987 Nigeria signed an agreement to construct a 200-bed hotel on Cape Verde as part of a technical aid programme.

With exports, mainly fish and small amounts of bananas and salt, covering only between 2 and 6 per cent of import costs in recent years, the government relies heavily on workers' remittances and foreign aid. However, debt service costs, thanks to prudent budgetary management, have been low, rising in 1988 only as grace periods of concessionary loans expire.

The second 4-year National Development Plan (1986-90) is to be 32 per cent financed by foreign donors, and 68 per cent by emigrants' remittances and revenue from the international airport on Sal. At a meeting of development partners in 1986, the participants expressed satisfaction with Cape Verde's administration of the aid budget, giving the government greater control over the allocation of development aid.

2. The manufacturing sector

The manufacturing sector is still marginal consisting mainly of fish conserving, textiles, shoemaking, rum distilling and soft drinks bottling, employing about 1,700 and contributing about 5 per cent of GDP.

Food processing was adversely affected by severe droughts during the 1970s and early 1980s and a pork products factory started in 1978 has never been fully utilized.

Fishing offers the greatest development potential and modern appliances and boats are slowly being introduced. In 1981 a cold-storage plant was opened at Mindelo with refrigeration capacity of 6,000 tons; it is planned to increase this to 9,000 tons. In 1985 the Arab Bank for Economic Development in Africa (BADEA) lent US$300,000 for the development of fishing and in 1986 the FAO agreed to provide assistance to increase production of fish (and potatoes). In mid-1987 BADEA announced that it would lend a further US$4 million to finance an industrial fisheries project which aims to increase the catch of tuna to 5,000-6,000 tons/year. In early 1988 the fishing sector received loans from the African Development Bank (US$ 8.5 million), the International Fund for Agricultural Development (US$ 5.7 million) and Japan (US$ 3.5 million).

A new fishing company, the Empresa Caboverdeana de Pescas (PESCAVE) was formed in 1987 by reorganizing the state-owned company, the Empresa Caboverdeana das Infrastruturas de Pescas (INTERBASE). PESCAVE is responsible for increasing the fish catch while INTERBASE retains control of marketing.

A small-scale industry, the total fishing fleet is only about 810 boats of which 60 are motorise. The industry employs only about 3,500 but provides about 80 per cent of export earnings. A fisheries agreement with the EC, the first ever, was expected by early 1990.

Clothing is dominated by one factory at Mindelo, finished in 1978.

Cement Plans in 1984 to construct a 60,000 ton factory on Maio using pozzolan, a volcanic ash, (estimated 10,000 tons in 1985) were cancelled by the government in 1988 because the project was no longer considered to be commercially viable.

State-owned Metal working industries manufacture and assemble agricultural tools and machinery.

Butane gas: in 1987 W Germany agreed to finance the expansion of a plant producing butane gas.

Most companies remain under private control. The government tends to favour immigrants who wish to create new companies.

3. Obstacles to production

Cape Verde's manufacturing sector suffers from special problems such as communication difficulties between the scattered islands. These reduce the potential for economies of scale and lead to high transport costs. While geographical location favours international sea and air transport, it restricts trade flows. Additional obstacles common to most other sub-Sahara African countries include the limited size of the domestic market and the shortage of trained managers.

4. Policies directed towards the manufacturing sector

Policies, generally formulated within the context of National Development Plans, have always tended to favour the expansion of manufacturing. Under the first plan (1982-85) although rural development was allocated the highest share, industry was given 20 per cent and was forecast to grow at an annual rate of 12 per cent, which proved to be too optimistic.

The 1986-90 Plan, while still emphasising rural development and tourism, aims to expand light industry and the agricultural and fishing sectors while reducing unemployment to 25 per cent of the economically active population. The government also hopes to raise donor funds for the development of the mining sector.

Within manufacturing, fish processing has been given high priority with plans substantially to increase the annual fish catch. Cape Verdeans living abroad mostly in the USA, Netherlands, Portugal and Italy, are being encouraged through tax incentives to put their capital into small industrial and fishing ventures. An agreement with the USA in 1985 formed the cornerstone of this policy. In 1987 an organization was established to assess emigrants' financial and technical potential. However, the rate of emigration is expected to decline as host countries introduce harsher restrictions on immigration.

5. The scope for rehabilitation

The small size of the economy and of the existing manufacturing base will continue to limit the potential for large scale rehabilitation but immediate priority should be given to fishing and other agro-based industries.

(For ongoing UNIDO projects, please see Appendix)

**CENTRAL AFRICAN REPUBLIC**

1. General introduction

Central African Republic, belonging to the group of least developed countries, has limited resources apart from diamonds, some gold and uranium and suffers from a weak transport system.

Agriculture continues to be the mainstay of the economy employing about 80 per cent of the working population and providing about 40 per cent of GDP. The food crops (mainly cassava, maize, groundnuts and rice) are grown principally for domestic consumption but have failed to keep pace with population growth, partly owing to drought: in recent years, food has accounted for around one-tenth of import spending. The government consequently emphasises increased food production in its regional development programmes: the cultivation of rice is being encouraged. Coffee and cotton are the most important export crops, providing the principal source of cash income for most of the population, although political instability in recent years has tended to stimulate a return to subsistence production.

Mismanagement during the 1970s, compounded by adverse exernal factors, caused economic stagnation, with external and internal imbalances financed by the accumulation of arrears. Under the new government of President Dacko there was a resumption of subsidies from France and financial support from international organisations including an IMF standby in 1980 and compensatory finance in 1981. Further economic decline triggered a military take-over in September 1981 and by early 1982 the government introduced an austerity plan. Following a coup attempt and fear of further adverse political consequences, the government suspended its agreement with the IMF and the associated rescheduling of external debt. With the sharp deterioriation of the economy by end 1983, the government resumed relations with the IMF triggering a rescheduling in 1986 and a World Bank structural adjustment loan. In June 1987 agreement was reached with the IMF on a 3-year structural adjustment programme. The World Bank approved a further loan in support of structural adjustment in mid-1988. Economic management will also improve in response to the UN Development Programme project in 1989 to strengthen ministeries responsible for economic management including statistics, coordination of sectoral planning and external aid.

Figures show a persistent trade deficit with import costs generally about double export earnings which rely largely on diamonds, coffee, timber and cotton. With a traditional deficit on net services owing mainly to high transport and insurance costs, the current account has been permanently in deficit despite inflows of transfers. Although the debt burden is high, improved economic management through IMF and World Bank supported adjustment programmes is expected to reduce the debt service ratio to manageable levels of 10-15 per cent.

2. The manufacturing sector

The industrial sector is little developed and is concentrated almost entirely around the capital Bangui district. Activities are dominated by the processing of primary products (including cottonseed, groundnuts,etc.), car and truck assembly and small wood and iron workshops.

Food processing includes oil mills processing groundnuts, cottonseed and sesame; a flour mill and an abattoir.

A new plant to refine cotton seed oil, with a treatment capacity of 20,000 tons of seed per year, is planned at Bambari. An oil mill has been built at the Bossongo oil palm plantation with funding from ADB, France and the African Development Fund.

Textiles and clothing manufacture is based mainly on locally grown cotton. Output has still not returned to 1974-75 levels when it accounted for over half of manufacturing output and almost two thirds of manufacturing employment. Reconstruction of the cotton industry has started to improve supply of raw materials. Cotton ginning takes place in about 20 factories.

A new spinning plant began operation in 1984 and a new weaving plant was finished in 1985. The firm Ucatex's capacity has been raised to 4.4 million metres/year following reconstruction with French and domestic capital.

Beverages and tobacco are other relatively important subsectors with regard to contribution to output and employment. There are two breweries, Mocaf and Castel, and a soft drinks bottling plant.

The cigarette factory Société Centrafricaine des Tabacs (SCAT) which began production in 1977 has a capacity of 50 million cigarettes/year. France is financing the restructuring and modernization of the plant. Under the January 1990 agreement, the funds will be used to improve tobacco production, strengthen the company's financial position and improve rural development including the formation of farmers' groups.

Fabricated metal subsector consists of vehicle assembly plants for Citroen and Peugot cars and trucks, opened in 1981. Output levels have declined sharply from about 300 Citroen Visas in 1981 and operations had been virtually suspended by 1986.

Other subsectors include wood products, printing and chemicals.

Ownership of the bigger companies is dominated by foreign, mainly French, interests. The growth in private domestic business is still slow.

The trend is for major international donors to recommend small and medium sized enterprises but there has been little change in this direction so far.

Exports of manufactures, mainly of processed cotton and wood products, contribute only a small share of total whereas manufactured imports account for over 90 per cent of total imports. France is by far the most important trading partner, buying about a third of CAR's exports and providing over half of imports.

## 3. Obstacles to production

In common with most other sub-Saharan African countries, CAR suffers from a small domestic market, shortage of foreign exchange and lack of skilled manpower. Additional obstacles include the small financial sector and, more importantly, the country's landlocked position with inadequate transport links for the movement of goods. Finally, the oversized bureaucracy in central government and the extensive network of parastatals also militates against expansion.

## 4. Policies directed towards the manufacturing sector

The government's structural adjustment programme includes policies affecting manufacturing such as privatization, public sector reform and restructuring of State companies. The government now believes that industrial development should be primarily the responsibility of the private sector. Official industrial policy emphasis has moved from import substitution to the supply of basic needs from local resources and the improvement of export earnings.

The provisional 1986-90 Economic and Social Development Plan stresses rural development to increase purchasing power and stimulate demand for manufactures.

Projects under way include a plywood and chipboard factory, an additional textile complex, clinker-grinding and a cement factory and several food processing industries.

During the mid-1980s work finally began on CAR's first sugar processing complex at Oukara with an annual capacity of 6,000 tons/year and funded almost entirely by France and Saudi Arabia.

## 5. The scope for rehabilitation

Despite the small size of the domestic market and the existing manufacturing base, there is potential for rehabilitation in conjunction with the IMF and World Bank supported structural adjustment programme in general and with the privatization plans in particular. Opportunities will arise for projects including those providing training; incentives for higher cost effectiveness; and improved linkages with other economic activities. At subsector level priority candidates will be in the agro-based industries such as cotton where a restructuring programme has already started to improve the supply of raw materials. At individual plant level there could also be scope for small projects such as the UNIDO scheme for rehabilitating a brick making plant.

(For ongoing UNIDO projects, please see Appendix.)

## CHAD

1. General introduction

Chad is one of the poorest and least developed countries in Africa. Landlocked with few all-weather roads and no railway, it has limited natural resources. Crop farming and nomadic cattle raising occupy most of the population and account for about half of GDP. Livestock production contributes about an eighth of GDP and half of recorded export earnings. Chad has the capacity to be self-sufficient in food given favourable weather conditions. In addition to cotton, traditionally Chad's most important export, gumarabic is exported although in recent years production has been only about a fifth of its record 1,100 tons in 1969 owing to drought and political instability. The industry and commerce sectors are small. A high proportion of economic activity is clandestine and few statistics are published. Structural problems of economic development have been exacerbated by drought and by conflict between north and south.

Oil prospecting has continued but exploitation of located deposits is inhibited by the high cost of machinery, poor transport and long distances. In 1977 Conoco with Shell began oil extraction to the north of Lake Chad to be transported to a small refinery (200,000 tons annually) near Ndjamena which stopped operations in the 1980s owing to the precarious security situation. Oil reserves are estimated at 70 million tons. Agreement was reached in 1988 with a US-led consortium on future exploration and exploitation of oil reserves to the west of Lake Chad. The only other mineral of importance to be exploited is natron used as a salt for preserving meat and hides and in soap production. Other minerals in evidence are uranium, tungsten, cassiterite, bauxite and gold although they are not being commercially exploited.

Economic policy has been dominated by political problems. The Tombalbaye government (1960-75) adopted a liberal approach to economic development and encouraged foreign investment. General Malloum's government emphasised state control and increased repression of foreign companies but by late 1978 the government had lost control of 50 per cent of the country and it was not in a position to direct the economy. The Goukouni government was faced with the paradox of continued dependence on foreign assistance and the political necessity of more radical economic policies. Security problems and measures to prevent the southern, cotton-based economy from separating itself from the country as a whole, dominated political issues for three years and overshadowed any attempts to revive the economy. Habré's government, in power since 1982, has been more successful than its predecessors in raising aid but military spending still outstrips expenditure on economic reconstruction.

Under a World Bank supported restructuring programme to rebuild the economy after years of civil war, the United Nations Capital Development Fund (UNCDF) is providing US$ 3.2 million to rehabilitate Ndjamena's infrastructure and public utilities. To strengthen further support for structural adjustment and to stimulate donor-supported efforts to rebuild the economic infrastructure, the World Bank opened a permanent office in Ndjamena in early 1989.

## 2. The manufacturing sector

Manufacturing is centred in Moundou and N'djamena and accounts for about 15 per cent of GDP. Little information is available at a subsector level. Although production has improved since the early 1980s, most plants are still operating well below capacity. Manufacturing is based mainly on the processing of agricultural raw materials, principally cotton.

Cotton gins which formerly numbered 26 with a capacity of 184,000 tons are now only a dozen.

Société Cottonnière du Tchad (COTONTCHAD) is 75 per cent government-owned and is responsible for the provison of inputs, buying, transporting, ginning and marketing as well as the manufacture of cottonseed oil. Production has been adversely affected by a drop in output, depressed world prices combined with mismanagement and corruption at COTONTCHAD. The company underwent a radical restructuring following the Budgetary Reform Programme agreed with major donors in 1985. Several cotton ginning units were closed, the workforce was reduced and fertilizer and insecticide subsidies for cotton producers were removed. Although cotton output is estimated at 135,000 tons in 1990/91, compared with 115,000 tons in 1989/90, COTONTCHAD and the cotton sector as a whole are vulnerable to international prices which have tended to be less than Chad's production costs which, in turn, are based on guaranteed prices paid to farmers.

The textiles industry became increasingly important in the mid-1980s; production in 1987 was 16 million metres cloth. The main company is Société Tchadienne des Textiles (STT). Demand for locally produced goods is low owing to competition from illegal imports from Nigeria

Cottonseed is the source of Chad's self-sufficiency in edible oils and soap.

Food processing includes sugar refining and beverages such as beer.

The metal working subsectors include transport equipment and machinery.

Several small scale companies also operate outside the formal recorded sector. Their contribution to overall production and to the economy as a whole is significant and includes agricultural equipment such as tools, carts, ploughs, weeders.

Ownership tends to be mixed. Some of the larger entreprises, such as STT are state-owned, but some are foreign owned. Small and medium-sized operations are sometimes private or joint-ventures.

Exports are dominated by cotton and the main export markets are Portugal, FRG and Cameroon. Imports include a wide range of manufactured goods (both consumer and capital) as well as current domestic oil requirements. The main sources of imports are France, Cameroon and the USA.

3. Obstacles to production

Civil unrest has long been an important obstacle to expansion in manufacturing: about 25 per cent of small- and medium-sized private and mixed companies were destroyed during hostilities in 1979-82. Chad also has the disadvantage of being landlocked and exposed to competition from Nigeria owing to opportunities for illegal border trade. Output of textiles, sugar refining, brewing and cigarette production have all been affected by smuggling particularly in response to the rise in domestic prices as a result of the imposition of a new tax in October 1986.

In common with other African countries Chad also suffers from a small domestic market, lack of infrastructure and shortages of foreign exchange, manpower and raw materials.

4. Policies directed towards the manufacturing sector

The government is trying to encourage foreign private investment and has introduced incentives to revive manufacturing. Companies trying to re-establish themselves are exempted from import duties on materials necessary to re-establish themselves. In certain cases, the government has increased access to bank credit for investment purposes. Since 1980 there has been a moratorium on bank credits.

Plans to rebuild the war-shattered infrastructure have hitherto centred on the cotton sector, which accounts for about 70 per cent of export earnings, including the World Bank supported financial rehabilitation programme for CotonChad launched in the mid-1980s (see also under 2).

5. The scope for rehabilitation

There is potential for rehabilitation at all levels of the economy owing to the effects of war. According to the World Bank, Chad needs an estimated US$ 300-400 million for urgent road repairs alone. Substantial technical and financial assistance will be necessary in the short and medium term in order to rebuild basic infrastructure and regenerate the country's potential economic activities.

Rehabilitation will also include training and assistance in improving resource allocation and inter-sectoral linkages. Priority candidates at a manufacturing subsector level include continued rehabilitation of the cotton and textiles branches and revival of other agriculturally based industries in order to improve self-sufficiency in food and to improve Chad's export earning capacity.

(For ongoing UNIDO projects, please see Appendix.)

## COMOROS

1. General Introduction

The Federal Republic of the Comoros Islands consists of three islands strategically located across the mouth of the Mozambique Channel. A fourth remains under French rule and serves as a naval base. Since 1986 the influence of South Africa has increased reflecting a growing interest in the Comoros as a tourist resort. South Africa has financed various projects in the islands, including two hotels, an agricultural venture and a road.

Even before the break with France in 1975 the government relied heavily on foreign aid to finance its budget and offset the persistent trade deficit. When France cut aid flows in July 1975, the immediate crisis was overcome with UN aid and in 1976 by Arab loans. In early 1977 emergency aid was again needed to help absorb the 14,500 Comoran emigrants fleeing from violence in Madagascar and to cope with a volcanic eruption which left 20,000 homeless. In 1976-77 Comoros received offers of financial assistance from China and several Arab organisations including the Arab League, the Arab Bank for Economic Development in Africa and the Kuwait Fund for Arab Economic Development. Since the coup in May 1978 relations with France have improved and French aid has become important again contributing about 60 per cent of the annual budget. Many Comorans rely on remittances from relatives working in France.

French aid was sufficient to allow the government to run a permanent trade and budgetary deficit but not to develop local resources or to provide the infrastructure necessary for economic development. Although there is a severe shortage of cultivable land, agriculture is the mainstay of the economy providing over 90 per cent of export earnings and employing about 80 per cent of the working population. Local subsistence farming, using primitive implements and techniques, is adequate to maintain the population but yields are poor, storage facilities lacking and much of the best land is reserved for export cash crop production. The French encouraged the development of cash crops such as vanilla, ylang-ylang (a perfume essence), cloves and copra on estates of foreign landowners and often marketed by foreign companies. Most of the profits were transferred abroad little being contributed towards local reinvestment.

The government has introduced a World Bank structural adjustment programme which includes the reform of state owned companies, 20 per cent reduction in number of state employees; the removal of subsidies on rice; and improvements in tax collection. Agreement with the IMF for a structural adjustment facility is expected to trigger a rescheduling of debt including that owed to Arab creditors, accounting for a major part of Comoros' US$ 188 million total external debt. In 1989 the World Bank made a further loan to support agriculture.

2. The manufacturing sector

Industry consists mainly of the preparation of crops for export, such as distilling essences and processing vanilla, manufacturing food products, garments, furniture, soap, jewellery and pottery.

Except for an ylang-ylang distilling plant, most plants are small to medium sized and fairly evenly spread across the two most populous islands.

There is potential for fish processing. Fishing is carried out on a small scale with total catch of about 5,000 tonnes/year although recent studies suggest that the potential annual catch of tuna is 25,000-30,000 tonnes which could provide the basis for a processing industry. A 2-year contract, aiming to provide the necessary infrastructure for a local fish processing plant, has been started. In 1987 the Comoros and the EC signed a fishing agreement which allows 40 tuna-fishing vessels from EC countries to operate in Comoran waters for three years and permits the implementation of a scientific programme. A further 3-year agreement was signed in 1988 with France and Spain.

The European Community in 1987 lent Comoros funds for the fishing sector and to finance investment for small and medium sized enterprises.

During 1980-85 the World Bank agreed to contribute towards the cost of a scheme to improve coconut and copra production and the creation of seed gardens and of rodent control units.

The Organization for Petroleum Exporting Countries (OPEC) lent US$1 million in 1987 to rehabilitate and expand facilities for the storage and handling of oil products.

Exports cover only about 40 per cent of imports. France remains the most important trading partner. The USA imports some vanilla and European and Asian countries import cloves. Littoral states such as Kenya, Pakistan and South Africa provide manufactured imports such as building materials and food.

3. Obstacles to production

There is a shortage of electricity, a limited road system and a lack of regular and reliable transport to link the islands with one another and with the outside world. The departure of French technical staff at end 1975 further reduced the functioning of existing modern equipment. Qualified Comoran technicians are often attracted to the oil-rich countries bordering the Persian Gulf where there are prospects of higher wages. The reliance on foreign aid particularly from the Gulf states has been declining.

4. Policies directed towards the manufacturing sector

Development priorities for the 1980s were

. increased production of basic foodstuffs and energy;

. improved inter-island communications, water supply, housing and regional development;

. the creation of more efficient public health and training facilities.

The government, in consultation with donor countries, is trying to diversify the economy and reduce its dependence on vanilla and ylang-ylang. A 1984 donor conference identified 36 manufacturing projects all of which would be new investments but would save foreign exchange and increase employment. These included a 500 ton/year cooking oil plant, a 1,400 ton/year sugar mill, a mineral water bottling plant, a 500 ton/year salt factory and a plastic sandal factory with a capacity of 500,000 pairs/year.

Both the World Bank and UNIDO have recommended that small manufacturing projects, costing no more than US$ 150,000, be given priority. The current investment code however only provides guarantees for investments worth three times that amount or above.

5. The scope for rehabilitation

Despite the small size of the domestic market and of the manufacturing base, there is substantial scope for rehabilitation in conjunction with the World Bank and the IMF supported structural adjustment programme. There is likely to be demand for advice and training on how to link the macro economic reforms with industry and to dovetail them with existing infrastructure and facilities. Opportunities at individual plant level include rehabilitation of the older established industries such as the ylang-ylang distilling, vanilla processing, coconut and copra production. On a broader scale there could be opportunities for developing an export processing zone to complement existing manufacturing projects which are aimed mainly at import substitution.

(For ongoing UNIDO projects, please see Appendix.)

## CONGO

1. General introduction.

Although transport, services and administration are disportionately important, accounting for about quarter of GDP, the oil sector is the main engine for growth providing about 40 per cent of GDP, 90 per cent of export earnings and about 70 per cent of recurrent budget revenue. Although ranked by World Bank as a middle income country with per capita income estimated by UNIDO at US$1,214 in 1988 ( measured in 1980 prices). Congo is highly vulnerable to changes in world oil demand and , since its currency is fixed to the French franc (Ffr), also to the value of the US dollar in which oil prices are denominated. The only other resource to be exploited is timber from the huge forests which cover about 55 per cent of the country's land area. Agriculture with forestry is still the most important sector in that it employs about a third of the population. A major development challenge is to overcome the stagnation in agriculture which has resulted in heavy dependence on imports to feed the growing urban population. Transport infrastructure also needs improvement to make all regions accessable.

Rapidly rising oil revenues and easy access to foreign credits encouraged the government to finance ambitious investment projects in the early 1980's, particularly under the 1982-86 development plan. Inadequate control over investment decisions and the contracting of loans also resulted in substantial investment cost overruns. The rise in public debt, partly attributable to losses made by state-owned companies, was compounded by the sudden fall in world oil prices in 1985, forcing the government to pospone the 1987-91 plan, reduce current and investment expenditure and reach an agreement with IMF (September 1986- April 1988). In July 1987 a programme of economic liberalization and privatization was started within the framework of longer term structural adjustment agreed with the World Bank. In 1989 and early 1990 Congo was negotiating a further IMF standby that was expected to trigger the rescheduling of debt owed to official and commercial bank creditors.

With total external debt estimated at US$5,000 million in 1989 and a population of under 2 million, Congo is one of the world's most indebted nations. As a middle income African country, Congo has been unable to benefit substantially from debt initiatives agreed to date (see also 'Industry and External Debt in Africa: A Reassessment'). As in the case of most African countries, most of Congo's external debt is owed to foreign governments (65 per cent) or is in the form of export credits which are guaranteed by governments (15 per cent). Unlike most other middle income debtor countries, only about 10 per cent is private debt (owed mainly to commercial banks) which, under the Brady Plan, could be partially written off in exchange for certain repayment of the balance (underwritten by western governments) or exchanged (for instance under the debt swap plan devised by Manufacturers Hanover Trust - see 4 below.)

In early 1989 the French government agreed that Congo was a special case and was unlikely to be able to repay more than 50-70 per cent of its current external debt unless there were a sharp rise in world oil prices. France, owed over half of Congo's debt to governments, has taken the initiative in cutting interest rates on non-concessional government debt and hopes to persuade the other government members of the Paris Club to follow suit.

The 1990-94 development plan, put before the party congress in July 1989, is designed to produce a more balanced economic structure, less dependent on oil and public sector. Farming, infrastructure and improved economic management are priorities. Tax reform includes the introduction of value added tax in 1990 and the tightening of customs procedures.

2. The manufacturing sector.

The manufacturing sector is small employing about 13 per cent of the labour force and its contribution to GDP has declined to estimated 8 per cent in 1987 as the oil has expanded. The most important branches of the sector are oil refining, cement, agro-food processing (accounting for about 50 per cent of total manufacturing value added), textiles and the production of sawn timber, veneer and plywood. Until the opening of the oil refinery in 1982, agro-food industries were the most important branch of the sector. Most plants are in Brazzaville, Pointe Noire and Nkayi.

The oil refinery at Pointe Noire, producing for the domestic and export (fuel oil) markets and operating substantially below its annual capacity of 1 million tons, is expected to increase output following an agreement in March 1989 to export refined oil to Angola. Output of refined products was only 412,000 tons in 1988. The refinery, first planned in 1971, was only inaugurated in December 1982 owing to technical problems in construction. Jointly owned by Hydro-Congo (60 per cent), with national monopoly on the distribution of oil products, and Elf-Aquitaine (40 per cent), the refinery produces a range of petroleum products for the domestic market and fuel oil for export but it faces stiff competition from other regional refineries. In line with the government's privatization programme, Hydro-Congo is to sell its local marketing and distribution business which has been operating at a loss but it is expected to expand its involvement in oil exploration ventures with Elf, Agip and Amoco. A company was set up by Elf and Agip in 1981 to exploit newly found natural gas reserves and to examine the feasibility of a project to export liquified natural gas.

Food processing (including beverages and tobacco) has traditionally been the largest single branch, accounting for over a half of MVA and over 40 per cent of total manufacturing employment in 1987. The main products are palm and groundnut oil, animal feed, wheat flour and sugar. However as the major contributor to total gross output it has been overtaken since 1983 by the combined chemicals branches (see Economic Indicators). Moreover, gross output per worker in the chemicals branch is about 5 times higher than that in the combined food processing branches - a trend which is likely to continue.

Wood processing employs about 20 per cent of the manufacturing labour force and in 1985 contributed 16 per cent of MVA and 10 per cent of gross output. The government requires That timber companies process at least 60 per cent of their production. The main products are sawn timber, veneer and plywood.

Although labour productivity in industry may have improved since the beginning of the 1980s, it is still considerably lower than in the primary sector. Levels of labour productivity in manufacturing also differ between sub-sectors, with improvements in efficiency, measured in terms of the ratio of value added to actual production, most apparent in agro-food, metalworking and chemical industries. Low levels of efficiency occurred mainly in the paper and paperboard, textiles and building materials sectors. A rising share

of wages in total MVA from 53 per cent in 1975 to over 60 per cent in the 1980s indicates overmanning, one of the main causes of low labour productivity.

The ownership pattern is mixed. Larger manufacturing companies are state-owned, including breweries, soft drink plants, oil and flour mills, sugar factories, fish-curing plants and cigarette factory. In the wood processing industry, on the other hand, the state accounts for only a small proportion of production. Private companies predominate, mostly foreign although some Congolese. Most of the smaller manufacturing companies are private or mixed. The oil industry is based on joint ventures between the State and foreign companies in a 60-49 proportion. The private sector already accounted for over 72 per cent of turnover in the industrial sector back in 1983.

State-owned manufacturing companies were originally created to make Congo self-sufficient in a range of basic products. However, labour productivity has been 7.5 times lower in the public sector than the private sector. Many state-owned companies have been operating at a loss and some including the cement plant have already been transferred to private ownership.

Recent industrial development has been erratic. Several projects have floundered or been cancelled. For example, a longstanding project for the construction of a paper pulp plant with an annual capacity of 290,000 tons was abandoned owing to lack of foreign finance and the newly developed eucalyptus plantations are being used instead to supply a telegraph pole factory production, which started in 1988.

A textile complex, set up in 1968 with technical assistance from China, with an annual productive capacity of 3.5 million square metres of woven fabrics, was designed to operate with raw cotton imported from Chad and the CAR until sufficient local cotton could be produced by the experimental state farm at N'Kenke. Mismanagement and shortage of spare parts led to the closure of the plant in 1977.

A cement plant established in 1968 reached a peak output of 102,000 tons in 1971 but subsequently showed a fall in output to about half this level, despite strong demand from construction programmes. The plant closed in 1985, reopened with assistance from the German Democratic Republic, and then ceased production again in 1987 because of a cash flow problems. In 1988 the company's assets were transfered to a new, partly Norwegian owned company. An associated project involved the construction of cement silos to store both imported and domestically produced cement.

In early 1989 it was announced that a vegetable oil refinery was to be constructed to reduce imports of such oils.

The market for Congolese manufactured goods is almost entirely domestic. Although the petroleum refinery has permitted an increase in exported chemicals and miscellanous products, the share of manufactured exports in total exports has continued to decline since the beginning of the 1960s, falling from 51 per cent in 1965 to about 8 per cent in 1987. Congo's main markets are industrialized countries, with the US taking 45 per cent of total exports in 1987, followed by France with 15 per cent, Italy with 9 per cent and West Germany with 8 per cent.

3. Obstacles to production.

Expansion of the manufacturing sector is inhibited by the small size of the domestic market and, as regional transport links improve, by competition from cheap imports from neighbouring countries such as Cameroon. In common with many countries pursuing import substitution policies, Congo has developed the same industries as its neighbours - textiles, paper-pulp, oil refining- without regard for regional or international demand. As in the case of other developing countries, the effects of short-sighted protectionist policies have been compounded by the shortage of foreign exchange, the lack of skilled manpower and an oversized bureaucracy.

4. Policies directed towards the manufacturing sector.

Under the IMF and World Bank supported structural adjustment programme, the State is planning to sell its interests in all but seven parastatal bodies (classified as strategic) and close those for which there are no buyers. This concerns seventy-six companies which are to be sold to private interests, closed down or restructured. To stimulate private sector development, value added tax (VAT), which previously discriminated against private firms, has been applied evenly and replaces other taxes such as domestic trade tax, turnover tax and supplementary turnover tax).

The State is considering which parastatals could be eligible for debt-equity swaps. Although Congo is a small market, a large number of bank creditors are involved; together, they are owed about US$ 300 million. With Congo's debt trading well below face value, direct swaps would offer better prospects for a full return than sales in the secondary market or rescheduling. The privatization programme has created several new investment opportunities with the attraction of a convertible currency. Under Congo's proposed swap scheme foreign investors could buy stakes in privatized state companies. The difficulty which has hampered any earlier development of swaps in the Franc Zone is the lack of government finance. In the case of other swaps, for instance in Latin America, the central bank arranges for foreign creditors to exchange their debt for local currancy which they then invest in approved local projects. In line with Franc Zone regulations, Congo is only allowed to borrow up to the equivalent of 20 per cent of the previous year's budget receipts, an amount which tends to be fully utilized to cover ordinary spending commitments. Congo's swap scheme circumvents this problem allowing investors to swap their debt directly for shares in state enterprises which are being privatized. Up to 70 per cent of equity in such ventures is to be available through the scheme to either Congolese or foreign investors.

The Ministry for Commerce, Small and Medium Enterprises has introduced a national guarantee scheme for the State to underwrite loans to small companies and has created a rural credit programme to be financed by the tax on senior officials' salaries.

5. The scope for rehabilitation.

Although the manufacturing sector is small, there is substantial scope for rehabilatation particularly in connection with the privatization plan for state enterprises which forms part of the IMF and World Bank supported restructuring programme. There is a need for technical assistance at both the macro and micro-economic levels including training, management development and improved resource allocation. Owing to the fall in investment combined with low productivity in public enterprises, there is also substantial scope for rehabilitation at plant level across a wide range of manufacturing branches in addition to the six enterprises which have been classified by the World Bank as priorities for reform:

. Societe Nationale d'Electricite (SNE);

. Societe Nationale de Distribution d'Eau (SNDE);

. Sucrerie du Congo (SUCO);

. Agence Transcongolaise des Communications (ATC);

. Hydro-Congo (the national oil company);

. Office Nationale des Postes et Telecommunications (ONPT).

The new debt-swap scheme should help create a demand for speedy rehabilitation of potentially eligible State enterprises.

(For ongoing UNIDO projects, please see Appendix)

## COTE D'IVOIRE

1. General Introduction

Rapid economic growth between 1960 and 1980 raised Cote d'Ivoire to the World Bank category of Middle Income Developing Country. Hopes that Cote d'Ivoire would be become sub-Saharan Africa's leading oil exporter after Nigeria were dashed in the 1980s. The only other significant mining activity is diamond production variously estimated at 20,000 carats/year to 250,000 carats/year. The other main mineral deposits are gold bearing rock (estimated reserves 1.98 million tons) and iron ore (350 million tons). An international consortium of Japanese, British, French, US and Dutch interests was formed in 1974 to develop the iron ore deposits but it has so far been unable to raise the necessary capital (estimated at US$450 million) owing to low world demand for steel.

Although the economy is relatively diversified by comparison with other African countries, agriculture has remained the main impetus to growth since independence. Contributing over 25 per cent of GDP, agriculture employs about 60 per cent of the working population and provides about 66 per cent of export earnings. Cote d'Ivoire is the world's leading producer of cocoa and fourth biggest producer of coffee. In addition to being almost self-sufficient in food, it exports timber, palm oil, cotton, pineapples, sugar, bananas and rubber.

Attempts to insulate the economy from boom and bust cycles have been largely unsuccessful. During the drought-linked financial crisis in 1983-84, crops were badly affected while rising world interest rates increased debt service obligations. International agreement to stabilize cocoa and coffee prices have been largely ineffective and expensive. Since 1986 lower world commodity prices, compounded by the depreciation of the dollar with respect to the CFA franc, eroded the country's ability to repay its debt. Continued vulnerability to world prices of Cote d'Ivoire's principal cash crops, cocoa and coffee, was evident in 1987 when the sharp fall in export prices (to below Ivorian production costs) resulted in an estimated 6 per cent fall in GDP. As cocoa remained depressed in 1988 GDP declined by a further 3 per cent reducing GDP per capita to under US$1,000.

Debt repayments, suspended in May 1987, were rescheduled for ten years in early 1988 (100 per cent principal and 80 per cent of interest due in 1987-88) by the creditor countries in the Paris Club. Agreement was also reached for rescheduling over 15 years of repayment due in 1988-95 of debt owed to 350 commercial bank creditors of the London Club. The government nevertheless failed to resume interest payments and the IMF standby was suspended. Negotiations resumed in 1989 for a new IMF standby in the hopes of triggering further debt rescheduling agreements. In July 1989 the USA cancelled part of the public debt owed. However, much of Cote D'Ivoire's development assistance in the 1980s came from World Bank loans which are not eligible for rescheduling and over 40 per cent of public external debt is owed to commercial banks at high rates of interest.
Total external debt was estimated at US$14,200 million at end 1989, among the highest on a per capita basis. IMF approval of a standby in November 1989 triggered another rescheduling of Paris Club debt over 14 years with 8 years' grace and the start of negotiations with the London Club of commercial bank creditors.

The IMF credit is being disbursed in six equal tranches of US$37 million over 17 months, the first phase of a 4-year recovery programme under which the fiscal deficit is to be reduced from almost 14 per cent of GDP in 1988 to 11 per cent and 7 per cent in 1989 and 1990. In addition to fiscal reforms, reductions in public sector benefits or wages and in allocations for inter-budgetary spending will be required. Budget allocations for investment expenditure, on the other hand, will rise causing the ratio of gross fixed capital formation to GDP to increase gradually from 8 per cent in 1989 to 12 per cent by 1992. A schedule is being established for clearing accumulated arrears during 1990 and 1991. The standby aims to restore state sector surpluses while providing for a recovery in investment and halting further declines in GDP growth. Structural reforms will focus on the following:

. pricing, marketing and subsidy policies in agriculture;

. improving tax administration and budgetary procedures;

. strengthening the financial sector;

. rationalizing and privatizing public sector companies.

2. The manufacturing sector

Manufacturing, accounting for 16 per cent of GDP in 1986, has been one of the main engines of economic growth, stimulated immediately after independence by the need to replace goods traditionally imported from Senegal, the manufacturing centre for colonial French West Africa. The sector continues to be sustained by high growth in domestic demand and is believed to be the most developed in Francophone West Africa. According to World Bank studies, manufacturing is not integrated, the degree of local transformation of raw materials is low, the narrowness of the domestic market has militated against economies of scale, investment has been low, operations are non-cost effective, entreprises tend to depend on state intervention and installations remain centred on Abidjan.

Processing of agricultural products is the most important subsector accounting to about 60 per cent of manufacturing output. In the late 1980s the emphasis of government policy moved from import substitution to export promotion.

There are believed to be 16 coffee hulling units with a combined capacity of 325,000 tons/year, 4 cocoa processing factories with a capacity of 110,000 tons/year and 6 sugar complexes with a capacity of 2 million tons/year. Sugar production, originally encouraged to substitute sugar imports, rose steadily from 52,500 tonnes in 1978/79 to a record 186,000 tonnes in 1982/83 before falling to 111,500 in 1984/85 owing partly to drought and the closure of two sugar complexes. By 1987/88 output had increased to 155,000 tons and under a US$115 million investment programme, supported by French credits, production is expected to return to record levels of about 186,000 tons/year.

There are several palm oil mills with a capacity of 1.2 million palm clusters/year. Palm oil processing, supported by the latest 5-year replanting programme with World Bank, EC, French and UK assistance, is expected to expand to make Cote d'Ivoire the world's leading producer by 1991. Output was running at 195,000 tons in 1985/86 but the sharp fall in world prices in that year caused the government to reduce the planting target and to postpone the construction of one of the two processing mills.

Other food processing industries are believed to include canned pineapple, tomato, mango, tuna fish and animal feed

Textiles from locally produced cotton (record 256,000 tons in 1987/88 ranking Cote d'Ivoire as the third largest producer in Africa after Egypt and Sudan) is centred on eight ginning complexes with a total capacity of 245,000 tons/year, about 80 per cent of which is exported. This is Cote d'Ivoire's second largest subsector both in terms of employment and value added. Being one of the industries which were earlier protected by import quotas and surcharges it is likely to be adversely affected by recent policy charges aimed at eliminating trade barriers.

The rubber industry has developed rapidly in recent years and the government aims to overtake Liberia as Africa's most important rubber producer by the end of the century with a projected annual ouput of about 150,000 tons. The principal rubber producing plant, Société Africaine des Plantations d'Hévéas (SAPH), which is 60 per cent state-owned, plans by 1990 to expand its plantation area to 52,500 ha and to raise its annual output of rubber to 90,000 tons. Current investment is focussed on improving production from small plots at village level, while the World Bank, France and the UK are co-financing a rubber development project including the creation of another 7,400 ha of smallholder plots or industrial plantations. Output in 1987/88 was 49,600 tons.

The oil refinery with an annual capacity of 3.2 million tons, is operated by Societe Ivoirienne de Raffinage. Jointly owned by the government, foreign oil companies and the government of Burkina Faso, the refinery is designed to meet the needs of Cote d'Ivoire, Mali and Burkina Faso. For several years it operated at only around half of its capacity owing to reduced demand in these economies until 1986 when the refinery produced at full capacity with plans to export 750,000 tons of petroleum products.

Other industries include wood products, chemicals, transport equipment, fabricated metals, beverages and tobacco..

Ownership is mainly government or foreign. The number of wholly owned state companies is believed to be 17; most are semi-public companies and many are joint ventures between the government and foreign companies.

The trend: Structural adjustment is yielding positive results with industries based on agricultural raw materials and producing for export expanding in response to various liberalisation measures and incentives.

Manufactured exports are negligible consisting mainly of cocoa butter and cocoa paste, wood products, chemicals and textiles. Manufactured imports include machinery, transport equipment and chemicals and are supplied mainly by EC countries.

3. Obstacles to production

Although government policy to 'Ivorianise' both equity and management led to a rise in Ivorian held equity in industries (almost two thirds in 1982) the private sector share was only 14 per cent against the government's 52 per cent. This reflected the development of parastatal companies during the 1970s as a means of restructuring and diversifying the economy. However, as highlighted in several government reports, state-owned companies have suffered from a low level of profitability and over-reliance on foreign funding in addition to mismanagement and corruption.

The government disposed of interests in 28 of the 36 parastatal companies in the early 1980s through outright sale, leasing or the creation of autonomous cooperatives. However, it still retains shares in about 100 companies, most of which are still waiting for purchasers.

In common with many other African countries, the main obstacles to expanding the manufacturing sector are the shortage of foreign exchange, the limited domestic market and the lack of skilled manpower.. In the case of Cote d'Ivoire, accumulating arrears in the past years have militated against new investments and the possibiity of importing essential raw materials and spare parts. The banking system has been unable to finance industrial development. Furthermore the important agro-based industries have suffered from irregular supplies because crops have been affected by natural hazards, lack of incentives and volatile world prices.

4. Policies directed towards the manufacturing sector

Policy has been dominated mainly by IMF and World Bank supported austerity and economic adjustment progammes since 1981. The fiscal deficit has been cut through limited public sector investment and reducing salaries in the parstatals. The government has sought to introduce reforms to reduce state intervention and to encourage private investment.

Tariff protection of local industry has been reduced and the investment code has been revised. The 1984 Investment Code, introduced as part of a 5-year World Bank industrial reform programme, offers incentives including those directed at the following:

. small and medium-sized businesses;

. labour intensive subsectors;

. decentralization.

The industrial reform programme aims to reduce protection of local industry by the gradual elimination of import quotas and by easing import tariffs and surcharges to 40 per cent of a product's value added. In parallel, incentives for export industries have been developed. However, there has been some delay for technical, financial or political reasons in the phased reduction of protectionist tariffs and the introduction of export premiums.

Longer term structural policies in addition to reducing dependence on cocoa and coffee exports, include increased local processing of commodities, improved market information and the use of term markets to hedge against fluctuations in commodity prices and exchange rates. A plan to reduce state involvement in industry is due by beginning 1990 as part of the IMF supported recovery programme to strengthening fiscal management.

The 1989-90 first-phase reforms within the two structural adjustment loans approved by the World Bank in October 1989 include the shifting of incentives away from crops with 'declining economic benefits' such as cocoa to coffee, cotton, rubber, palm oil, pineapples, bananas and coconuts. Other reforms involve an efficiency drive in parastatals which provide support services to farmers. This is designed to improve access to savings and credit facilities and strengthen the domestic terms of trade for agriculture.

## 5. The scope for rehabilitation

Declining levels of investment in many industrial branches in recent years suggest that there is wide scope for rehabilitation throughout the manufacturing sector. The food processing and textiles seem to be priority areas, not least because they are capable of generating foreign exchange earnings. However, as more companies are prepared for privatization within the framework of the IMF supported programme, the potential for restructuring and rehabilitating existing plant will extend to other subsectors.

(For ongoing UNIDO projects, please see Appendix.)

## DJIBOUTI

1. General Introduction

Djibouti is effectively a city state. The economy is based mainly on services centred on the port, railway and French military garrison and accounting for over 60 per cent of GDP. Its land, largely volcanic desert, is some of the least productive in Africa and agricultural production is limited by shortages of both land and water. Mineral production is non-existent although there are known deposits of perlites, diatomites, gypsum and salt. Future prospects thus depend largely on the country's ability to become a regional service centre and to update its facilities and expertise.

For five years after independence economic growth and investment were impressive. According to the World Bank, real public fixed investment grew by 37 per cent from 1978 to 1982 and there was a small boom in private investment. Together with sustained demand from the French military presence, this gave rise to an average annual real growth of 3.5 per cent during the same period. Financial assistance exceeded needs up to 1981 owing to substantial aid and private capital inflows combined with careful management of public funds.

Since 1982 economic growth has been non-existent owing mainly to cuts in French aid. The structure of GDP has remained largely unchanged since independence with public administration remaining the largest single item, followed by hotels and restaurants. Austerity budgets during the 1980s have reduced expansion of the former.

Planning is constrained by Djibouti's relations with its neighbours and their relations with one another. At independence the economy was immediately plunged into crisis by the closure of the railway because of the 1977-78 Ogaden war. Continued guerrilla activity since the end of this war has inhibited the full restoration of activity. The agreement between Ethiopia and Somalia in April 1988 is expected to open up large areas to Djibouti's services although the growth of Assab as Ethiopia's main port means that Djbouti is unlikely ever to recapture its former role as the port of Addis Ababa.

French influence on the economy remains strong although imports from France have halved since 1984 and France's contribution to the budget fell from 30 per cent in 1977 to 10 per cent in 1988. Djibouti is consequently seeking new sponsors and trading partners particularly in the Arab world. Both Saudi Arabia and the USA have shown interest in replacing France at least partially in the long term.

The Djibouti franc, which has been pegged to the US dollar at Dfr 177 since 1973, has been adversely affected by the swings in the value of the US dollar against the French franc in which most of the country's trade and external debt is denominated.

Growing indebtedness, coupled with fluctuating levels of external assistance and the fall in trade and transit earnings, is expected to result in continued deterioration of the balance of payments. Although full balance of payments figures are not available, the austerity measures of the last two years imply that the government has been finding it difficult to maintain

import levels without running down reserves to unacceptable levels. IMF forecasts suggest that the balance of payments is unlikely to show any marked improvement even in the medium term.

## 2. The manufacturing sector

The manufacturing sector is small, accounting for under 10 per ent of GDP. Only thirteen entreprises employ over ten people, the most important of which are a water bottling plant and a dairy, both of which are publicly owned, a Coco Cola plant, a flower mill and an ice factory.

Despite the negative impact of events following independence, not least the Ogaden war, overall performance was slightly better during the 1970s than during the early 1980s.

The mineral water factory at Tadjourah with a capacity of 25,000 bottles/day, was inaugurated in 1981 and exports to Saudi Arabia and North Yemen as well as supplying the domestic market.

The government-owned dairy opened in 1985 in Djibouti city is the second largest factory. Another dairy was constructed in 1982.

The animal feed plant at Tadjourah, opened in 1988, is the third biggest plant and is also government owned.

In addition, there are about 75 small scale entreprises and numerous small workshops in the informal sector.

Many projects have been proposed by both the government and the private sector in recent years including a soap and detergent factory, a pasta factory, a tannery and various assembly operations. However, little progress has been made in their implementation.

## 3. Obstacles to production

Regional political uncertainties and high labour costs have discouraged the creation of new industries, despite the existence of a free zone and major liberalization of investment legislation in February 1984. Almost all consumer goods have to be imported.

Although there is further scope for processing raw materials for domestic use, such as milk, flour, pasta and soap, the small size of the local market, difficulties in supplying the region and competition from stronger neighbouring economies militate against expansion.

## 4. Policies directed towards the manufacturing sector

The US$ 500 million investment programme for 1984-88 proposed to donors in 1983 included several medium and small scale agro-industrial and import substitution manufacturing projects. The plans had to be scaled down owing to a shortage of foreign exchange.

Plans for the country's first cement works at Ali Sabieh where there are deposits of limestone, gypsum and other materials have been shelved. A pre-

feasibility study suggested a plant with an annual output of 60,000 tons but an Austrian market survey identified local demand at only 40,000 tons with negligible export potential. Djibouti continues to import cement from Romania and the Berbera cement works in Somalia.

Plans for an abattoir and tannery were also included in the 1984-88 development plan.

## 5. The scope for rehabilitation

The small size of the manufacturing sector militates against extensive rehabilitation and donors emphasise the need to develop new activities rather than rehabilitate existing ones. However, there should be opportunities for rehabiliation in conjunction with the structural adjustment programme in the form for instance of training, improved resource management and increased linkages with other economic activities, particularly between manufacturing and the important services sector including the port and transport system used for transit trade.

(For ongoing UNIDO projects, please see Appendix.)

**EGYPT**

1. General introduction

Oil is the mainstay of the economy contributing about a fifth of GDP and accounting for about half of export earnings. Proven reserves are enough to last about 20 years at current extraction rates. Egypt also has natural gas reserves estimated at about 9 trillion cubic feet.

During the 1980s economic growth was thwarted by depressed oil prices and lower earnings from remittances from workers abroad, tourism and Suez Canal tolls. Slowing growth rates in the 1980s highlighted deep structural imbalances such as the heavy food subsidies approved by former governments which the current administration is trying to remove. Foreign investment has slowed and the general lack of activity has put the banking system under pressure. Rapid population growth has increased dependence on imported food especially grain. Agriculture contributes about a fifth of GDP and employs about a third of the workforce. Cotton is the main cash crop accounting for about a fifth of export earnings and providing the basis for the local spinning and weaving industry. There is also multiple cropping of other cash crops, notably potatoes, tomatoes, berseem (Egyptian clover), and sugar cane and beet. Mining is small-scale including iron-ore, phosphate rock, gypsum, limestone, salt, silica, kaolin, clays, barytes and fluorspar. There are also reserves of coal, uranium, chrome, tantalum and molybdenum.

An IMF supported economic reform programme started in July 1987. The government put forward to the World Bank in November 1989 a detailed set of proposals for policy reforms. The proposals are believed to include a phased liberalization of public sector administration over three years starting in 1990. The government is expected to reach an agreement with the IMF on macroeconomic reforms. Apart from raising interest rates, rationalising exchange rates and reducing the budget deficit, the Fund is pressing for higher domestic fuel prices, currently at only 35 per cent of world levels. The Fund would like to see reforms within six months whereas the government wants to stagger them over a 5-year period.

The balance of payments relies heavily on earnings from oil, tourism, Suez Canal tolls and workers' remittances. The persistent deficit on trade and invisibles during the 1980s has been only partly offset by rising US aid flows. Exports rose to US$ 2,700 million in 1988/89 compared with US$ 1,600 million in 1986/87. Taking into account transfers by expatriate workers, tourism, income from the Suez Canal and oil, total foreign exchange resources were US$ 6,100 million in 1988/89. However, imports rose to US$ 10,600 million, of which US$ 1,000 million was for wheat and US$ 2,100 million for consumer goods. Despite rescheduling of official debt in 1987 substantial arrears on external debt have accumulated. The stock of external debt more than doubled during the 1980s and was equivalent to 400 per cent of exports in 1988.

2. The manufacturing sector

Manufacturing contributes about a tenth of GDP. Three quarters of production originates from the public sector although the government is stressing private investment.

Agro-based industries, particularly food processing and textiles, account for about 40 per cent of GDP.

Egypt has a comparative advantage in food processing such as the production of food flavours, vegetable oils, jams and marmelades, confectionery and starch. The government aims to reduce dependence on food imports particularly of sugar by opening eight new refineries across the country to double output to about 1.5 million tons. It plans to increase output of bagasse pulp from 60 tons/day to 180 tons/day.

Textiles are Egypt's largest and oldest industry consisting of the processing of long-staple and extra-long staple cotton. This subsector was particularly hard hit during the 1970s owing to low foreign investment and inadequate maintenance. Government measures to redress the situation include the rehabilitation of the cotton-ginning industry with financial support from the World Bank affiliate IDA and the Arab Fund for Economic and Social Development. However, estimates during the first half of the 1980s suggest that about US$2,000 million would be required to upgrade the aging textile industry.

Plans to expand the Iron and steel industry include the expansion of productive capacity at the Helwan complex to 2.6 million tons. There are also plans to raise the capacity of the joint-venture operating the Ed-Dikheila steelworks, built by the Japanese outside Alexandria, to about 2.5 million tons/year. Other projects include the construction of a steel pipe plant with USAID finance for the En-Nasr Company and a steel reinforcing bar plant financed by Japan.

Egypt's Petroleum refining industry is believed to be the largest in Africa consisting of seven refineries with a through-put capacity which was to rise from about 370,000 barrels/day to 775,000 barrels/day by 1990. A new oil refinery was constructed at Asyut in the late 1980s.

The chemicals industry is also important, particularly petrochemicals. Fertilisers are produced at four plants using local gas as feedstock. Plans include the enlargement of the Ameriya plant near Alexandria and the start of ethylene, polyethene, polyproplene, paraxylene and purified terephteli acid production. A linear alcohol benzol plant is also planned.

Cement production has been boosted to about 8 million tons although still falling short of total domestic consumption which is estimated at about 17 million tons. The conversion of the Soviet-built works at Asyut has created the largest production line in Africa with a nominal output capacity of 5,000 tons/day. Despite plans for several new units, it is believed that it would be less costly to improve output at existing factories.

Metal working industries are all relatively large sub-sectors and include transport equipment, car assembly, fabricated metal products and electric and non-electric machinery.

About three quarters of industries are government-owned as a result of nationalization policies during the early 1960s. About two hundred large public sector companies dominate the sector including iron and steel, aluminium, fertiliser, heavy engineering, cement and cotton yarn. Private industry centres more on small-scale activities such as garments, food products, leather goods, cosmetics, wooden furniture and fabricated metal products.

The trend since 1979 shows increased western interest in investing in Egypt. However some planned schemes have been postponed including General Motor's US$300 million investment in a passenger car assembly plant in joint venture with Nasco which was to establish feeder industries producing items for export to GM's plants in Europe. The armaments industry, on the other hand, has become increasingly important.

Manufactured exports consist mainly of cotton, textiles and basic metals. Egypt imports most of its manufactured goods including transport equipment (kits), raw materials and consumer goods.

3. Obstacles to production

Egypt has relatively few natural resources, a large and growing population and an old and inadequate infrastructure. Manufacturing suffers from overstaffing and excessive government protection in addition to shortage of foreign exchange, poor incentives and low salary levels. Private sector investment has tended to be attracted to services rather than manufacturing. In common with other African countries there is a lack of skilled manpower.

4. Policies directed towards the manufacturing sector

Emphasis is placed on diversification and import substitution, the development of downstream chemicals and heavy industry including the Helwan iron and steel complex, the Nag Hammadi aluminium plant and the El Dikheila integrated steel works.

The IMF supported reform programme starting in July 1987 included measures to unify exchange rates, limit credit expansion and reduce subsidies especially on energy. In an attempt to stimulate industrial growth, policy has been directed towards broadening the industrial base by promoting investment from Egyptian and foreign sources.

Under the economic reform plan outlined by President Mubarak in November 1989, the public sector would be given greater management freedom and would have to meet specific production targets. Incentives are to be given to the private sector. The trade gap was to be closed by increasing production and by exporting finished goods rather than raw materials and semi-finished goods.

5. The scope for rehabilitation

Given appropriate macro-economic policies, the potential for successful rehabilitation is substantial. Opportunities, for instance in conjunction with public sector reforms, will include training and advise on incentives to improve cost effectiveness and export competitiveness. At an individual plant level there is need for rehabilitation of obsolete plant and equipment particularly in the textile industry and other agro-based subsectors. In the first instance, priority plants would be those that would reduce import dependence while stimulating exports and provide intersectoral linkages within the framework of an overall industrial development strategy.

(For ongoing UNIDO projects, please see Appendix.)

**EQUATORIAL GUINEA**

1. General Introduction

Since the overthrow of Macias Nguema government in 1979, it has been a long hard climb to economic recovery. Milestones along the way have been a return to annual budgets in 1980 (Macias Nguema had not bothered from 1974 to 1979), a donors' conference in 1982, the adoption in 1985 of a convertible currency, the granting in June 1985 of the first IMF standby credit, followed by the rescheduling in July 1985 of US$ 28 million overdue debt owed to the Paris Club of official creditors over 10 years with 5 years' grace. The only three bilateral creditors involved were Spain, France and Italy. In December 1988 the IMF approved a 3-year structural adjustment facility.

The mainstay of the economy is agriculture, both for subsistance and the production of cash crops for export. Cocoa, which is grown mainly on the island of Bioko, has traditionally been the main export commodity. Timber has now overtaken cocoa as the main export. Coffee and palm products, once significant exports, have fallen. Investments are being made to rehabilitate the Bioko cocoa industry and large forestry resources in Rio Muni are attracting considerable investment from foreign timber companies. Economic prospects would be transformed if current oil and gas exploration efforts were to prove successful. The fishing sector also holds considerable but untapped potential. A three year fishing agreement with the European Community came into effect in June 1989 providing a lump-sum payment as well as financing for research and training programmes.

In January 1985 Equatorial Guinea joined the Franc Zone and the epkwele, previously linked to the Spanish peseta, was replaced by the CFA franc at a rate of 4 bipkwele per CFAfr. It was hoped that entry into the Zone would encourage investment aand foreign trade. French interests have undertaken the rehabilitation of Malabo port and road infrastructure and modernization of Malabo and Bata airports. They are also active in mineral prospecting.

Equatorial Guinea benefitted in March 1989 from the consolidation and rescheduling of part of its external debt owed to Spain and Italy under a Paris Club agreement. It is one of the 35 countries to benefit from the provisional French decision to write off its public sector debts to the world's poorest nations. If Spain matches the French gesture and cancels its Equatorial Guinean debts, estimated at about US$ 45 million, there would remain only China, Italy and multilateral agencies as major holders of external debt which was US$ 200 million in 1988.

2. The manufacturing sector.

At independence there was a diverse and flourishing light industrial sector, centred at Malabo. Activities, categorized under export processing, included fish canning and freezing, fishmeal production, wood processing and saw milling, and the production of vegetable oils and cocoa butter. Industries covering mainly the internal market included distilling from sugar cane, light metalworking, printing, the manufacturing of hemp fibre for sacks, cassava flour and tapioca, soap and soap powder, liquid disinfectant, shoes, furniture, tiles, bricks and flooring materials. This sector of the economy,

made up of numerous small units, was one of the first to be closed under Macias Nguema as the Spanish settlers left the country.

Detailed information on individual industries, their capacities and current levels of output, are not readily available. Total MVA only accounts for about 5 per cent of GDP and is based largely on low-technology agricultural processing. The centre of manufacturing has shifted to Bata.

Food processing, largely of cocoa and coffee, still employs about two thirds of the manufacturing labour force and as a sub-sector accounts for about a fourth of gross manufacturing output.

The wood processing plant at Bata, a joint venture between the government and the Italian firm Siem, produces 20,000 m3 of rolled wood, plywood and veneer. The government plans to expand wood processing activities in order to reduce the high proportion of wood exported in the form of logs.

Bata also has cement works, mechanical workshops and a bleach factory

The ownership pattern is largely small, privately-owned enterprises.

3. Obstacles to production.

Constraints to expansion of manufacturing include the shortage of foreign exchange, the lack of adequate manufacturing tradition and skills, the smallness of the domestic market and competition from neighbouring countries. These problems, common to most developing countries, have been exacerbated by the dislocation of the economy under the Macias Nguema government which brought the country to the brink of bankruptcy.

4. Policies directed towards the manufacturing sector.

Within the IMF structural adjustment programme the Government is emphasising the role of the private sector and encouraging an outward looking and liberal environment to nurture foreign investment in manufacturing. Incentives include an attractive code for importing capital and goods. The policies are thus general and primarily directed towards creating new activities.

5. The scope for rehabilitation.

Economic recovery programmes drawn up by the Government or donor countries tend to focus on developing new industries rather than regenerating the few existing ones. Although the current manufacturing base may be small, the long period of mismanagement and neglect until 1979 will have created needs for rehabilitation at individual plant level in many branches which already existed in the 1960s.

(For ongoing UNIDO projects, please see Appendix.)

**ETHIOPIA**

1. General Introduction

Ethiopia is classified as the poorest country in the world in terms of GDP per capita (US$ 73 in 1988 in constant 1980 prices). The principal restraints in the economy since the overthrow of Haile Selassie in 1974 have been: economic reorganization; the institution of centralized planning and nationalization; and a series of droughts in 1972-74, 1980-81, 1984-85 and 1987-88. Military conflicts have disrupted large areas of the country and diverted government financial resources; the fighting in Eritrea alone is estimated to cost US$ 1 million a day.

Agriculture, apart from being the single largest contributor to GDP in years of normal rainfall (accounting for about 40 per cent), it provides about 80 per cent of exports and employs about 85 per cent of the working population. Although Ethiopia has a climate and ecological diversity which would allow a wide range of crops to be grown, only about 16 per cent of total agricultural land (87 million hectares) is cultivated. Of this almost 77 per cent is permanent pasture and although about 96 per cent of cultivated land is under peasant production, the emphasis of government agricultural policy since the 1974 revolution has been on development of large scale production under state controlled units. The expansion of state farms and cooperative farming has been rapid.

Ethiopia's main foreign exchange earner, coffee, was affected by falling world prices between 1979 and 1982 and more recently in 1987. The economy has been characterized by low agricultural productivity, a small industrial base, shortages of skilled manpower, weak infrastructure and the strains of world recession.

Government finance in recent years has been dominated by endless wars and secessionist groups. In 1988 the government imposed a levy on all those receiving salaries in order to finance its war effort in Eritrea and Tigre. Defence spending in 1988 was officially estimated at 50 per cent of total budgetary expenditure (US$ 725 million). To what extent defence expenditure includes purchases of military equipment is not known; according to US statistics, Ethiopia was the biggest buyer of weapons in sub-Saharan Africa during the period 1979-83, spending a total of US$ 1,900 million, 95 per cent of which came from the USSR. By 1989 Ethiopia's military debt to the USSR was estimated at US$ 5,000-6,000 million and there was some doubt whether the USSR would renew defence contracts with Ethiopia. Repayment in cash crops such as coffee has been stopped following the discovery that the German Democratic Republic was selling Ethiopian coffee at discounted prices.

The last IMF standby in May 1981 was accompanied by an 18-month stabilization programme which extended strict control over wages, taxation and money supply and removed subsidies on several products including oil. While reducing the low rate of inflation even further and helping improve the overall balance of payments, the policy led to low rates of growth as a result of the reduction in imports particularly of vital spare parts and raw materials for industry and agriculture. These stringent economic policies continued from 1983 onwards with the government introducing even tighter controls on imports, particularly those relating to development projects,

luxury items and oil. With economic prospects still prejudiced by drought, which has affected export crops such as sesame and beans, and to a lesser extent coffee. The prospects of the government loosening its conservative policies are poor, and so also is an improvement in the overall economic performance.

The 10-year development plan, drawn up in 1981 aimed to expand state control, improve living standards, develop natural resources and improve productivity. The plan envisaged that half of the 25,000 peasant associations would become full cooperatives by 1991 and that state farms would nearly double in size. Agriculture was to receive 22 per cent of investment but its share of GDP was to decline as industry with 45 per cent of planned investment grew from 16 per cent to 22 per cent of GDP during the plan period. The growth target was downgraded from 7.5 per cent to 6 per cent in 1984 and, following the 1984-85 drought and the results of the 1984 census, the 10-year plan was replaced by a 3-year intermediate plan running from 1986/87 to 1988/89. The 1987-88 drought and the low level of external funding undermined this plan. The government now hopes that the first 'revolutionary' 5 -year plan running from 1989/90 to 1994/95 will start the country's development.

## 2. The manufacturing sector

Manufacturing output growth, averaging about 6 per cent in the period 1980-86, has been faster than in other sectors of the economy and capacity utilization rates in large and medium sized companies have been high by sub-Saharan African standards. Detailed information of individual industries is not easily available.

Food processing, textiles and beverages, which together account for about 60 per cent of manufacturing output, are based on domestic raw materials.

Production is centred in and around Addis Ababa, Asmara and Dire Dawa (the three regions of Shoa, Eritrea and Hararghe contain 92 per cent of manufacturing industry). Manufacturing caters largely for the domestic market although some products, notably sugar, semi-processed hides, skins and other leather work and oilseed products, are exported. There are seven tanneries and two more are being built by 1990 to take advantage of a growth in export orders after a stagnant period from 1979 to 1982.

The European Community is helping to finance a freshwater fisheries project in the Rift Valley between 1990 and 1995. The project involves the development of fisheries cooperatives through the provision of boats and other equipment, the construction of a fish terminal and cold storage facility at Bahar Dar on Lake Tana and the expansion of cold storage facilities in Addis Ababa. The project will also help set up boatbuilding yards and upgrade the fisheries resources development plant. The project is expected to increase the total freshwater catch to 3,000 tons annually.

The Finchaa sugar complex, approved in 1989, includes a sugar cane estate, a cane processing factory with a daily capacity of 4,000 tons and a plant for producing anhydrous alcohol. The scheme, financed mainly by the African Development Bank, is 330 kilometres northwest of Addis Ababa. The aim is to produce 85,000 tons of sugar annually during 1989-94, rising to 127,000 tons anually around 1996.

Meanwhile, the Wonji/Shoa sugar estate was producing at full capacity in 1989 with output of 100,000 tons annually. Production at Ethiopia's other sugar scheme at the Metahara estate is projected to reach 85,000-90,000 tons annually in 1990 following extension of the factory.

A textile factory at Debre-Berhane, 250 kilometres northwest of Addis Ababa, is being rehabilitated by a loan from the African Development Bank and with some finance from France.

The rubber tyre manufacturing plant, built near Addis Ababa by Czechoslovakia during Haile Selassie's reign, is being refurbished and expanded by British, West German and Czech firms. With an annual output worth US$ 16 million in 1989, current production covers only 40 per cent of domestic market needs. It is hoped to increase output by 30 per cent a year by investing US$ 26 million in new machinery, training and using raw materials from Ethiopia's first rubber plantation. The first hevea sap is expected to be harvested in 1990.

Since the mid-1980s manufacturing has been stimulated by new enterprises such as the 300,000 ton Mugher cement factory; the Kombolcha textiles factory, the country's largest, with a capacity of 20 million m3 of fabric capacity; and the Nazareth tractors factory with an initial production of 1,000 tractors, expanded in 1985 and financed by the USSR. The tractor plant was designed to produce 3,000 tractors and 400 combine harvester-threshers per year, under the provisions of a US$ 118 million bilateral co-operation programme agreed in September 1984.

Other major projects include breweries at Harar and Bedele and the edible oil works at Bahr Dar. There are also plans for a meat packing factory, more textile plants and flour mills and for a pipe assembly plant.

Italy is helping to finance an industrial spare parts and hand tools factory due to be finished in 1990.

Over 90 per cent of industrial concerns, by value, are state- owned.

Industrial exports doubled in dollar terms between 1979 and the second half of the 1980s. Sales of hides, skins and finished leather goods account for 80 per cent of total, owing mainly to a major expansion programme for the export leather industry (initiated in December 1983).

Trends: During the 1980s many of the largest projects were financed by aid from Eastern Europe, including the US$ 107 million Kombolca textile mill, Ethiopia's largest (with joint funding from East Germany and Czechoslovakia), the US$25 million Harar brewery (Czechoslovakia), the Mugher cement works and the US$11 million edible oil mill (both financed by East Germany). The 1984 bilateral cooperation programme with the USSR (see tractors factory above) was also to be used to increase Soviet funding for the Dire Dawa cement works, still at the design stage, and to assist in financing a meat-packaging factory and textile mill. All of these are believed to have been completed in 1984.

Czechoslovakia agreed additional finance for textile development, as well as for a pipe-assembly factory and two flour mills, under a 1986-90 co-operation programme, agreed in April 1985. In January 1986 Czechoslovakia confirmed an interest-free loan of US$ 50 million to help to establish a polyester textile factory under the same programme, as well as for a new

tannery, in Mojo, in central Ethiopia, and for meat packaging facilities and expansion of the abattoir at Addis Ababa.

3. Obstacles to production

The main obstacles to manufacturing are the continued civil war, the shortage of foreign exchange for essential imported inputs, the lack of new investment, raw materials, and spare parts, combined with difficult relations between workers and managers.

The nationalizations of 1975 severely disrupted manufacturing. Output stagnated for several years and it was only after the creation of the Supreme Planning Council in 1978 and the start of one year development plans that it began to recover again.

In common with other African countries, there is a lack of skilled manpower and inadequate infrastructure.

4. Policies directed towards the manufacturing sector

The 10-year plan introduced in 1981 emphasised industrial expansion with almost 50 per cent of planned investment earmarked for 216 industrial projects, a quarter of which were improvements on existing companies. The emphasis was on import substitution, particularly of machinery and transport equipment, industrial inputs and semi-finished goods. Western aid for manufacturing has been minimal, partly owing to problems over compensation for nationalization.

The government has tried to attract private foreign finance. In January 1983 it promulgated a joint venture code, offering concessions on tax, customs duties and repatriation of dividends but limiting foreign participation to 49 per cent for 25 years. In 1984 this was revised and further concessions were made including exemption from duty on capital goods, from corporation tax for five years and from income tax for foreign staff. All restrictions on profit repatriation were removed and majority foreign participation allowed. It was announced in June 1988 that four western oil companies were to hold 49 per cent of an oil refinery company in a joint venture with the government.

Local private business was still not allowed to participate in joint ventures although the government liberalised conditions for local businessmen in September 1985 enabling them to raise some capital on the local market and to import some machinery.

The failure of the 1983 investment code to attract private sector investment caused the government to broaden its range of concessions. Investment incentives approved in June 1989 allow foreign governments, state owned organizations and private investors to become partners in Ethiopian entreprises. The ceiling for investment in joint ventures with the state is US$ 2.9 million. That for investment in light industrial projects set up by cooperatives and trade associations has been raised from US$ 242,000 to US$ 1.9 million, excluding the cost of construction. These incentives are also in response to the shortage of consumer goods, inadequate employment opportunities and the low level of exports.

In 1989 the government secured from the European Development Fund a sectoral import programme to alleviate the foreign exchange shortage and buy essential agricultural inputs and raw materials for the manufacture of consumer goods.

5. The scope for rehabilitation

Once peace is restored the scope for rehabilitation will increase considerably. Much, however, will depend on economic policy emphasis. Already in early March 1990, the government was talking of moving towards increased liberalization of the economy. Although the existing market and the manufacturing base are small, there are already potential opportunities for rehabilitation for instance in the form of training and developing linkages between existing industries and other economic activities. The scope for all forms of rehabilitation will also rise if the government adopts more liberalized economic policies, particularly if it decides to privatize public sector entreprises. The greatest immediate potential lies in subsectors such as food processing, textiles and leather, supplied by locally produced agricultural raw materials, which would enable the country to become self-sufficient in essential goods, provide employment and conserve foreign exchange reserves.

(For ongoing UNIDO projects, please see Appendix)

**GABON**

1. General introduction.

Gabon, the third biggest oil producer in sub-Saharan Africa (after Nigeria and Angola), also has substantial timber reserves and deposits of manganese, uranium, iron ore, gold, barytes and niobium associated with deposits of phosphates, rare earths and titanium. Nevertheless, the economy remains heavily dependent on oil despite efforts to diversify. The coming on stream of the important Rabi Kounga field in January 1989, four months ahead of schedule, increased total petroleum output capacity to estimated 10.5 million tons in 1989, confirming hopes of a return to the high output levels from 1974 to 1978 which averaged 10.9 million tons. With proven recoverable reserves estimated to exceed 100 million tons, production could rise further, subject to OPEC quotas.

Though oil wealth, combined with a very small population, has given Gabon the second highest per capita GDP in Africa, it has also exposed the economy to fluctuations in the world oil market. The 1986 collapse in world oil prices led to a sharp deterioriation in the current account resulting in the suspension of service payments on both official and uninsured commercial debt. Following the approval of the 2 year IMF stand-by programme at end 1986, the Paris Club of official creditors agreed in January 1987 to reschedule principal and interest due between September 1986 and December 1987 over ten years. In early 1987 the London Club of commercial bank creditors rescheduled principal due between September 1986 and December 1988. Paris Club debt repayments for 1988 were subsequently rescheduled in March 1988, for ten years with 5 years' grace. In September 1989 the Paris Club of government creditors agreed to a further rescheduling of debt repayments following approval that month of the 18-month IMF standby. The accord, which covers all principal and interest due in 1989 and 1990, is for ten years years with four years' grace.

Although the external debt service burden has been reduced during the period 1986-91 through persistent rescheduling, Gabon is not eligible for debt relief initiatives proposed so far. About 90 per cent of its long term external debt is owed to governments or guaranteed by their export credit agencies. Thus, although it is a middle income country Gabon does not stand to gain from the Brady Plan for countries with high levels of commercial bank debt. While France has considered the special case of middle income African countries, it concluded that Gabon had the potential to service its external debt owing to its sharp rise in oil export capacity. (See also Congo).

Since the introduction of the IMF-supported structural adjustment programme in 1986, supplemented by the World Bank loan of April 1988, the Government has improved its management of both current and investment expenditure and has started to restructure the public sector with a view to privatizing some of the parastatals. In 1989 a new investment code was put before the Assembly and the Labour Code was revised. The Government has introduced a range of measures to stimulate greater competition and to reduce state monopolies; these include the establishment of a commission to encourage competition, measures to liberalize trade and the lifting of certain import restrictions.

## 2. The manufacturing sector

The manufacturing sector has expanded largely in response to the growth in oil and mineral extraction and the advent of the Transgabonais railway. However, apart from oil-refining and some wood, manganese and uranium processing, manufacturing is still relatively undeveloped accounting for only about 7 per cent of GDP in 1988. In general, the sector is highly capitalized. The recession in 1986, caused by the fall in oil earnings, was reflected in the manufacturing sector by an estimated 25 per cent decline in the combined turnover of the country's main enterprises. The sector, reflecting continued overall economic decline, remained depressed in 1987 and 1988.

Oil refining, the most important activity in terms of output, is carried out out exclusively by Societe Gabonaise de Raffinage (Sogara) whose installations were integrated with Gabon's other refinery Cie Gabonaise Elf de Raffinage (Coger) which operated as an export-oriented refinery until it was closed in 1985. Sogara has a nominal distillation capacity of 1.2 million tons/year but cracking and reforming capacities limit efficient production and annual refining capacity is about 800,000 tons/year, about twice the level of domestic demand. In 1988 Sogara processed 604,000 tons of crude oil, 84 per cent up on 1987, more than enough to satisfy domestic demand for petrol, kerosene, gas oil and fuel oil. Allied to the refinery is a 10,000 ton capacity bitumen plant.

Wood processing is the second most important activity and includes the production of sawn logs, veneer and plywood. This has been stimulated by the internal demand for construction, furniture and railway sleepers. A substantial part of manufacturing is represented by timber processing at the Port-Gentil plywood factory, Compagnie Forestière du Gabon (CFG), the largest in Africa. The planned Sogacel project to build a cellulose plant with annual capacity of 250,000 was officially abandoned in 1983 owing to lack of finance. The project would have made Gabon a leading African paper pulp producer.

Metal working : The oil related sector also includes the shipyards Ateliers et Chantiers de l'Afrique Equatoriale (ACAE) and l'Union Industrielle pour l'Afrique Equatoriale (UIAE) which were established in 1946 and 1957.

Metal working activities depend largely on the oil sector and public works' programmes. There are currently about thirty medium sized companies including :

. Societe de Transformation de l'Aluminium au Gabon (Sotralga)

. Société Transmetal

. l'Entreprise Gabonaise de Constructions Métalliques (EGCM)

. Societe Gabonaise de Fu[illegible] (Sogafuts)

. Société Gabonaise Indust[illegible]elle (Sogi).

Food and beverage industries, based mainly on import substitution, are the main employers of manufacturing labour and include coffee hulleries, a flour mill, several breweries, an industrial milk plant, a soft drinks plant, a mineral water factory and animal feed plants. The beverage industry was the only sub-sector not to have been adversely affected by the 1986-88 recession.

The sugar industry, with production at the Sosuho plant reaching 18,459 tons in 1988, is expanding although still well below its annual capacity of 30,000 yons. Sosuho is diversifying production to process other foods such as pineapples and a range of fruit juices. The manufacture of jam and alcohol has not proved profitable and two vegetable oil refineries failed to reach targeted output of over 5,000 tons of edible oil owing mainly to the small size of the domestic market and inability to market a potential exportable surplus.

At the industrial zone outside Libreville near Owendo a pharmaceutical factory is scheduled to start producing in early 1990 to supply both the regional (Udeac and Ceeac) and the domestic market. Employing about 100 qualified personnel, the plant will initially manufacture products tailored for African markets such as antipaludians, painkillers, antibiotics, glucose, salt or mixed serums for resuscitation, antiparasitics and anti-asthenics. The manufacturing process is the same as that used by the major French and other European companies. At a later stage new products such as antibacterials may be produced. Botanical research is also planned to establish which extracts of Gabon's medicinal plants could be processed and exported.

The chemical industry consists of medium-sized units of specialized production, including an oxygen and acetylene plant in Port Gentil with a capacity of 600,000-700,000 litres annually; a liquid nitrogen plant; two paint and varnish factories: a detergent and toiletries plant. There is a dry battery plant in Franceville using manganese dioxide provided by the partly foreign owned manganese mining company Comilog.

Société des Ciments du Gabon operates a clinker plant with an annual capacity of 350,000 tons at Ntoum near a limestone deposit. It also has two clinker crushing plants (at Owendo and Franceville ) with annual production capacity of cement of 270,000 tons and 150,000 tons, respectively. All three plants are operating at about half their capacity.

Other factories include a cigarette manufacturing plant (SO.CI.GA), textile companies (Sotega and Soveman) and books and newspaper printers (Multipresse).

The ownership pattern is dominated by large joint ventures between the government and foreign, mostly French, companies. Foreign investors are encouraged to place 2 per cent of their profits on a tax free basis in local industries under the government's Diversified Investments Provision (PID): most of the revenue for this programme comes from the foreign oil companies.

Planned projects not yet been realized include SOGACEL,(see above) and a ferro-manganese plant, run by Sogaferro, to valorise manganese locally. The latter would require an extension of the Transgabonais railway to the Belinga iron ore mines and hydroelectric harnessing of the Grand Poubara.

Export of manufactures are dominated by refined oil products such as motor gasoline and fuel and lubricating oil (about 90 per cent of total export earnings) with some export of raw and refined sugar, veneer sheets and wood pulp. Gabon still relies on imported manufactures to meet domestic demand. France remains its main trading partner despite Gabon's attempts to diversify its trading and investment partners. Regional trade is still limited apart from some oil exports to other UDEAC countries.

3. Obstacles to production

Like other African countries the main obstacle to production is the narrow domestic market and competing import substitution industries in neighbouring countries ( including Gabon's partners in the regional customs union UDEAC) In addition, Gabon suffers from relatively high local costs, particularly of labour, compared with neighbouring countries. High salary levels, intrinsically linked with the oil syndrome, have been the principal cause of the decline in competitiveness of Gabon's non-mineral exports. Although in the early 1960s salaries were similar to those in other African countries, they have surged since the beginning of the 1970s because of the acute shortage of labour, both skilled and unskilled. The workforce is limited, owing to the small size of the population which suffers from an endemically slow rate of growth. Literacy levels are however high and the Gabonese are generally motivated, loyal, hard-working and easy to train.

4. Policies directed towards the manufacturing sector

The main thrust of Gabon's development effort during the early years of independence, directed towards export-orientated industries in mining and forestry, has fostered the development of an extreme form of economic dualism in which a highly intensive export sector operates alongside an agricultural sector which produces mainly for subsistence.

Within the structural adjustment programme which has been in effect since end 1986, public investment allocations under the rolling 3-year investment plan are restricted to the productive sectors, notably agriculture, in or to stem urbanization, decrease the need for imported food and develop new sources of foreign exchange earnings. The government is continuing its policy of restructuring public sector enterprises. Thirty four such companies are currently being audited in order to decide whether they should be liquidated, restructed or privatized. The government is also promoting small and medium enterprises and the new investment code is expected to stimulate increased foreign and domestic private investment in all sectors.

5. The scope for rehabilitation

There is substantial scope for rehabilitation in conjunction with the IMF and World Bank supported structural adjustment programme in general and the privatization programme in particular. Assessment of rehabilitation needs should ensure that the policy, economic, technological, managerial, financial and marketing dimensions of the various industries are fully integrated. Apart from training and advise on potential export markets, rehabilitation should also include incentives for stimulating credit and investment. Within the overall structural adjustment framework, emphasis should be placed both on improving of the existing manufacturing base and developing linkages with other sectors of the economy. The most likely immediate candidates for rehabilitation at plant level include the the plywood factory at Port Gentil and sugar plant Sosuho. Opportunities for increased processing of raw material exports such as higher upgrading of manganese ore will arise in response to trends in world supply.

(For ongoing UNIDO projects, please see Appendix)

**GAMBIA**

1. General Introduction

Although agriculture remains the mainstay of the economy, tourism is becoming increasingly important. The groundnut crop and government spending on development are the main engines of economic growth. The economy is also affected by the strength of the CFA franc in Senegal, with 'black market' currency rates traditionally encouraging much of the groundnut production to be smuggled into Senegal. The government's recurrent budget, which is financed largely by import duties and the taxation of groundnut exports, is vulnerable to trends in external trade. The government is encouraging cotton, palm kernels and rice production but, apart from groundnuts, fishing and tourism are the only other sources of foreign exchange earnings. There is substantial, though unquantifiable, re-export trade with Senegal and other neighbouring countries.

The African Development Bank is to contribute towards a second structural adjustment loan in 1990 which aims to introduce further civil service reforms, tighten budgetary control and restructure parastatals. Additional contributions are expected from the World Bank and the Netherlands. The reform programme emphasises public resource management, agricultural policy, public sector management and balance of payment support. Disbursement of the first structural adjustment facility ended in 1987 with funding from the World Bank, the African Development Bank and the UK's Overseas Development Administration.

The IMF approved in November 1989 a loan to support the second annual economic and financial plan under the 3-year enhanced structural adjustment facility (ESAF) approved in November 1988 which replaced the SAF approved in September 1986. During 1988/89 the government made further progress in the medium term programme by continuing structural reforms and a liberalized trade and exchange system. The government has also followed prudent fiscal and monetary policies and improved public sector efficiency. The private sector has been stimulated through price and other incentives particularly in agriculture and fisheries. Despite the sharp fall in groundnut production owing to bad weather, economic growth has been steady and inflation has fallen. Long term external debt is mainly on easy (concessional) repayment terms but total debt burden (US$ 327 million in 1988) is high, equivalent to 254 per cent of exports and 172 per cent of Gross National Product. Unless a substantial amount of debt is cancelled, further reschedulings with government creditors will be necessary. Gambia remains heavily dependent on foreign aid.

The main objectives of the 1990 programme are to increase GDP by 4.5 per cent and to reduce inflation to 6.5 per cent. The programme also seeks to eliminate payment arrears and will continue to rely on prudent fiscal and monetary policies while strengthening structural reforms in the state enterprise sector. Gambia is to ease infrastructure bottlenecks and pursue a flexible exchange rate policy in order to maintain competitiveness and diversify its export base. If the government follows IMF advice it will also try to reduce the current account deficit and build up foreign exchange reserves.

2. The manufacturing sector

Although manufacturing has grown since independence it is still small accounting for under 10 per cent of GDP. The cultivation and processing of groundnuts dominates the sector.

The formal sector consists of 40 to 50 entreprises of which three fifths employ less than twenty workers. Details on the capacity and output of individual plants is not readily available.

The Food products subsector is the most important contributing throughout the 1980s over 20 per cent of manufacturing value added measured in 1980 prices. The largest employer in the country is the Gambia Produce Marketing Board (GPMB) which is responsible for buying, processing and exporting all groundnut products.

The beverages subsector consists of a soft drinks factory and a brewery, Banjul Breweries Ltd, the largest entreprise involved solely in manufacturing.

Four companies owned by the Agriculture Ministry were up for privatization in 1989. They are a mechanical workshop, the tractor planning service, a poultry feed mill and a hatchery. Nyambai Sawmill, excluded from the National Investment Board's initial list of entreprises for privatization, was bought in 1989 by Moukhtara Holding Company, a Lebanese Gambian retail firm. Other manufacturing activities include fish freezing, textiles, non-metal furniture, paint and soap.

Exports consist of groundnuts or associated products (90 per cent) and fish (10 per cent). Imports range from basic food items to machinery and equipment. Ghana is the most important market absorbing about a third of total exports. Imports come mainly from the UK, France and the USA.

3. Obstacles to production

Large scale expansion is constrained by several factors common to other African countries such as:

. the small size of the domestic market which precludes economies of scale through mass production and limits the scope for import substitution;

. the scarcity of domestic raw materials;

. the shortage of local technical expertise and management;

However, Gambia's manufacturing sector also suffers from obstacles such as the attitude of domestic investors towards risk capital and their inclination to favour more traditional channels of investment such as trading and property.

4. Policies directed towards the manufacturing sector

Within the economic reform programme (ERP) which has been implemented in consultation with the IMF, the World Bank and other donors and creditors, the government is liberalizing the economy, stimulating private investment and reducing its direct control over the economy.

Specific reforms have tended to be directed at eventual raw materials for manufacturing rather than the sector itself. The reorganised Ministry of Agriculture is to focus on extension and research and to disengage from activities that can be handled by the private sector. A separate department has been established to set priorities for agricultural research and for the allocation of resources. The operations of the Gambia Cooperative Union are to be streamlined and some of its functions, including the marketing of inputs such as seeds, fertiliser and implements, are to be transferred to the private sector. Also as part of the ERP the government has withdrawn from the Fish Processing and Marketing Project to facilitate private sector participation.

The government plans to liberalize groundnut marketing, as part of more general trade liberalization under the structural adjustment programme. Gambia Produce Marketing Board's monopoly on the issue of licences to buying agents will be abolished and groundnut marketing opened to private traders. The measure is likely to be the first step towards ending the board's monopoly on the buying, processing and export of groundnuts. Under the new marketing policy the board will announce a factory price for a declared tonnage of groundnut delivered by traders. However, it will no longer fix producer prices. The government also plans to eliminate cost factors, such as export subsidies, which affect factory prices.

5. The scope for rehabilitation

There is scope for rehabilitation in conjunction with the IMF and World Bank supported structural adjustment programme in general and the privatization programme in particular. Opportunities are likely to include:

. training

. advice on incentives to improve the availability of raw materials and to stimulate finance and investment

. programmes for increasing linkages between manufacturing and other economic activities.

Unless Gambia can substantially expand its export markets, the small size of the manufacturing base and of the potential domestic market will militate against a comprehensive programme for industrial rehabilitation. At a sub-sector level candidate industries will be agro-based with priority given initially to groundnut processing and cotton ginning.

(For ongoing UNIDO projects, please see Appendix.)

## GHANA

1. General Introduction

Ghana's economy is based primarily on agriculture which accounts for about 45 per cent of GDP and employs about a quarter of the working population. Cocoa is traditionally the most important crop, occupying over 50 per cent of cultivated land and providing about two thirds of export earnings. In addition to cocoa, agricultural exports include coffee, bananas, palm kernels, copra, limes and kola nuts. Agriculture also provides raw materials for local manufacturing industries. Oil reserves in commercial quantities were discovered in the 1970s. Mining is Ghana's second largest economic activity and exports of the four main minerals gold, diamonds bauxite and manganese (reserves estimated at 49 million tons) account for about 20 per cent of total exports.

Political instability and general mismanagement had an adverse effect on the post-independence economy. Development planning was sporadic and persistent budget deficits and foreign borrowing led to spiralling inflation and a high debt burden. At the time of the second Rawlings coup in December 1981, economic activity had come to a virtual standstill, this was exacerbated in 1982 by the effects of severe drought and shortages of foreign exchange. Falling cocoa output was attributed to declining real producer prices (a function partly of the overvalued exchange rate), erratic supplies of insecticides, transport difficulties and smuggling. Output of minerals fell owing to foreign exchange shortages, poor management and deteriorating infrastructure. By 1983 real per capita GDP had fallen by about 24 per cent compared with 1978, inflation was running at over 100 per cent and external arrears were rapidly accumulating.

In 1983 the government launched a 4-year economic recovery programme (ERP) in consultation with the IMF and the World Bank to redress these imbalances and to foster growth through liberalization. Its main objectives included lowering inflation through prudent fiscal, monetary and trade policies; increasing the flow of foreign exchange and directing it to priority sectors; restructuring economic institutions; restoring incentives; rehabilitating infrastructure; and increasing the availability of essential consumer goods. The budget moved into surplus in 1986-88, the inflation rate fell and real GDP grew at 4.7 per cent in 1984-88. However, the current account remained in deficit from 1981. International reserves were US$ 221 million at end 1988, equivalent to about 3 months' merchandise imports.

In November 1989 the IMF approved a loan to back the second annual economic and financial programme under the 3 year ESAF approved in November 1988. Real GDP is to grow by at least 5 per cent annually and the inflation rate is to fall from 27 per cent in 1988 to 5 per cent in 1992. Other objectives are: to eliminate the remaining external payments arrears and to increase official reserves while ensuring an adequate level of imports.

2. The manufacturing sector

At independence in 1957 the Nkrumah government launched a major drive for industrialization raising manufacturing's share of GDP from 10 per cent 1960 to 14 per cent in 1970. This has resulted in a relatively wide range of industrial enterprises including saw mills and timber processing plants, cocoa processing plants, brewing, cement manufacture, oil refining, textiles and vehicle assembly. Ghana also participated with Togo and Cote d'Ivoire in the establishment of an important cement factory for the region based in Togo but closed in April 1984. Early industrial development was not built upon, partly because of poor management in the state sector which by 1977 accounted for 47 per cent of manufacturing value added.

Apart from traditional industries such as food processing, Ghana has a number of long established large and medium sized enterprises, including a petroleum refinery and plants producing textiles, vehicles, cement, paper, chemicals and footwear, and some export-based industries, such as cocoa processing and timber plants.

The oil refinery at Tema is undergoing rehabilitation. Work on the first phase, funded by the European Investment Bank (EIB) and the World Bank, was scheduled for completion at end 1987 but was delayed because certain World Bank conditions were not satisfied. The construction of new facilities to convert heavy crude into lighter products such as gasoline and kerosene is being postponed until funds are available.

Among the largest capital-intensive industries in Ghana is an aluminium smelter at Tema, operated by Volta Aluminium Company (VALCO), which is owned by the multinational Kaiser Aluminium and Chemical Corporation (90 per cent) and Reynolds Metalco (10 per cent). Some of VALCO's ingots are to be used by a new US$ 34 million aluminium sheet rolling mill owned by Aluworks Ghana which started production in 1985. Aluworks Ghana is to have an annual output of 10,000 tons, over two thirds of which will be for local consumption.

Recent trends include the reopening of a glass factory which has been reopened at Aboso, with a capacity of 25,000 tons/year; a US$36 million project to increase palm oil production, including a new palm oil mill in 1987, with a capacity of 25,000 tons per year; a new cement factory using local raw materials; the rehabilitation of Ghana Sugar Estates to produce alcohol; Chinese funding for three rice mills; the construction of a citronella distillation plant at Boso; and a Japanese backed telecommunications project linking Accra to the northern regions of the country.

3. Obstacles to production

From 1970 to 1977 ouput was stagnant, followed by a sharp fall from 1977 to 1982. Capacity utilization in large and medium scale factories was running at only about 20 per cent by the early 1980s. This was mainly attributable to foreign exchange shortages which limited the availability of raw materials and spare parts. Furthermore, the consistent overvaluation of the cedi and irregularity of supply increased the attractiveness of imports relative to home-produced goods.

Power shortages were a problem in 1983 because of the drought forcing Valco to stop production until mid-1985 and restricting other industries to a 3-day single shift week. The average rate of capacity utilization rose to 25

per cent in 1985 as the ERP got under way and the supply of inputs improved. The original target had been 50 per cent in 1984 and 75 per cent in 1986; this was scaled down to 40 per cent by end-1986 but even this proved to be overambitious.

Deterioration in transport and communications has been identified as a major factor affecting the growth of exports both directly and indirectly by hindering the distribution of inputs and spare parts to productive entreprises.

In common with many other African countries, Ghana also suffers from a shortage of skilled manpower and a limited domestic market.

4. Policies directed towards the manufacturing sector

The downgrading of the capacity utilization target was attributable partly to unforeseen difficulties in stimulating production after such a long period of decline. At the same time, there are indications that excess capacity in some industries, especially soap, textiles and alcohol, was also due to bad planning and shortages of spare parts and raw materials. A network of committees was set up in 1985 to study the scope for rationalization and restructuring in different industries. At the same time, efforts were made to develop new industries with both foreign and domestic ownership under a new investment code published in 1985.

The ERP's second phase (1986-88) reflected the move towards deeper structural reforms. These concentrated on the financial, agricultural, energy, industrial, education and health sectors, to improve conditions for growth. In June 1988 the privatization programme for 32 companies started. The government offered seven possible forms of divesture including selling to the workers as well as to the communities ; outright liquidation, outright sale, total or partial sale of shares to the general public, joint venture, worker shareholding through individual workers or the TUC, community shareholding and institutional shareholding. In practice, only outright sale and joint ventures have been pursued. There are 235 state companies, 181 of which are majority owned.

The government introduced Pamscad (programme of action to mitigate the social costs of adjustment) to create 40,000 jobs over a 2-year period. Special beneficiaries are to be small scale miners and artisans; with labour intensive self help projects for communities.

5. The scope for rehabilitation

There is substantial scope for rehabilitation in conjunction with the IMF and World Bank supported economic programme and the government has already undertaken planning for it. Major donors have expressed interest in supporting Ghana in these efforts. Apart from projects that would ensure reliable supply of essential inputs such as power and raw materials, opportunities will exist for training and advice on productivity, marketing and financing as well as creating efficient linkages with other sectors of the economy. Candidate industries have been identified in nearly all branches especially those based on locally supplied raw materials.

(For ongoing UNIDO projects, please see Appendix.)

GUINEA

1. General introduction

Guinea could become one of the richest countries in the region owing to its substantial mineral deposits, water resources and favourable climatic and soil conditions. Its substantial deposits of high-grade bauxite account for an estimated 30 per cent of total known world reserves. Other important mineral reserves include coal, diamonds and gold. Companies are involved in oil and uranium prospecting. Industrial activity is heavily concentrated on mining and mineral deposits account for almost all export earnings. However, the mining sector has operated with few linkages with the rest of the economy, thereby exacerbating earlier tendencies towards economic dualism.

Agriculture remains the most important economic activity in terms of employment and contributes about 45 per cent of GDP. It has suffered serious setbacks mainly as a result of President Sekou Toure's centralised policies which restricted private enterprise in all sectors of the economy. More liberal policies since the military came to power in 1984, including a sharp devaluation in 1985 and improved management with World Bank and French assistance, aim to stimulate production for export. The main cash crops are bananas, coffee, pineapples, palm oil, groundnuts and citrus fruit. Guinea's substantial fishing potential remains relatively undeveloped.

Economic performance since independence, apart from a stimulus from rapid development of bauxite in the early 1970s, has been disappointing. After independence, government policies of direct state control over production and consumption resulted in inefficiencies. Mining, where state control was diluted, developed as an enclave.

The abrupt severance of relations with France in 1958 led to the sudden withdrawal of French expertise and aid. Guinea left the Zone Franc in 1960. Although Eastern European countries provided aid in the form of capital goods and capital flight was stemmed owing to the nonconvertibity of the new currency, Guinea needed to find alternative markets for its exports and alternative sources of capital and technical assistance.

IMF and World Bank supported policies since 1984 have included privatization; elimination of parastatal monopolies; liberalization of foreign trade; abolition of price controls; monetary and banking reforms and a reduction in the number of civil service personnel. The recovery programme has received substantial international financial support, including debt relief and fresh funds from multilateral and bilateral sources. The government aimed to achieve real economic growth by 1990. In July 1987 the IMF approved a 3-year structural adjustment facility (SAF).

The trade balance has traditionally been in surplus since the early 1970s owing to buoyant mineral exports. It is hoped that the devaluation of the currency and increased producer prices will reduce illicit trade, mainly of agricultural products and estimated at about US$100mn/year. Guinea receives substantial foreign capital (mainly mining investment) and aid, particularly since 1984 following its rapprochement with France and adherence to Lomé Conventions. Although there is no data on the current account, deficits are believed to have been substantial and were financed mainly by accumulating arrears on external debt payments.

The Paris Club of government creditors rescheduled arrears and debt servicing commitments up to the beginning of 1987. This was followed by a further Paris Club rescheduling in 1989. As one of the world's 35 poorest countries, Guinea will be eligible to have its public debt to France cancelled in January 1990, following President Mitterrand's announcement in May 1989. Rescheduling of US$ 600 mn owed to Eastern European countries is being sought. Although most of Guinea's debt was borrowed at low rates of interest, the country's capacity to repay these debts depends largely on mineral exports which remain highly vulnerable to fluctuations in world demand.

2. The manufacturing sector

The manufacturing sector, which accounted for only 1 per cent of GDP in 1986, is small and has centred mainly on import substitution activities near Conakry. Detailed information on the sector is not easily available. Several projects, all government-owned, were started between 1964 and 1971 to meet domestic demand. However, most of these projects were disappointing. Lack of foreign exchange for raw materials, of skilled workers and of technical expertise, combined with poor management and low domestic purchasing power, meant that most of the plants were, and are still, operating substantially below capacity. A French evaluation made in 1985 suggested that utilization was equivalent to only one-tenth of capacity.

Food processing concentrates on import subsititutes such as vegetable oil and sugar. There are units for fruit canning and juice extracting. Two private joint ventures with US and French interests are involved in fishing and fish processing.

Rehabilitation of fish processing units at Conakry port is scheduled to be finished in May 1990. Demolition of buildings, rehabilitation of the refrigeration units and supply of deep freeze and ice-making equipment was completed in 1989. Work on a fish processing plant and fuel storage facilities is under way. The US$ 23 million project, financed by France and the European Development Fund, is part of an integrated programme to develop fishing, processing and marketing capacity. Guinea has a potential fish catch of 220,000 tons of fish a year, compared with 26,000 at present.

The textiles subsector includes a factory with an annual capacity of 24 million metres of fabrics and another plant which is being rehabilitated with funding from the European Development Fund.

The only company currently producing alumina is Friguia, the joint venture between the government (49 per cent) and Olin Mathieson and Pechiney interests. The company operates Guinea's first bauxite mine, which started operations in the 1930s, and the alumina smelter with a capacity of 700,000 tons which entered production in 1960. Two new aluminium plants, with a combined annual production capacity of 950,000 tons, which the USSR announced in 1989 that it was going to establish, should boost overall output in manufacturing.

Other activities include construction materials with a clinker crusher with a capacity of 250,000 tons/year, soft-drinks bottling (privatized in 1986), plastic tiles, shoes, bags, and industrial paints.

Most companies are state-owned apart from the mining sector where foreign companies have developed joint ventures with the government. Only a few small and medium-sized companies are owned by private domestic interests.

The trend is to privatize, liberalize and attract foreign capital both official development aid and private company investment.

In 1982 the World Bank (through its affiliate the IDA), the Organization of Petroleum Exporting Countries (OPEC) fund, the European Community and Canada contributed funds for a US$ 45.4 million project to rehabilitate four state owned companies and provide credit and technical assistance to small and medium scale private enterprises.

3. Obstacles to production

Guinea, in common with many other sub-Saharan African countries, suffers from a small domestic market, lack of skilled manpower, poor infrastructure and raw material shortages. Additional constraints include shortages of power, poor management and inadequate domestic purchasing power.

4. Policies directed towards the manufacturing sector

Since 1984 the government has pursued more liberal and outward looking policies under the auspices of the World bank and the IMF. Apart from improving overall management of the economy, the Conté government has liberalized the investment code, giving equal treatment to foreign capital and individuals, with guarantees against expropriation, and has a more positive attitude to the private sector as a whole. The World Bank has provided finance to encourage small scale companies operated by Guineans.

Efforts to invite foreign tenders and seek financial and technical assistance for rehabilitation, undertaken by the previous government, have been intensified as part of the new policies. Reform and privatizsation plans include the closure of seven of the thirty five state-owned companies, reorientation of the activities of four others and the overhaul of thirteen in preparation for privatization. Only those companies of particular national interest, estimated to number eleven, will remain state-owned after restructuring.

5. The scope for rehabilitation

Within the framework of the IMF and World Bank SAP there is substantial scope for rehabilitation in all areas including opportunities to provide training and advice on issues such as marketing, finance and the creation of linkages with the rest of the economy. At a subsector level the potential is particularly good in the agriculturally based industries such as food processing and textiles to improve self-sufficiency in essential consumer goods and generate more employment opportunities.

(For ongoing UNIDO projects, please see Appendix.)

**GUINEA-BISSAU**

1. General Introduction

Guinea-Bissau is one of the poorest countries in the world in terms of per capita Gross Domestic Product (US$ 191 in 1988 - See also UNIDO PUBLICATION 'ECONOMIC INDICATORS OF AFRICAN DEVELOPMENT'). All fuel, manufactured goods and most food requirements have to be imported whereas export earnings rely almost entirely on two or three agricultural commodities. Traditional exports are groundnuts (an extension of the Senegalese cultivation with estimated production of 30,000 tons in 1986 according to FAO), oil-palm products (in the islands), coconuts and, more recently, cashew nuts (production expanded to 10,500 tons in 1988 and accounted for about 50 per cent of total exports by value). Agriculture is the main economic activity employing about 80 per cent of the working population and accounting for 50-55 per cent of GDP and about 70 per cent of export earnings. Priority is given to agriculture in the development plans with a view to achieving self-sufficiency in food.

The mining sector has yet to be developed; minerals discovered to date include bauxite (estimated 200 million tons) and phosphates (estimated 200 million tons). Oil exploration has resumed; an offshore zone, contested with Guinea, may contain significant deposits and a second maritime zone on the border with Senegal is being claimed by the Senegalese government. This issue has still to be resolved. In 1984 the government reached agreement with several foreign oil companies concerning oil prospecting in an offshore concession covering 4,500 sq km and at end-1985 licences for exploration of about 40 blocks were offered on very favourable terms following relaxation of Guinea-Bissau's hydrocarbons' law.

Infrastructure is relatively well developed by African standards. For strategic reasons an impressive network of 3,500 km of roads was built from Bissau to the north and north-east in 1972 and the European Community is interested in constructing a road link between The Gambia and Bissau. In 1989 grants totally US$ 31.3 million were made by the African Development Bank, the Arab Bank for Economic Development in Africa and the EC for improving the roads. Water transport could also be much developed since 85 per cent of the population live within 20 km of a navigable waterway. In 1984 work began on a project estimated to cost US$ 47.4 million, to enlarge Bissau harbour and to rehabilitate four river ports. The construction of a new port at N'Pungda began in 1986 to improve rice distribution to the northern region. There are also plans to expand the international airport at Bissalanca and to rehabilitate the national airline or replace it by a new enterprise owned by a private French company with local shareholders.

After independence in 1974, the government established a centrally-planned economic system and an ambitious investment programme financed mainly by foreign borrowing and emphasising industrial development. However, the economy, already affected by the campaign for independence, continued to deterioriate and by the late 1970s Guinea-Bissau had an underdeveloped agricultural sector, a growing external debt burden, dwindling exports and escalating inflation.

During the 1980s the government initiated a policy of economic liberalization including measures to

. liberalize the trading sector;

. increase producer prices;

. encourage private enterprise.

Although the adjustment measures succeeded in increasing agricultural output and exports in 1984, the momentum behind the reforms slowed in 1985-86. By end 1986 the production of many goods had stopped owing to the lack of foreign exchange to import fuel or essential spare parts.

An IMF and World Bank structural adjustment programme was adopted for 1987-89 with the aim of reforming the public sector and strengthening the private sector by removing controls over prices and marketing. The programme was introduced in support of proposals in the Development Plan for 1988-91 which envisaged a reduction in the state's role in the economy and the growth of private investment. Agriculture and fishing were to be given priority as a means of achieving self-sufficiency and reducing the balance of payments deficit. Executive training was to form a major part of the Plan in order to reduce costs of foreign technical assistance. Under the second phase of the programme, supported by a US$ 23.4 million grant from the World Bank affiliate IDA, the government undertook to extend the scope of its economic liberalization programme.

Although external debt (US$ 423 million at end 1988) was contracted largely on easier (concessional) terms, about 40 per cent of long term debt is owed to multilateral organizations such as the World Bank and, as such, is currently not eligible for rescheduling. Secondly, with exports of goods and services averaging only about US$ 20 million during the 1980s, Guinea-Bissau's existing debt service burden is particularly high. Debt servicing for 1989 was projected to rise to US$ 31 million despite the rescheduling in 1987 of arrears outstanding at June 1987 and repayments due between July 1987 and December 1988. The Paris Club of government creditors tried to help in 1989 by agreeing to allocate US$ 120 million towards the balance of payments deficit and for general financing requirements. In October 1989 the Paris Club agreed to reschedule US$ 21 million of principal and interest due from end-October 1989 to end 1990 under the formula for poorer countries approved at the Toronto Summit of industrial countries in June 1988 (See also UNIDO PUBLICATION; INDUSTRY AND EXTERNAL DEBT IN AFRICA: A REASSESSMENT). Unless the government can secure a more comprehensive refinancing arrangement with its creditors, the prospects for full economic recovery will be limited.

## 2. The manufacturing sector

Industry is negligible apart from food processing, brewing and cotton processing and investments in the sector have been reduced since 1980.

Detailed information on the subsectors including capacities is not readily available.

Agro-based industries: A brewery is the biggest factory, originally built for the Portuguese troops and still partly owned by Portuguese interests. Since independence it has been producing at well below its annual capacity of 15,000 litres of beer and 5,000 litres of soft drinks.

Newer plants include a fruit juice factory at Bolama, a cotton ginnery at Bafati with an annual capacity of 3,400 tons of cotton fibre and a US$20 million agro-industrial complex at Cumere with sections for dehusking 50,000 tons of rice and 70,000 tons of groundnuts a year and with a capacity for producing vegetable oil, soap and animal feed.

A sugar refinery with an annual capacity of 10,000 tons and capable of satisfying domestic needs is being built at Gambiel and will be supplied from the new irrigated plantations covering an area of 6,000 ha.

Fishing agreements with the USSR, France, Algeria and Portugal are stimulating the fish processing industry which has expanded rapidly since the 1970s. With a potential annual catch estimated at almost 250,000 tons, fishing would become the country's main source of export earnings if illegal fishing could be effectively prevented. In 1987 the USA financed a programme for patrolling Guinea-Bissau's waters to prevent illegal fishing. In March 1989 an agreement was signed with Portugal for the creation of a joint fishing company. Portugal's Hidroagro is setting up a joint venture to breed crabfish.

Hides and skins are processed and some are exported.

Other activities include small plants for brickmaking, groundnut shelling, baking, rice and palm milling and the production of foam mattresses, prefabricated housing and soft drinks.

A Citroen car assembly plant with a capacity of 500 vehicles/year was reopened in 1986 in response to the government's encouragement of the private sector. The factory was opened in 1979 but was forced to close in 1984 owing to lack of components.

The trend is to provide more incentives for private sector industries.

In 1987 the government tried to attract foreign investment for the rehabilitation and expansion of a fish processing plant and the establishment of a factory to produce plywood and furniture.

The European Investment Bank is lending towards the overhawl of a fish processing plant at Bissau and the purchase of four trawlers.

Feasibility studies were to be carried out on the potential for agro-industrial development and private sector projects following an agreement between Guinea-Bissau, Portugal and the USA in late 1987 which established an experimental credit fund to encourage private enterprice.

In 1987 work was scheduled to begin on the construction of an 8,000 kw diesel-electric power station, funded by the USSR. Other plans include the construction of a dam on the Corrubal river to produce hydroelectr[illegible] the development of a modern aluminium industry and the renovation [illegible] Bissau thermal power station.

Manufactured exports consist of some processed groundnuts, palm kernels, fish and timber. Demand for most manufactured goods has to be met by imports. Portugal remains the principal trading partner accounting for about 50 per cent of exports and 30 per cent of imports. Other important export markets include India for cashew nuts, and Spain for fish and fish products.

3. Obstacles to production

Like many other sub-Saharan African countries, Guinea-Bissau suffers from a limited domestic market and lack of skilled technical and managerial resources. Until 1974 these were compounded by disruptions caused by war which discouraged both production and investment in manufacturing.

4. Policies directed towards the manufacturing sector

Policies which emphasised state control after independence have changed since 1980 to favour an increased role for the private sector. In 1983/84 the government partially 'privatized' the state-controlled trading companies and raised producer prices by about 70 per cent in an attempt to stimulate agricultural output. In 1987 proposals were made to remove price controls on most agricultural products, except essential goods and to liberalize marketing systems.

To restore external and internal macro-economic balance, the IMF and World Bank supported recovery programme has tried to liberalize the economy by reducing real salaries and wages, increasing producer prices, devaluing the currency, curbing domestic credit expansion and limiting public sector demand. In January 1989, following the removal of subsidies, fuel prices rose a further 40 per cent; this was quickly followed by 33 per cent rise in the price of bread. In the same month the government announced adoption of a US$ 104.6 million investment programme to be funded entirely by external donors and to supplement development projects already in hand under the structural adjustment programme. To stimulate foreign trade, restrict 'black market' activity and restrain inflation, customs duties and general taxes on imported goods were reduced in April.

The 1989-91 Development Plan tried to stimulate agro-industries by giving priority to agriculture including fishing and forestry. Apart from constructing a sugar refinery (see under 2), the government also plans to rehabilitate the Cumere complex by installing a 20,000-25,000 tons/year groundnut oil extraction unit and establishing other units for the production of edible oil, soap and animal feed

To encourage increased foreign investment, the government introduced a new investment code in 1989 and is trying to make its currency convertible. Having withdrawn its application to join the Zone Franc, the government obtained agreement from Portugal in early 1990 to provide a revolving fund credit which will guarantee the conversion into escudos of up to US$ 10 million worth of local currency remittances. The fund will operate through the new commercial bank established in November 1989 with 49 per cent Portuguese capital. By linking the peso to another currency, the government hopes to reduce the gap between the official and parallel market rates which has persisted despite the substantial cut in the official rate (420 per cent in domestic currency terms between May 1987 and end-1988) under the structural adjustment programme.

5. The scope for rehabilitation

The scope for rehabilitation in conjunction with the IMF and World Bank supported structural adjustment programme is substantial including training and incentives for improved productivity, marketing, finance and investment. Despite the small size of both the manufacturing base and of the domestic market, there should be potential for developing export markets particularly within the region and with Europe. Based on available information from secondary sources, projects could be linked with the privatization of public sector industries within the framework of the structural adjustment programme. Potential subsectors for rehabilitation are in the agro-industries, not least to improve export earning capacity and increase employment. These would include industries such as groundnut or palm kernel processing and fish processing.

(For ongoing UNIDO projects, please see Appendix.)

**KENYA**

1. General Introduction

Agriculture is the main occupation and source of income of most of the population. At independence in 1963, export-orientated agriculture was based on large-scale commercial agriculture of the settled highlands and on European and Asian owned plantations. The principal cash crops are coffee, tea, sugar cane, maize, wheat, sisal, pyrethrum and cotton. Government policy in the early years of independence was centred mainly on land reform designed to transfer land from the European settlers and to resettle Africans on it. Later, the government started to Kenyanise commerce, at that time dominated mainly by non-Africans.

Services and manufacturing are relatively well developed compared with other African countries largely as a result of the early presence in Kenya of a substantial number of non-African settlers whose high incomes generated demand for manufactures and services. This enabled the economy to develop services as well as processing and manufacturing industries which supplied not only the domestic market but also Uganda and Tanzania (with which Kenya for many years participated in a customs union and common market).

Strong economic growth during the first 15 years after independence placed Kenya among the most successful of developing countries. In the early 1980s, however, indications of weakness in the once-booming economy became increasingy evident. Deteriorating terms of trade led to a growing balance of payments deficit and sharp fall in foreign exchange reserves. Increasing government expenditure encouraged by previously high world prices for Kenya's exports resulted in widening fiscal deficits. Although helped in 1982 by funds from governments and from multilateral agencies such as the IMF, severe drought in 1984 militated against economic recovery.

The government's heavy borrowing from international banks raised the debt service ratio. Although about a third of external debt is owed to multilateral organisations, by 1988 the stock of debt was equivalent to over 300 per cent of exports and debt service commitments were 38 per cent of exports. Overall, the government has had a record of good economic management and since May 1989 it has been introducing a 3-year IMF-supported reform programme backed by an enhanced structural adjustment facility.

2. The manufacturing sector

Although manufacturing contributes only about 12 per cent of GDP, Kenya is the most industrially developed country in East Africa.

Major industries include oil refining (using imported crude oil), the processing of agricultural products, vehicle assembly (using imported components), the exploitation of soda ash reserves, the production of chemicals, publishing and printing and the manufacture of textiles and clothing, cement, electrical equipment, tyres, batteries, paper, ceramics, machinery, metal products, rubber, wood and cork products and leather goods. Oil refining provides about 10 per cent of export earnings.

Investment in industry is about 50 per cent foreign owned and of this the UK owns about 50 per cent, followed by the USA.

The big Pan African Paper Mills' plant at Webuye started production in 1975. A major expansion to raise annual production capacity from 65,000 tonnes to 90,000 tonnes (making Kenya self-sufficient in most paper products) is under way. The government owns 40 per cent of the company's shares. A partly Swedish-owned company, Tetra Pak Converters, began production of laminated milk cartons in late 1983.

The textile industry has performed relatively well, although earlier promises of a future as an important export industry have not been fulfilled. There are about twelve textile mills. Cotton lint has to be imported because local production is currently running at only 40,000-60,000 bales/year compared with an estimated annual potential of over 220,000 bales. Low domestic output is attributable to low prices, an erratic payments system, inefficient marketing and drought. In 1986 the Cotton Lint and Seed Marketing Board was abolished, so that textile firms can now buy directly from farmers. The move was part of an overall World Bank supported programme to reform agricultural policies.

Tobacco production has been rising steadily and included 5,212 tons of flue-cured, 126 tons of burley and 1,658 tons of fire-cured tobacco in 1987. Tobacco became more important after Kenya's former sources of supply were cut off by the closure of the Tanzanian border and the collapse of Uganda's tobacco sector during Idi Amin's rule. Kenya became self-sufficient in tobacco in 1983 with production at about 6,600 tonnes.

Sugar is produced at five parastatal sugar companies; Chemelil and Mumias (the only profitable operations with Mumias producing about 50 per cent of total national output), Muhoroni, Nzoia and South Nyanza. The sector requires urgent reorganisation. Cane is sold to the sugar companies by smallholders and cooperatives. The Kenya Sugar Authority was established in 1971 to develop the growing and processing of sugar cane. In 1980 there was a surplus of 150,000 tonnes of sugar for export after domestic demand of 275,000 tonnes had been met. By the late 1980s, domestic consumption had increased and annual imports of sugar exceeded 120,000 tonnes/year. Output of sugar cane approached 4 million tonnes in 1987 and 1988.

Dairy production and livestock are important both for domestic consumption and for export. About 90 per cent of marketed milk production is handled by Kenya Cooperative Creameries (KCC). Kenya has traditionally exported butter, cheese and skimmed milk powder but by the end of 1987 KCC had large stocks of unsold products which it attributed to the provision of food aid to neighbouring countries by 'over eager' European donors. A record of 1.1 million tons of cows milk was produced in 1987.

Canned pineapple products from Kenya Canners, a subsidiary of the US Del Monte, are exported (200,000 tonnes/year). Fresh pineapple exports started in 1988.

Kenya Breweries Ltd, part of the East African Breweries Group, has four brewing plants and it exports small quantities of beer.

Vehicle assembly is carried out at three plants; Associated Vehicle Assemblers, General Motors Kenya and Leyland Kenya. The government has a 35 per cent interest in Leyland Kenya and a 51 per cent interest in the other two assembly plants.

The 3 plants produce trucks, commercial vehicles, pickups, minibuses and four-wheel drive vehicles from kits supplied by General Motors, British Leyland, Ford, Volvo, Fiat, Isuzu, Toyota and Volkswagen. General Motors Kenya started assembly of a passenger car, the Uhuru, in 1986. Domestic sales of locally produced vehicles reached 13,700 in 1987, over 30 per cent higher than in 1986. Already a small proportion of Kenyan-assembled vehicles are exported to Uganda, Sudan and Malawi.

About 30 per cent of vehicle components are already produced locally. Tyres are manufactured by Firestone East Africa. The parent company, US-based Firestone Corporation, reduced its share in the company from 60 per cent to 18 per cent in 1985. An expansion programme for 1989-92, at a projected cost of Ks 22.5 million, plans to raise production capacity by 42 per cent from the current level of 500,000 tyres/year.

Cement, produced by Bamburi Portland Cement Co and East African Portland Cement was one of the most successful industries until the recent adverse affects of irregular supplies of imported inputs, an increasingly competitive export market and the fall in the value of the US dollar in which cement earnings are denominated. Foreign companies own 74 per cent of the Bamburi plant, the government 16 per cent and local private investors, 10 per cent.

There are two steel rolling mills, in Nairobi and Mombasa and a re-rolling mill using scrap steel is being built in Nairobi.

An aluminium rolling mill is to be constructed at Mombasa by Kaluworks and some of the output is to be exported.

There are three glassware factories, two owned by the Madhvani Group and one by Kenya Breweries Ltd. There is a sheet glass factory at Mombasa.

Charcoal is produced from coffee husks by Kenya Planters' cooperative Union at Nairobi and is exported to the Middle East as well as being used locally to replace some of the wood charcoal.

The Bata shoe Co is building a new factory at Voi from which it hopes to export to Tanzania and to markets in central Africa.

A machine-tool manufacturing factory is being set up at Nairobi in a joint venture with an Indian firm and will include a training centre.

China has agreed to establish a joint venture to assemble colour televisions, solar heating systems and other electronic equipment at Mombasa both for the domestic market and for export to Preferential Trade Area of Eastern and South African States (PTA).

The Mombasa oil refinery, 50 per cent owned by the government and 50 per cent owned by a group of international oil companies (BP, Caltex, Exxon and Shell), first went into production in 1963 and has a capacity to handle 4.2 million tons/year of crude oil. Output reached only 2.1 million tons in 1987. Refined oil products were, until recently, Kenya's largest source of foreign exchange earnings. However, the refinery needs modernising. Plans to extend the Mombasa-Nairobi oil pipeline as far as the Ugandan border have been in abeyance since May 1987 owing to trade and political disputes between the two countries. An extension of the pipelines from Nairobi to Nakuru is however to be constructed.

3. Obstacles to production

Manufacturing has suffered from several obstacles since the late 1970s notably the following:

. stringent import controls since the late 1970s with 60-70 per cent of its inputs having to be imported;

. delays in the issuing of import licenses;

. controls on ex-factory prices;

. the steady devaluation of the shilling in recent years has also raised manufacturers' costs.

4. Policies directed towards the manufacturing sector

Since 1980 the government has moved away from import-substitution strategies to trade liberalisation and export promotion. The 1986 Sessional Paper outlining government economic strategies stressed in particular the need for Kenyan industry to become more competitive.

The government is also promoting decentralisation through small-scale industries especially new industries in areas other than Nairobi and Mombassa.

Kenya's favourable foreign investment climate is expected to continue.

It is hoped that Kenya will find new markets within the PTA.

5. The scope for rehabilitation

There is substantial scope for rehabilitation in conjunction with the IMF supported structural adjustment programme. Kenya has a large and diversified manufacturing sector providing a broad selection of candidate industries with accessible export markets. Given continued favourable macro-economic policies, priority subsectors would be agro-based industries both because they are long established and because they would reduce import dependency and expand export earnings. However, rehabilitation is likely to include training and advice on pressing issues such as improved quality control, productivity, marketing, and financing as well as better management techniques.

(For ongoing UNIDO projects, please see Appendix.)

## LESOTHO

### 1. General Introduction

Lesotho, entirely surrounded by South Africa, is one of the world's least developed countries. Its economy grew after 1975 owing to the development of diamond exports, substantial aid and a rise in receipts from migrant workers and from the Southern African Customs Union (SACU) of which Lesotho is a member. Since 1981 the economy has been adversely affected by the decline and eventual cessation of diamond exports and by drought. More recently, this has been compounded by the problems of its intrinsic linkage with the South African economy, in particular the depreciation of the South African rand which is at par with the Lesotho currency unit, the loti (plural: maloti). Lesotho is reliant on South Africa which buys 85 per cent of its exports and provides 95 per cent of its imports. Sixty per cent of government revenue comes from receipts from the South African Customs Union (SACU) and about fifty per cent of export earnings are remittances from the 150,000 Basotho miners who work in South African's coal and diamond mines.

Agriculture is not only the main occupation but is the single largest contributor to GDP and export earnings and employs about 70 per cent of the labour force. Agricultural output has fallen as a result of the sharp rise in rural population densities which have caused widespread erosion. Efforts to improve and modernise farming methods have been limited. The traditional agricultural export earner is wool and mohair.

Miners' remittances from about a third of the labour force which is employed in South Africa's mines, provide about 50 per cent of national income. The exploitation of Lesotho's main untapped natural resource - hydroelectricity - is to be carried out as a joint venture with South Africa which will also receive water from the project.

Under the IMF and World Bank supported structural adjustment programme starting in 1988, the government is taking steps to reduce the fiscal deficit and external borrowing requirement. However, these measures and export promotion development are unlikely to reduce Lesotho's continuing dependence on workers' remittances and, in the future, on royalties from the Highland Water Scheme.

### 2. The manufacturing sector

Lesotho's principal assets are proximity and duty-free access to South Africa and abundant labour. Lesotho has one of the highest adult literacy rates in Africa (about 65 per cent) and emigrant Basotho workers command an excellent reputation in South Africa. However, South Africa has until recently actively discouraged the development of competing industries in Lesotho and has, for example, successfuly opposed the establishment of a Honda car assembly plant there.

The Lesotho National Development Corporation (LNDC), founded in 1967, and the Basotho Enterprises Development Corporation (BEDCO), provide finance to local entrepreneurs and have been the main stimuli to manufacturing development, promoting several small industries including tyre retreading, tapestry weaving, electric lamp assembly, diamond cutting and polishing and

the production of clothing, candles, ceramics, explosives, furniture, fertilisers and jewellery.

The LNDC has established a subsidiary housing corporation to build houses on the industrial estates and to provide mortgages. During the early 1980s it embarked on an expansion programme supported by a credit from the European Investment Bank (EIB) including a project designed to double the capacity of the Basotho Fruit and Vegetable Cannery to increase exports of canned vegetables to the European Community.

Other industrial developments include the Maseru Tyre Co and a plant manufacturing parachutes for sporting and military purposes. A brewery and soft drinks plant has been finished at Maseru with LNDC holding 51 per cent of equity.

In November 1987 the LNDC announced the establishment of two new steel plants and a wire products factory near Maseru. In early 1989 LNDC promoted fifty one companies employing over 10,000 workers.

BEDCO has had success in encouraging small-scale companies with strong financial support from Canada and up to 2,000 new jobs have been created since its foundation in 1975.

Manufacturing has consequently grown by an annual average of about 15 per cent since the early 1980s. However, it provided less than 30,000 jobs in 1986 and contributed only about 6 per cent to GDP and under 20 per cent of export earnings. This is largely attributable to competition from the South African 'homelands' which offer Pretoria-financed wage subsidies in addition to the ususal tax incentives.

A bakery and confectionery was opened in 1989 in the Thetsane industrial area south of Maseru in a joint venture between LNDC and the Premier Milling Group of South Africa (49 per cent). The bakery will employ about 30 Basotho at full operation with output equivalent to 10 per cent of national demand. Currently about 20 per cent of bread and confectionery requirements are imported.

Data on exports of manufactures are unavailable but exports from South African manufacturers of footwear and textiles are likely to have grown substantially in recent years. Manufactured imports consist mainly of machinery, transport equipment and consumer goods.

Ownership is mainly private and an unknown but considerable share is South African. The LNDC has entered into several joint ventures with private industries. Total employment in industries with LNDC participation amounts to about 4,000.

Future trends will depend largely on South African investors. South African owned clothing and footwear factories may be joined by light engineering units. LNDC is also encouraging the establishment of import-substituting industries. However, the politically volatile situation in the region makes it difficult to speculate about longer term prospects.

Information on the small-scale industry (SSI) sector is limited but labour intensive SSIs producing simple goods for the domestic market appear to have some growth potential. During the 1986/87-1994/95 period, about 800 jobs are due to be created in this sector in response to government programmes.

4. Obstacles to production

Continued industrial growth depends mainly on overseas buyers of re-labelled South African exports not announcing an embargo on these goods. The scope for development of indigenous entrepreneurship in manufacturing apart from SSI is limited in view of the dominance of South African investment and goods. The tendency for professionals and other qualified workers to seek employment in South Africa's 'Homelands' weakens the human resources base for domestic industrial development.

4. Policies directed towards the manufacturing sector

A simplified investment code is being drafted.

In the past private enterprise companies from South Africa, Europe and Asia have been encouraged through generous allowances and tax 'holidays', duty free access to EC and SACU markets, the provision of industrial infrastructure and the construction of factories at two industrial estates in Maseru and Maputsoe. A third estate was opened in 1983 outside Maseru and further estates are planned elsewhere in Lesotho. In 1984 the tax exemption for companies investing in Lesotho was extended from six to fifteen years; non-nationals are also allowed to enter into long term lease contracts for land used for industrial and commercial purposes. The incentives, however, generally do not match those offered by South Africa's 'homelands'. As the threat of international sanctions against South Africa has increased since 1986, the government has intensified its efforts to encourage involvement of South African firms in Lesotho. In 1987 the LNDC emphasised, as a potential inducement, that goods produced in Lesotho with private South African capital are exempt from US sanctions.

Lesotho is a member of the multilateral investment guarantee association (MIGA).

Improved management and accountability of the public sector means that parastatals now have to bill clients regularly and collect their money; public wages are under scrutiny; and the private sector, spearheaded by the Chamber of Commerce, plays an increasing role.

Industrial planning and project execution comes under the Ministry of Trade and Industry. Since 1986 UNIDO has been supporting industrial planning. For small-scale domestic industry, the BEDCO formed and in recent years it has successfully stimulated bulk-buying projects and promoted wood-working and clothing enterprises.

Policies such as those under the draft 1986/87-1989/90 Fourth Plan have given priority to export-oriented industries, mainly those directed at the South African market. These industries are to be based on more intensive use of domestic agricultural output. Between 7,500 and 8,000 jobs were to be created in LNDC-assisted companies during the Fourth Plan.

As a member of the Southern African Development Coordination Conference (SADCC), it has been proposed that Lesotho should become the locus for several industries for the SADCC market including textiles, salt refining and agricultural tools.

5. The scope for rehabilitation

In view of the dominant presence of successful South African enterprises, the scope for rehabilitation in the formal sector seems to be limited. With more detailed information, an assessment of the informal sector might indicate areas for potential rehabilitation. BEDCO, as suggested in a 1987 World Bank study, could improve its performance as a promoter of small-scale industries.

(For ongoing UNIDO projects, please see Appendix)

**LIBERIA**

1. General introduction

The economy is based on primary commodities notably iron ore, rubber and diamonds - although the population is engaged mainly in subsistence agriculture. Liberia is the second largest African producer of iron ore with proven reserves of about 800 million tons and additional deposits estimated at about 1,000 million tons of high grade ore. As the world's largest flag state, Liberia depends heavily on foreign exchange earnings from shipping. There have been various attempts to diversify the economy. In agriculture this has involved the expansion of coffee and cocoa production and forestry exploitation for export as well as palm nuts both for domestic consumption and export. Sea and fresh water fishing resources are believed to be considerable. There are plans for a hydroelectric scheme with Côte d'Ivoire and for a major hydroelectric project on the St Paul river. Oil reserves are being sought both on and offshore.

Liberia's 'open door' policy permitting the inflow and outflow of foreign capital and profits attracted several large foreign investors, active mainly in the production of primary products for export. Public ownership in entreprises is limited. The non-traded formal sector consisting of manufacturing, construction and government services has been supported by a monetary and financial system which has used US currency as legal tender together with the Liberian dollar. The introduction of Liberian coins in 1981 has led to increasingly divergent official and parallel market exchange rates between US and Liberian currency.

Economic growth has been negative since 1983 owing to inadequate world demand for iron ore, rubber and shipping. Political unrest has been a further important contributory factor. In addition to a lack of qualified personnel in government there have been frequent ministerial changes. Capital flight and economic mismanagement since the 1980 coup have exacerbated persistent budgetary and balance of payments deficits. Structural adjustment has tended to be limited to short term measures such as printing money, non-payment of public sector salaries and the build-up of external arrears.

External debt and debt service burden rose rapidly during the 1980s and despite six reschedulings between 1982 and 1984 substantial arrears have accumulated since the mid-1980s. About a third of Liberia's external debt is on concessional terms and a fourth is owed to multilateral institutions and, as such, is not eligible for rescheduling. Total external debt was equivalent to over 300 per cent of exports at end 1988. Relations were strained during 1989 with the IMF, the World Bank and the African Development Bank owing to arrears. However, talks with the IMF on a structural adjustment programme were expected to resume in early 1990. Liberia's reliance on bilateral aid (US, West German, Japanese) and, to a lesser extent on ultilateral aid has exposed it to increased pressure with respect to economic policies. Mounting arrears on previous borrowing caused several donors to suspend disbursements in 1985-86. Aid agreements were subsequently signed with Romania, Canada and the EC under Lome III and in 1988 agreements were made with Japan, France and the USSR.

2. The manufacturing sector

Manufacturing output grew more rapidly than in any other sector of the economy during the 1970's, at about 7 per cent/year, accounting for about 10 per cent of GDP at the beginning of the 1980's. Revised government priorities and world recession saw a reversal in these trends in the 1980s.

The sector is dominated by the large iron ore and rubber processing works, but about 80 per cent of manufacturing enterprises, mainly construction firms, saw mills, repair shops and tailor's shops, have less than 10 employees each

The Liberian American Swedish Mining Co (Lamco) announced in June 1989 that it was ceasing to work the iron ore mines at the end-1989, leaving West German Bong Mining Company as the only iron ore producer in Liberia. Lamco also operates the railway for transport of ore to Monrovia port. The UK African Mining Corp (AMC) could take over , this could jeopardise the joint plans of Guinea and Liberia on the Mifergui-Nimba project (9 million tons/year) backed by a team of European steelmakers, Eurofer, and was expected to be ready for commercial production in 1992 at the earliest.

The food processing subsector includes meat preparing and preserving; dairy products; vegetable and animal oils and fat; grain milling; bakeries; distilleries; beer and stout breweries; and tobacco. Other small industrial enterprises include oilseed and rice mills and a sugar factory.

The beverage branch is the most important accounting for almost a third of manufacturing employment and about 45 per cent of gross output in 1985. The branch is dominated by a few large-scale and capital-intensive Entreprises. They include a brewery and liquor and soft drinks producers such as Coca-Cola as well as bottling plants. Two firms account for about a half of total employment in the branch.

Available information on tobacco shows fluctuating output, owing to irregular availability of good quality domestic tobacco as few attempts have been made to grow the crop on a large scale using modern methods. According to an 1986 UNIDO study, the only tobacco products factory on which data was available appeared to be performing relatively well in the mid-80s with output rising continuously.

An agreement to establish a palm oil factory for the Buto project, financed by the Belgian government and a vegetable oil processing firm, was signed in March 1984, and aid of US$5.4 million for various palm oil projects was granted by the European Development Fund in 1985. A palm kernal oil mill has been constructed and in 1987 a French company, Finex International, agreed to construct Liberia's first palm oil refinery and to assume the management of the National Palm Oil Corporation for five years, in an attempt to reorganize and rahabilitate the sector.

Wood processing is the second most important agro-related industry after textiles, in terms of number of entreprises and size of the labour force. Primary wood processing consists of sawmilling mainly of logs for export. Only one company has over 1,000 employees; six others employ over 100. The other ten operational sawmills are small, labour intensive operations. Productivity is low and the installed machinery is generally under-utilized, often owing because roads and logging tucks are in a state of disrepair. Secondary wood processing are the primary products for further manufacturing and assembly into products for the construction industry, furniture and packaging. Machinery used is generally obsolete and poorly maintained. Reforestation in

Liberia began in 1971 and was centralized later on at the independent Forestry Development Authority (FDA). A company independent of the FDA was to review the timber sector, as part of a programme of reform introduced in 1987.

Although Liberia is a major rubber producer, very little processing takes place and almost all rubber is exported as dry rubber after primary procesing. The activities of the Firestone Company, the country's largest entreprise, have few linkages with the rest of the economy. Firestone closed the smaller of its two plantations, at Cavalla in 1983. It continued to operate the big Harbel plantation of over 30,000 ha until 1988, when it sold its Liberian interests to the Japanese tyre company Bridgestone. Liberia has found it increasingly difficult to compete with south-east Asian producers.

Until 1988 the second most important branch was non-metallic mineral products which was dominated by a single plant, the Liberian Cement Corporation (Cemenco). The company suspended operations in 1988 because of lack of foreign exchange for its major import, clinker. In addition, earnings were low owing to unrealistic retail prices set by the government. A cement factory was built in 1968 in Monovia by Lebanese-owned Liberian Cement Corporation (LCC), with a capacity of 123,000 tons of clinker cement per year.

In December 1986 the Hong Kong owned Third World Shipbreakers signed an agreement to construct a steel rolling mill, using scrap metal from ships broken in Liberia. This began operations in 1988. The aim is to capitalise on the problems of the world shipping industry by dismantling bulk and crude carriers, with the re-usable steel being sold locally and the non-ferrous items regionally. However, the downstream steel processing industry which could use the scrap steel within Liberia for manufacturing and building purposes, is too weak and the project is unlikely to be successful. Exports of scrap are unlikely to be a viable option either.

A chemicals and explosives factory was established near Robertsfield in 1964. In the same year the Industrial Park near Paynesville was established by Liberian Development Co on behalf of the Liberian government, starting with a shoe factory with Swedish interests in 1964 and with metallo-plastics firm under Lebanese direction in 1965.

In 1968 a petroleum refinery with an annual capacity of 650,000 tons was built in the same area by the Liberia Refinery Co (LRC). Acute problems have been experienced in financing petroleum costs, and serious fuel shortages were reported in early 1989. The Liberian Petroleum Refining Corporation was one of 11 corporations which the government proposed for 'privatization' in March 1986, but an agreement with Link Oil International of Texas fell through when Link failed to raise the money.

Other important branches are chemicals such as paint and soap, wooden furniture and metal construction materials. These branches consist mainly of medium and small scale entreprises using relatively labour intensive technologies and are more typical of Liberian manufacturing than the large-scale type. Other manufactures are believed to include clothing, printing, publishing, perfumes,umbrellas, aluminium parts, batteries, foam rubber, hand tools, candles.

Linkages with the domestic resource base are weak. Forward linkages are limited; wood is processed in secondary processing industries such as furniture and match industries; only a small proportion of palm oil is used to manufacture soap.

Despite considerable marine resources, there is no industrial processing of fish.

Iron ore, rubber, coffee and cocoa are only subject to primary processing necessary for overseas transport. Apart from these export crops, agriculture is poorly developed and production is mainly for local consumpion. Consequently, few food crops are industrially processed. Raw rice is processed locally by small mills but the pricing policy for rice militates against growing it on a commercial scale.

The metal products industry seems to rely completely on imports; it produces mainly building materials which are not used as inputs by downstream industries.

Large entreprises such as beverages and beer plants are located near Monrovia, the capital which also provides port, market and other support services.

Companies such as Firestone and LAMCO helped to improve Liberia's technical and social infrastructure by constructing roads, ports, airfields, schools and hospitals. Their contribution to economic development in general was nevertheless limited, as few secondary industries based on iron ore or rubber were established.

Ownership in manufacturing, as in the rest of the economy, tends to be dominated by the private sector. Most manufacturing entreprises are owned by foreigners.

The government owns some manufacturing entreprises, including rubber and sugar processing units and a glass factory, all of which were intermittently dependent on government transfers during the 1980s. Apart from LPRC, the Mesurado Group was the most important conglomerate of government-owned manufacturing entreprises which, in addition to its fishing interests, produced a wide range of goods including detergents, soap, industrial gases and animal foods. It was forced to close down during the 1980s partly as a result of the mismanagement of most of the plants. The government is a partner in several joint-ventures with foreign companies including those in the beverage industry.

Exports of manufactures are a very small part of total and consist mainly of palm oil, and sawn non-coniferous timber. They have declined over the years owing to lack of export promotion and of price competitiveness on world markets.

Liberia still imports almost all manufactured goods; only cement, matches and batteries are believed to have been eliminated from the import list.

3. Obstacles to production

The main cause of decline in the 1980s was political unrest. Additional obstacles include poor maintenance, over-staffing, frequent power cuts, weak management, uncompetitiveness of Liberian products vis-à-vis imports and a weakly developed industrial and planning system. There is no linkage between basic processing of iron ore and rubber and other industrial activities.

In common with other African countries Liberia's manufacturing sector suffers from a limited domestic market, lack of skilled manpower inadequate infrastructure and shortage of foreign exchange to buy essential inputs, spare parts and equipment.

4. Policies directed towards the manufacturing sector

Recognising the deteriorating economic situation, the government has made several policy changes since the mid-1980s. These include the establishment of the Economic and Financial Management Committee (EFMC) in 1985, the preparation of the Economic Recovery Programme (ERP) in 1986 and the signing of counterpart management agreement with the US government under which seventeen experts, the so-called OPEX team, were sent to Liberia in 1988 to help improve the financial management of the public sector.

In addition to important general development policies, the ERP aims to halt the decline in the private sector, develop an appropriate mix of import-substitution and export-oriented industrial production, promote increased Liberian participation in ownership, develop linkages between small-scale entreprises and the large-scale sector and improve employment opportunities throughout the country.

Under the heading Industrial regeneration, the ERP includes the following proposals:

- the privatization of state entreprises to improve their efficiency and productivity and to reduce their dependency on government finance;

- a study to improve rubber processing capacity including that of the Rubber Corporation of Liberia (RCL);

- support for the expansion of the manufacturing of oil palm products and other food products to save foreign exchange;

- support to the forestry sub-sector to increase processing of wood products for both the domestic and export markets, to save and increase foreign exchange.

The Liberia Industrial Free Zone Authority created in 1975 to attract export-oriented investments offers several incentives such as exemption from income tax and from import and export duties, full repatriation of capital and profits, assistance in obtaining loans and finance. It encourages expatriate staff and entirely foreign-owned companies and offers assistance in registration, customs clearance and other legal formalities.

It was hoped that the industrial free zone would provide facilities for 50 factories with direct contacts with the world market and create 10,000 new jobs. However, political instability has increased investors' reluctance to use Liberia as a production base for the regional market. Most companies which established themselves in the free port have now closed down.

The Investment Incentive Code lists priority activities and incentives to investors. The first code adopted in 1966 and amended in 1973 was aimed primarily at attracting foreign capital under the 'Open Door Policy'. In 1985 the code was again revised against a background of economic crisis, declining investment and a growing realisation that having 'closed the door' after the

1980 coup, the resulting sharp decline in inflows of foreign capital had seriously damaged the growth of the economy.

The 1985 revision seeks to reflect the new economic realities and to provide a more realistic approach to the industrialization process. Incentives offered to potential investors under the code include customs duties benefits, income tax benefits and additional benefits.

The code aims to encourage the establishment of industrial entreprises which employ Liberians at all levels and offer training schemes; use raw materials and products of Liberian origin; create linkages with ancillary activities in the productive and services sectors; contribute to the expansion and diversification of Liberia's exports and increase employment opportunities all over the country.

In 1986 a Presidential Commission for privatization was appointed. Interference in the management of public entreprises has been reduced. Companies which were identified for privatization included the Liberian Petroleum and Refinery Company (LPRC), the Liberian Palm Product Corporation (LPPC) and the Decoris Palm Corporation (DPC).

The government supports Small and Medium-scale Entreprises (SME) which are wholly-owned by Liberians within the framework of private sector development. About 900 SMEs were identified in 1986, of which 360 were outside Monrovia.

5. The scope for rehabilitation

The scope for successful rehabilitation will be limited until the general political and economic situation improves. Key areas which need improving at a macro-economic level include the control of public finance; exchange rate, pricing policy and credit and interest rate policies. Apart from improved transport facilities, opportunities will also exist in areas such as training or advice on procurement, maintenance and incentives to improve productivity and reliable sources of raw materials. Given the right environment, the potential for rehabilitation is considerable in all sectors with particular emphasis on industries using locally supplied raw materials which can compete on world markets.

(For ongoing UNIDO projects, please see Appendix.)

**LIBYA**

1. General introduction

Becoming a major exporter of high quality oil in 1961 transformed Libya from one of the poorest countries in Africa to the richest on a per capita income basis (US$ 6,212 in 1988 measured in 1980 prices : See also UNIDO PUBLICATION 'ECONOMIC INDICATORS OF AFRICAN DEVELOPMENT'). Oil reserves are estimated at 25,900 million barrels, enough for 65-70 years at current output rates. As a result of the settlement of a maritime demarcation dispute with Tunisia in 1982, Libya has access to major offshore deposits which may contain as much as 7,000 million barrels of oil. A similar dispute was settled with Malta in 1983 giving Libya additional potential hydrocarbon reserves offshore. Proven reserves of natural gas are estimated at 727,000 million m3. Libya's other mineral deposits include iron ore (estimated 2-3,000 million tons), salt, limestone, clay, gypsum, manganese, sulphur, marble, silica sand, sodium, uranium, potassium and magnesium. But, since only 1.4 per cent of the country is arable land and less than 1 per cent of this is irrigated, Libya is still criticially dependent on food imports.

Oil wealth has allowed the government to develop health care, education and other social services. The structure of the economy has also been profoundly affected by the political changes which have taken place since Colonel Qadhafi came to power in 1969, especially since 1977 when the government announced the creation of the 'state of the masses'. The people's congresses set up in that year were given control of the state budget and development plans although Qadhafi failed in his attempt to impose his concept of 'partners not wage earners' in light industry, the services sector and retail trade which was designed to replace the traditional employer-employee relationship and the notion of profit making.

From 1988, however, economic policy has moved towards liberalization, exemplified by the greater scope now allowed to private enterprise in the retail trade, small scale industries and agricultural businesses and by the abolition of state export and import companies. Development priorities under the two 5-year plans since Qadhafi came to power have included the promotion of agricultural self-sufficiency, the development of heavy industry based on cheap supplies of energy and the provision of housing and other social facilities. A significant proportion of spending is allocated to the military although this is excluded from published budgets and development plans.

The transformation of the economy led to high import dependency, which, in times of depressed oil prices, caused the current account to move into deficit. This in turn has prompted the government to cut imports, impose restrictions on foreign workers who have been subject to arbitrary explusion, non-payment of trade debts or to barter arangements in order to shore up reserves of hard currency.

By the end of 1988 international reserves (minus gold) were less than a third of their level in 1980. Many development projects have been temporarily shelved and limited available resources have been concentrated on Qadhafi's ambitious irrigation project, the Great Man Made River (see below).

## 2. The manufacturing sector

Manufacturing accounted for only 2 per cent of GDP at factor cost in 1987.

The most important sub-sector is oil refining. There are refineries at Marsa el Brega (ex-Esso/NOC) and Zawiya (the state company NOC, opened in 1974 and enlarged in 1977). The largest is a 220,000 b/d export refinery at Ras Lanuf which began production in early 1985. A unit at Tobruk with a capacity of 20,000 barrels/day was opened in 1986. There are other smaller units. Total refining capacity is about 370,000 b/d, compared with actual refinery throughput estimated at about 200,000 b/d.

The Ras Lanuf petrochemicals complex, linked with Libya's plans to expand its downstream capacity, has been the most successful project in the country. Output, currently running running at 180,000 b/d, is below design capacity of 200,000 b/d. The Ras Lanuf management has proposed a US$ 500 million programme to upgrade the refinery by building a reformer for unleaded and premium petrol and a hydrocracker for converting heavy fuel oil into jet oil and diesel.

At the Marsa el Brega petrochemical plant ammonia and ethanol plants came into production in 1977 and additions were made later.

A liquified petroleum gas (LPG) plant was built by Occidental and started exporting in 1972.

The Misurata iron and steel complex's two steel mills with a capacity of 670,000 tons/year and 650,000 tons/year respectively, are awaiting operational funds. The plant also includes a direct reduction iron works and hot and cold rolling mills. A second phase was planned to raise output to 5 million tons/year, using local iron ore deposits at Wadi Shatti.

Other industrial activities consist mainly of small-scale processing of food, wood, paper, textiles, tobacco and soap.

Iran offered in 1989 to set up a bus assembly plant, with proposed capacity of 500 buses/year.

The entire oil sector is government owned through the National Oil Company (NOC). In the case of exploration and drilling there is cooperation with foreign oil companies, especially from the USA, but refineries and the petrochemical industries are under the control of the NOC.

The trend is to postpone planned projects owing to lack of funds. Spending on manufacturing as a whole has been below budget throughout the 1980s. The largest projects to be postponed in the 1981-85 Development Plan were the fertiliser complex at Sirte, an aluminium complex at Zuwara and the Ras Lanuf petrochemcial complex which is now operational.

## 3. Obstacles to production

The main obstacle facing production and the introduction of new projects is the country's reliance on oil exports the price for which is subject to sharp fluctuations on the world market. More importantly, and in common with other African countries, there is a shortage of skilled manpower and raw materials.

4. Policies directed towards the manufacturing sector

Development priorities have included the expansion of heavy industry based on cheap energy supplies and promotion of the non-oil sector. The 1981-85 Plan allocated 22 per cent of investment to industry. Owing to changing world oil prices, the government has frequently had to revise targets and temporarily shelve projects.

New industry is planned by the General Public Organisation for Industrialization.

One project which has not been shelved is the Great Man Made River Project, started in 1984, which aims to provide irrigation to 180,000 hectares, divided among 37,000 farm units in the Sirte region. The units will be devoted to cereal cultivation and the government believes that Libya will be able to achieve self-sufficiency in grain as Saudi Arabia has done. In addition, pasture is to be provided for 2 million sheep and 200,000 cattle. The water is also to be made available for domestic urban and industrial use. The first stage of the project, estimated at US$ 3,300 million, is due to be finished in 1991.

5. The scope for rehabilitation

The scope for rehabilitation will depend on overall macro economic objectives and policies but will include training and advice on how to improve productivity, marketing, financing as well as incentives to improve linkages with other sectors of the economy. At a plant level, the reduction in imports of spare parts and essential inputs in times of lower world oil prices suggests that many manufacturing units require rehabilitation. Based on information from secondary sources, opportunities would seem to exist in both large-scale plants (related to oil and mineral exploitation) and small-scale traditional enterprises such as basic food processing, carpet weaving, tanning, leather working and shoe-making.

(For ongoing UNIDO projects, please see Appendix.)

## MADAGASCAR

1. General introduction

The island of Madagascar is rich in natural resources. Agriculture is the mainstay of the economy accounting for about 80 per cent of exports and about 35 per cent of GDP and employing over 90 per cent of the active population. Food crops are rice, cassava, maize and beans. Cash crops include coffee, vanilla and cloves. Fish resources (tuna, lobster, prawns and shrimp), believed to be substantial, are being evaluated with partial finance from the EC. Madagascar has sizeable mineral resources but with the exception of chrome, in many cases they are in remote areas, making commercial exploitation difficult and expensive. Deposits that are being mined include chrome ore (120,000 tons/year of chromite concentrates, of which Madagascar is the world's tenth largest producer), iron ore, bauxite, mica, marble, graphite and semi-precious stones such as topaz, garnet and amethyst. There are also deposits of ilmenite, zircon and phosphates. Oil and gas deposits discovered so far include estimated 4,800 million barrels of heavy oil and 2,000 million cubic metres of gas.

Economic growth was almost continuously negative from the early 1970s to 1983/84. Most economic problems are attributed to the interventionist policies of the mid-1970s which included nationalization of foreign investments, price fixing and the marketing of agricultural crops through a government monopoly. Agriculture was generally neglected in favour of industrial investment, much of which proved to be unviable. The resultant decline in activity particularly in agriculture meant that domestic demand had to be met increasingly by imports; meanwhile, falling volumes of crops for export were compounded by depressed international prices. Measures to cut imports had a negative multiplier effect on activity and failed to obviate the need for substantial foreign borrowing.

Economic reforms since the mid-1980s in consultation with the World Bank and the IMF, have improved the credit-worthiness of the country. Government targets of annual GDP growth of 3-3.5 per cent aimed to offset annual population growth of about 2.8 per cent. Inflation pressures rose after the mid-1980s owing mainly to the abolition of price controls and the devaluation of the currency. These and other economic reforms have been considered by some as too sudden and severe and nationalist sentiments have been aroused by the apparent imposition of reforms by outsiders. Despite continuing severe economic problems, Madagascar has won the approval of the IMF, the World Bank and major government donors for having set in motion the donor-instigated programme for structural adjustment.

Low world prices for coffee and cloves, and competition faced by Madagascar's vanilla, are major factors militating against economic growth. Nevertheless, the economy was showing signs of an upturn in the late 1980s. The latest IMF agreement in May 1989 for a 3-year enhanced structural adjustment facility (ESAF) replaced a 10-month standby and supports the 1989-91 programme which aims to increase real per capita income and to restore financial equilibrium. As part of the liberalization programme the government removed all price subsidies in March 1989 .

Although the Paris and London Clubs of creditors rescheduled debt (in 1984, 1985 and 1986), the debt service burden has remained high with principal and interest payments equivalent to 54 per cent of total exports in 1988. About a

quarter of Madagascar's total external debt (US$ 3,602 million in 1988) is owed to multilateral organizations and, as such, is currently not eligible for rescheduling. About 60 per cent of total debt is owed to governments (40 per cent repayable on soft, concessional, terms). Unless all governments are prepared substantially to reduce the rate of interest charged on these debts, Madagascar will obtain only limited relief under the terms of the 1988 Toronto Summit initiative (See also : INDUSTRY AND EXTERNAL DEBT IN AFRICA: A REASSESSMENT). Other initiatives such as the 3-year US$ 3 million debt-for-nature swap agreement in August 1989 will only marginally reduce the stock of debt. Under the scheme the World Wide Fund for Nature (WWF) can buy government commercial debt at a discount. Madagascar repays the conservation group by setting aside the face value of the retired debt in local currency for environmental projects. (For instance WWF bought US$ 950,000 worth of Madagascar's debt at a rate of 45 cents in the dollar, reducing the stock of debt by equivalent to US$ 2 1 million.)

2. The manufacturing sector

The manufacturing sector has always been weak, contributing about 16 per cent of GDP and employing only about 4 per cent of the total labour force. Shortage of foreign exchange for raw materials and spare parts has knocked it almost out of existence. The handicap of the sector is that it developed on the transformation of imported raw materials such as textiles, food, leather, footwear and plastics. Although the food and textile industries are now better integrated than when they started (the local textile industry now uses locally produced cotton), agricultural production is still inadequate to meet the needs of the manufacturing sector. There is a need for small- and medium-sized enterprises particularly those aimed at import substitution of food, clothing, energy, industrial inputs and capital equipment.

Sea fishing by coastal fishermen is only gradually being industrialized, with Japanese and French help. Under a 3-year fishing agreement, EC vessels can catch 11,000 tons of tuna annually. Several other foreign fleets, especially Japanese and Soviet, operate in Madagascar's waters. Four local companies catch a total of 150,000 tons annually, most of which is exported. The European Investment Bank is providing funds towards the modernization of a shrimp processing plant at Hell-Ville on the northwest coast.

Although the most important branches are food and beverages and textiles and clothing, little information is available on their capacity and existing range of products. Other manufacturing branches, although their contribution is small, include printing and paper and chrome concentrates.

Enterprises owned by Madagascans are few and are usually small family businesses. Bigger companies have tended to be either nationalized industries or parastatals. Notable is Omnis, the agency which controls all military and strategic industry including the Sacren naval dockyards and ship repair facilities at Diego Suarez.

The Ze-Ren Fertiliser plant exemplifies this. Built at a cost of US$75 million and opened in May 1986, the plant is already over-producing urea and ammonia without prospects of exports. This plant, along with many others, is to be privatized.

The oil refinery has been closed down.

Exports of manufactures are limited to textiles, leather, chrome ore, sugar and clove oil. Imports, on the other hand, are dominated by manufactures, indicating the country's strong import dependence.

In view of Madagascar's rich resources and trends in current policies to stimulate the output of raw materials particularly from agriculture, domestic resource processing industries including cotton textiles, footwear, pharmaceuticals, food processing and mineral processing are likely to play a key role in future industrial development.

## 3. Obstacles to Production

Inappropriate policies in the mid-1970s including wholesale nationalization took place without consideration of viable economic alternatives. Lack of autonomy for company management, unrealistic price fixing and inadequate attention to the viability of new projects, kept alive behind high tariff walls, were some of the main negative consequences of these policies.

These problems were exacerbated by the neglect of physical infrastructure and industrial services. The failure of the first phase of the 1982-87 Development Plan which aimed at stabilizing the economy was attributable to the lack of foreign exchange to pay for imports of the raw materials, spare parts and equipment needed to revamp production. The manufacturing sector's capital stock is consequently obsolete and prone to breakdown.

The neglect of agriculture including infrastructure and unattractive buying prices for agricultural producers led to stagnation in the production of agricultural raw materials such as cotton and groundnuts.

The poor performance of state industries is not only attributable to lack of spare parts and raw materials. There have also been problems of mismanagement, incompetence or lack of foresight.

Markets have also been a constraint. The domestic market is limited because of low per capita incomes and austerity measures. Demand for several Malagasy products has fallen in Europe, the country's main export market. Protectionism in importing countries has been an additional constraint.

## 4. Policies directed towards the manufacturing sector

The 1986-90 Development Plan gave priority to revitalizing industry especially through diversified export oriented activities while aiming at greater self-sufficiency in energy and food, especially rice by 1990.

In 1986 the government introduced far-reaching reforms including a privatization plan affecting all except strategic sectors of the economy and an investment code.

Privatization: while priority will be given to local businessmen, foreign investors are expected to acquire most of the companies. Madagascar has become a member of the Multilateral Investment Guarantee Agreement (MIGA).

The Investment Code contains incentives to attract foreign investors whose capital is needed to renew and strengthen the production base and to stimulate exports. The incentives include an 8-year tax holiday and import duty concessions for new ventures; and a special tax concessions and access to domestic credit for small- and medium-sized enterprises.

A Free Zone is planned in Antananarivo. In 1989 a protocol was signed with a consortium of Hong Kong companies for the duty-free zone, which it is estimated would create up to 50,000 jobs over 15 years.

Import liberalization(RIL) was introduced in 1987 under the guidance of the World Bank. Before that, Madagascar operated a system of quotas and foreign exchange rationing under which it was easy for a small group of people to control the supply of rare commodities. This led to hoarding, the forcing up of prices, the development of parallel markets and the spread of corruption over the issue of licenses and allocations of foreign exchange.

Under import liberalization, firms involved in exports were automatically allocated foreign exchange for the import of goods essential for their production provided that they deposited 10 per cent ( later reduced to 5 per cent) of the value of their exports when applying for licenses. Unfortunately only 60 per cent of requirements were being met. In September 1987 a World Bank 'adjustment credit for industry and commerce' enabled funding to rise to about 90 per cent.

This system was replaced by a new system of import liberalization (SILI) in February 1988 allowing import, under general license, of virtually everything,including consumer goods, raw materials and spare parts. It is being financed by the World Bank, the African Development Bank and Switzerland. This new system is having an effect both on the supply and the price of goods. By giving every firm the capacity to import, the government hopes to promote competition in overseas procurement and a supply of better and cheaper goods for the population.

In March 1989, the Commerce Ministry announced removal of all price subsidies, ending sixteen years of state intervention in prices of all consumer goods, local and imported.

The Ministry of Industry, Energy and Mines is working closely with the World Bank to develop domestic sources of energy to reduce external dependence and meet the expected increase in industrial demand. In addition, the World Bank's affiliate the IDA is providing a soft loan of US$67 million for industrial and trade adjustment.

In addition to the June 1987 devaluation, the government plans to boost exports by penetrating the regional market and aims to become the major source of supply for agricultural raw materials and, later, semi-finished and finished manufactured goods. Already, within the Indian Ocean Commission, the Comoros, Seychelles, Mauritius and Réunion have expressed a wish that Madagascar should become the source of raw materials for their industries.

## 5. The scope for rehabilitation

There is substantial scope for rehabilitation in conjunction with overall economic recovery particularly the privatization programme. Secondary information suggests that there will be a need for training and advice with regard to productivity, profitability, marketing and financing. There will also be potential for developing linkages with other economic activities within Madagascar and for preparing the ground for transforming the island into a major regional source of supply for semi-finished and manufactured goods. Priority subsectors are likely to be those directed at export markets and using locally produced raw materials from the agricultural and mining sectors.

(For ongoing UNIDO projects, please see Appendix.)

**MALAWI**

1. General introduciton

Malawi is still among the world's poorest nations in terms of per capita income (US$ 187 in 1988 measured in 1980s prices; See also UNIDO PUBLICATION 'ECONOMIC INDICATORS OF AFRICAN DEVELOPMENT'). However, it has been one of Africa's more notable development successes since independence in 1964, despite problems of high population/land ratios, low educational levels, shortage of skilled manpower, inadequate infrastructure and import dependent industries compounded by the country's land-locked position and its small domestic market. Deposits of a number of minerals, including bauxite, asbestos coal, uranium, vermiculite and graphite, have been discovered, but only a few industrial minerals have so far been exploited to any extent, notably limestone by Portland Cement Co (Malawi), a subsidiary of MDC.

Agriculture is the most important sector of the economy, employing more than 75 per cent of the working population, accounting for about 37 per cent of GDP, and providing almost 90 per cent of export earnings. Maize is the principal food crop, and in recent years, it has become an increasingly important export crop, grown by virtually all smallholders. Other food crops include cassava, millet, sorghum, groundnuts, rice and pulses. Malawi's agricultural exports include groundnuts, coffee, cotton and sunflower seed. Since the mid 1960's, however, these products have become increasingly subordinate to tobacco, tea and sugar whose dominant role reflects the fact that estate production-which accounts for the majority of tea, sugar and tobacco output-has grown faster, on average, than smallholder output. This latter grew more slowly due to a combination of factors, including lack of access to credit and investment and unsuitable crop varieties, but was primarily a result of pricing policies. Timber and pulpwood plantations have developed significantly since the early 1970's and supply a pulp and paper project (see under 2).

Economic policies tend to be realistic and pragmatic. Despite constraints faced at independence, th government was determined to reduce reliance on the former colonial power and to achieve rapid and sustained economic development. An outward-looking, export oriented growth strategy was adopted, based on agriculture and agro-industry. Foreign capital and managerial skills were used to assist in establishing an open, market-orientated economy where the private sector is the main engine of growth. Immediately after independence priority was given to eliminating dependence on grants and aid for government expenditure. Public investment was mainly in support of private efforts in productive sectors - the provision of infrastrcuture, public utilities and supporting services. Parastatals operating across key sectors have also played a major role in development.

Malawi's impressive growth for the first 15 years after independence with an annual average real GDP growth of about 6 per cent, was largely attributable to emphasis on agriculture at a time when most other sub-Saharan countries were stressing industrial development. Structural weakness however began to emerge by the mid-1970s; slow growth of small-holder agricultural exports; lack of diversification in estate agricultural exports; the need to improve management of public sector resources; the need to maintain and improve agricultural and industrial policies to cope with rapid expansion in the population and the work force; the rising cost of energy needs; the

increasing economic adjustment difficulties caused by the rigidities in the system of administered prices and wages. External factors also had a compounding adverse effect: lower international prices for Malawi's main exports; the influx of large numbers of refugees from Mozambique and the deteriorating political and security situation in the region which reduced workers' remittances and increased transport costs as road and rail routes through Mozambique were repeatedly interrupted.

An IMF and World Bank supported reform programme was started in 1981 but cancelled in 1986 shortly before it was due to expire. Negotiations on a replacement began immediately and in March 1988 a 14-month standby was agreed triggering a rescheduling of debt owed to both the Paris Club of official creditors and the London Club of private commercial banks. In addition, the World Bank and major donors provided funding towards a programme of trade and industrial policy adjustment for 1988 and 1989. The IMF approved a 3-year enhanced structural adjustment facility (ESAF) in July 1988. The targets for 1988 were exceeded: real GDP grew by 3.6 per cent, the budget deficit was reduced to 5.5 of GDP and the overall balance of payments position improved. The prospects for 1989 were less favourable owing to the effects of a cyclone, earth tremors and flooding and real GDP growth is unlikely to have reached the government target of 4 per cent.

2. The manufacturing sector

Although output from Malawi's small manufacturing base increased by an average of 11 per cent per annum during the 1970's, growth slowed during the early 1980's owing to overall economic recession and transport problems (see under 1) as well as the impact of drought on domestic demand and the scarcity of foreign exchange for imports (the sector is heavily dependent on imports). Manufacturing entered a new recession after 1985, when the shortage of foreign exchange intensified. In 1988 the sector recovered slightly, benefiting from the effects of the trade and industrial policy adjustment programme, and from the associated influx of donor funds.

The single largest industrial sector concern is Press Corporation, a private company, which is indirectly controlled by President Banda through Press Trust and has interests throughout the modern sector of the economy. Often in joint-venture arrangements with foreign companies, these include tobacco and sugar estates, cattle ranching, ethanol production as well as civil engineering, transport, retail and wholesale trade, property development and banking and insurance. Press's financial position deteriorated significantly in the early 1980's and its substantial cash requirements placed severe strains on Malawi's banking system. Reorganization of Press's operations has proceeded simultaneously with that of the parastatals, beginning in 1984 with the rationalization of the numerous cross-shareholdings held by Press.

In mid 1982 a factory to produce ethyl alcohol (ethanol) from molasses went into production, and in its first five years of operation it produced 6.8 million litres of ethanol annually. Used in a 20 per cent blend with petrol, this was equivalent to 10 per cent of Malawi's petrol needs. Full design capacity of 8.5 million litres per year was reached in 1988. The government intends to increase ethanol production to 20 million litres per year by the mid 1990's, subject to its commercial viability.

Malawi Dairy Industry (MDI), consists of three farms with annual output of 2.5 million litres of milk, rising to estimated 4 million litres in 1991. MDI

has expanded operations to produce yoghourt, several types of cheese, cream, butter, ice cream, 'chambika' (cultured milk), flavoured milk and ghee (butter oil). Apart from a few estates in the southern region MDI has monopoly of milk processing. Established in 1980 under a programme financed by Canada, the company came under full local management in December 1989.

A forestry project focuses on development of part of the Viphya plantation, and the construction of processing facilities. It was initially planned to build an export-orientated plant for the production of pulp and paper but the project was extended to include a plant for sawn timber and panelboard. Following the withdrawal from the project, in late 1984, of the original private Kenyan technical partner, it was not until September 1986 that external funding of the new joint-venture company to build and manage the plant was finalized. The Federal Republic of Germany promised to provide a loan to cover half of the foreign exchange costs of the project. The scheme will eventually provide employment for several thousand people, not only in forestry but also in infrastructural development, which includes the construction of a portion of the lake at Chinteche and a new town. It is hoped that Malawi will become self-sufficient in most types of timber in 1990.

Cement in 1986 Irish Cement took a 10.3 per cent stake in Portland Cement Co (Malawi) and, with support of a loan of US$ 4 million from the European Investment Bank began the rehabilitation of the company's clinker and cement works and the expansion of its quarries. Due for completion in late 1989, the aim of the scheme is to increase the Portland Cement Co's annual capacity from 70,000 metric tons to 100,000 tons, to satisfy domestic demand of about 90,000 tons per year and to provide a small surplus for export.

Manufactured exports consist mainly of textiles and sugar. Prospects for manufactured exports are limited to agricultural based products. Although there is scope for expanding exports throughout the region through membership of SADCC and PTA, this depends on the establishment of viable long term agreements on the integration of manufacturing production and investment. Rapid growth of export-oriented industries is likely to be feasible only in the context of a regional harmonization of trade and investment policies aided by bilateral and multilateral assistance.

Almost all industrial inputs, machinery, transport equipment and consumer goods are imported.

Large-scale parastatals and foreign owned plants dominate manufacturing. The parastatals tend to be involved in a range of other economic activities beside manufacturing. In addition to Press Holdings (see above), ADMARC and MDC often collectively own a company. Such interlinkages on the one hand have helped to stabilize industrial development but, on the other, they have increased the concentration of economic power and contributed to organizational complexities.

3. Obstacles to production

In common with many other sub-Saharan countries, Malawi suffers from shortage of skilled manpower and a lack of foreign exchange, to buy essential imputs and spare parts. High import dependence, particularly in non-food sectors, is compounded by transport difficulties.

Domestic engineering services are insufficiently developed to service the sector's aging capital stock. Transport difficulties also mean that manufacturers must keep large stocks of both inputs and finished export products, creating liquidity problems. In addition, the limited natural resource base precludes extensive structural diversification. Rigid price fixing until recently made it difficult to adapt production to economic changes.

In the case of small-scale manufacturing, problems have been compounded by lack of credit and the low purchasing power of the population, especially in rural areas where wage labour is uncommon. The high degree of monopolization in manufacturing is a further contributory factor. Inter-industry linkages are still undeveloped. The wood products industry has suffered from raw material depletion, unsuitable location of sawmills and technical and management problems. Forward linkages such as the furniture industry are not sufficiently exploited. The sugar industry is handicapped by quotas and depressed world market prices.

4. Policies directed towards the manufacturing sector

Development policies have always stressed agriculture with industry in a supporting and complementary role. Malawi has maintained a good investment climate, helped by its record of political and monetary stability and an attractive range of incentives. Direct inducements include low-cost estate sites, tariff protection, exclusive licensing where justified, generous investment allowances and unrestricted repatriation of capital, profits and dividends. An added incentive to investment was the liberalization of prices on a wide range of commodities in 1983.

Policies adopted in consultation with the World Bank and the IMF to solve economic difficulties during the 1970s and 1980s, have led to a change in the incentives system and organizational reform including privatization in the parastatals. The growth of manufacturing's contribution to overall development, especially through exports, is recognised as a priority and technical assistance has been actively sought, for instance, in setting up a small enterprise estate at Blantyre.

Several manufacturing projects have been identified within the framework of SADCC as potentially viable for the regional market but improved marketing and increased investment is still required.

5. The scope for rehabilitation

There is substantial scope for rehabilitation in conjunction with the World Bank and IMF supported economic adjustment policies particularly those related to privatization. Opportunities will include training and advice on improved productivity, marketing, financing and increased linkages with other economic activities. The absence of details on individual industries makes it difficult to derive a clear picture of rehabilitation needs and potential.

However, secondary information suggests that in the textile sector there is excess capacity in knitwear, blanket, towelling and net manufacture. Export expansion is unlikely since neighbouring countries tend to protect their own textile industries. Nor is the domestic market likely to expand significantly in view of relatively low real income growth projections.

The saw-milling industry is being rehabilitated, including modernization and reduction of excess capacity, partly financed by the World Bank. The programme includes the closure of two uneconomic units, privatization and the improvement of log supplies, processing and technical management. Successful implementation of the project should help balance supply and demand for wood products from 1990. Improved plantation production and linkages with downstream industries are also being studied as part of the project.

The small-scale sector could be stimulated by improving linkages between large- and small-scale companies for instance through subcontracting. Overall improvements in this sector would depend largely on rising income levels and therefore on the success of overall development policies. Increasing the pace of SADCC cooperation would also provide the necessary market demand.

(For ongoing UNIDO projects, please see Appendix.)

MALI

1. General Introduction

The second largest country in Francophone West Africa, Mali is sparsely populated, land-locked and about 80 per cent desert. Economic growth has been restricted mainly by drought which has affected agriculture, the mainstay of the economy. Mali is rich in largely unexploited mineral resources such as bauxite, gold, copper, iron ore, nickel, manganese, uranium and phosphates of varying qualities. Prospecting is under way for oil, uranium, tungsten (wolfram), manganese, diamonds and gold. A project for joint iron ore exploration with Senegal is being drawn up and contracts have been signed with W German and Japanese interests for the exploitation of radioactive materials.

Significant amounts of bilateral debt were cancelled during the 1983-85 drought period but a further rise in external debt combined with a fall in world cotton prices caused an accumulation of debt arrears by end 1986. Although Mali sought cancellation of its debt this was not granted and, in the absence of a formal IMF agreement, there was no formal rescheduling of external debt. August 1988 marked a turning point with agreement by the IMF to help fund a 3-year economic adjustment programme.

In October 1988 Mali became the first debtor country to benefit from a system of exceptional debt relief that had been agreed in principle at the Toronto Summit in June 1988. This made provision for preferential debt-relief for countries with persistent debt servicing difficulties. More than half of Mali's debt is owed to government. Without rescheduling, debt service payments were projected to exceed 30 per cent of export earnings during 1988-90, thus placing Mali among the 22 countries classified by the World bank as 'debt distressed'. The Paris Club of government creditors rescheduled US$ 70 million in repayments and interest due to October 1989.

The Paris Club agreed in November 1989 to reschedule US$ 14.2 million of principal and interest due from end-October 1989 to December 1990. The accord followed IMF approval of a second one-year structural adjustment facility and World Bank disbursement of the second tranche of its structural adjustment loan in support of the government's economic and financial programme. A further US$ 15 million is expected to be rescheduled in 1991 subject to approval of the third one-year IMF facility in early 1991. Mali's debt to France is to be cancelled in 1990. However, unless a more comprehensive solution is found Mali's debt burden will remain high. Standing at US$ 2,067 million in 1988, total external debt is about five times higher than total exports of goods and services. Moreover, a third of long term debt (US$ 1,928 million in 1988) is owed to multilateral organizations and, as such, is currently not eligible for rescheduling.

2. The manufacturing sector

Manufacturing, contributing under 10 per cent of GDP, is largely directed at meeting local demand. Concentrated at Bamako, it is small-scale taking the form mainly of agricultural processing and the manufacture of simple consumer goods.

Only about ten units employ over 100 workers. The most important branch is textiles based on locally produced cotton. The government-owned textiles factory, COMATEX, government-owned is the biggest company with between 2,000 and 3,000 employees. Textiles account for about 50 per cent of total value added.

Over 75 per cent of industrial turnover is accounted for by state companies which operate 9 of the 12 major food sector plants, a legacy of the Keita era.

The 40 parastatals have generally proved inefficient and unprofitable. The sector is currently being reorganized under pressure from the IMF and other external creditors. It is planned to sell full or part-ownership in 30 of the companies, to dissolve some and, with foreign assistance (mainly from The People's Republic of China), to improve the management of the remainder. The World Bank is to provide funds for a programme to train management personnel in state companies and to assist planning.

After great delay, production at the Kalana gold deposit began in 1985, financed by the USSR, with plans to raise production from 650-700 kg in 1987 to a maximum annual capacity of 1,000 kg by 1990. Exploitation of gold deposits at Loulo by a Malian joint venture with France was scheduled to start in 1989 at an initial level of 400 kg rising to 1,000 kg/year.

Salt has long been mined in the extreme north with an annual production of 5,000 tons.

The establishment of an iron-ore mining industry was announced in 1988 and in the same year a company was created to exploit the marble deposit at Solinkegni.

Trends in the sector will depend mainly on developments in other sectors of the economy including agriculture. Food industries account for over 50 per cent of projects approved under the Investment Code. The tobacco industry (one unit) is expected to grow. Growth in wood and paper products is constrained by limited raw materials. Value added to minerals, including phosphate exploitation and processing and gold and silver mining, has some potential. Although domestically produced plastic consumer goods , consumer chemicals such as bleach and some consumer metal products are believed to have appeared on the local market, information on these industries is lacking.

3. Obstacles to production

One of the main obstacles to expansion is inadequate growth in agricultural output which should provide inputs for manufacturing and purchasing power for buying manufactured products. In addition, Mali suffers from a low degree of monetization in the economy. This reduces demand and results in insufficient consumer-orientation of public sector production and inflexible price-fixing systems for key products.

Other obstacles, in common with most sub-Saharan countries, are the lack of technical and managerial skills, deficient supply and marketing channels, uncompetitive locally produced products, obsolete equipment and shortages of spare parts due to lack of foreign exchange.

4. Policies directed towards the manufacturing sector

The 1981-85 Plan encouraged greater private enterprise and the growth of small- and medium-sized companies. The latter is thought to be the best way of increasing employment opportunities. To help achieve this, project execution was decentralized.

A new Investment Code is intended to provide increased incentives for private manufacturing.

5. The scope for rehabilitation

There should be scope for rehabilitation in conjunction with the IMF and World Bank supported economic programme particularly in training and advice on productivity, marketing, more efficient distribution and financing. Although the existing manufacturing base is small, opportunities at plant level exist such as the textile company COMATEX and the several groundnut processing units which were closed down. Rehabilitation should also aim to improve linkages with other economic activities. Nevertheless, increased agricultural productivity, improved incentives and higher demand will also be necessary ingredients for rehabilitation to be succesful.

(For ongoing UNIDO projects, please see Appendix.)

## MAURITANIA

1. General introduction

Economic activity is based on mining, nomadic herding and fishing. The discovery and exploitation of reserves of iron ore and copper during the 1960s altered the longer term prospects for the economy. However, output from workable iron ore deposits, estimated at between 5,000 and 6,000 million tons, was depressed during the late 1970s owing to attacks on the supply line by guerrillas of the Polisario Front and during the 1980s owing to lower world demand. There are also phosphates reserves estimated at 95-150 million tons. Gypsum and uranium are also found. The government is prospecting for other minerals including tungsten (wolfram) and oil. An ongoing UN-supported assessment of mineral resources is expected to discover further deposits.

Nomadic herding, still the main activity of the population, has been badly hit by recurrent droughts. The government is committed to an extensive rural development programme including providing reliable water supplies. Under the 1985-88 economic and financial recovery programme, 35 per cent of total investment was allocated to the rural sector. The most important project in recent years has been the irrigation scheme mainly financed by the World Bank, the EC, Saudi Arabia, Libya and France, for 3,600 ha of rice, sugar, wheat and maize. Two similar projects are planned. Together the three schemes are projected to bring 30,000 ha under cultivation.

Fishing provides an important and growing contribution to both local food supply and exports. The potential annual catch in Mauritanian waters is estimated at 600,000 tons without risk of over fishing. The government has been successful in gradually increasing Mauritania's share in earnings from its fish resources. The rapid extension of foreign participation during the 1970's prompted the government to stipulate that foreign companies or governments fishing in Mauritanian waters should form joint ventures with Mauritanian interests, with the latter holding a majority of the equity capital. Agreements have been reached with fishing companies from the EC, Japan and the USSR, among others. The requirement that foreign enterprises land and process a percentage of their catch in Mauritania has substantially raised fish exports and earnings. By the mid 1980's the fishing sector (including processing) accounted for around one tenth of GDP. The 1985/88 recovery programme allocated almost 9 per cent of total new project investment to developing fisheries further and to building a ship repair yard in Nouadhibou.

Economic planning has improved since the early 1980s. The Taya administration introduced an IMF supported 1-year economic recovery programme when it came to power at end 1984. This was included in the 1985-88 programme which aimed to reduce budget and balance of payments deficits through more stringent criteria for selecting public investment projects. Emphasis was placed on immediately productive schemes in fishing and agriculture and on the rehabilitation of existing capacity and infrastructure in mining and transport. The achievements were taken into account in the IMF 3-year enhanced structural adjustment facility (ESAF) approved in May 1989.

Foreign exchange earnings reliant mainly on iron-ore and fishing, have been inadequate to finance ambitious economic expansion. Many projects were

started in the late 1970s and were financed by foreign borrowing. Mauritania's debt burden is consequently high with total external debt about twice the level of GDP. Repayments problems have increased and debt owed to governments has been rescheduled every year since 1985. Mauritania continues to receive substantial aid inflows, mainly in the form of grants from multilateral organizations and governments. W. Germany has cancelled some debt and rescheduled most of the rest owed to it. Mauritania will also be eligible under Mitterrand's proposal to cancel in 1990 the debt owed to the French government by the world's 35 poorest countries.

2. The manufacturing sector

Manufacturing is still very limited and accounts for under 10 per cent of GDP.

Initially, development of manufacturing was concentrated on import substitution. However, as income from iron mining rose during the early 1970's the government promoted the development of large scale, capital-intensive manufacturing projects in which it participated directly.

These included the US$140 million petroleum refinery at Nouakchott which entered production in 1978 with an annual capacity of 1 million tons. In the event , this wholly government financed project was closed by the new regime. After reopening in 1982 (with Algerian assistance), the refinery closed again after only six months. However, an agreement on rehabilitation, costing US$24 million, was reached with Algeria in 1985 and operations resumed in mid-1987. Exports are expected to absorb about two-thirds of its output.

Food processing, apart possibly from bakeries consists mainly of frozen fish processed on board foreign factory ships under Mauritanian license. The potential for developing on-shore fish processing which in turn would contribute to domestic industrial development is greater. The government has succeeded in improving the efficiency of licensing, increasing the country's share in existing foreign operations and expanding the activities of domestic fishermen (see also under 1). Development of fish-processing units at Nouadhibou, as a result of the government's fisheries policy, has made this subsector into the single most important manufacturing activity.

A sugar refinery completed in 1977 was closed after less than one year's operation because its dependence on imported sugar made it uneconomic.

The government also planned to establish plants to produce 500,000 tons of steel and 30,000 tons of copper by 1979/80. The Societé Arabe des Industries Métallurgiques Mauritano-Koweitenne (SAMIA) was formed in 1974 with Kuwaiti participation to build the plants. Operations at the steel mill, which has a production capacity of 36,000 tons and uses both scrap and imported billets, began in 1981. The mill failed to reach capacity production and closed in 1984 but reopened in 1985 as a joint venture with Jordanian and Kuwaiti participation. In total, however, these projects proved to be unprofitable and a major burden on state finances.

Other industries include textiles, footwear, chemicals, iron-ore concentrates and a small metal products factory.

Exports of manufactures are limited to iron-ore concentrates and fish products. All equipment and most of the inputs for the manufacturing sector have to be imported.

### 3. Obstacles to production

As in many other sub-Saharan countries, the main obstacles to expansion of the sector are the small size of the domestic market, serious infrastructural shortages, the lack of skilled workers, technicians and workers and the absence of a diversified raw material base.

In the case of Mauritania, activity was also adversly affected by the departure in 1989 of skilled workers of Senegalese extraction as a result of the ethnic conflict between Mauritania and Senegal.

In the public sector, which in manufacturing consists of an iron ore concentration plant, management problems appear to have been compounded by other inefficiencies in plant operations: installed capacity has not been chosen on the basis of properly executed feasibility studies.

The artisanal sector suffers from marketing problems, inadequate production technology and in some cases from shortages of raw materials.

### 4. Policies directed towards the manufacturing sector

An important component of current government policy is the rationalization of the public sector. The World Bank, France and European Community are financing a US$ 29,2 million scheme aimed at restructuring, privatizing or liquidating public enterprises. The rehabilitation of the banking sector, foreseen under the provisions of the 1985/88 and 1989/91 economic programmes, should also help stimulate manufacturing output.

Although government enterprises remain of major importance, the Taya government is no longer placing emphasis on large-scale capital-intensive projects. Instead, it is encouraging development by the private sector and the establishment of small and medium scale operations, aimed at low level import substitution. Long term tax agreements are offered, and an industrial zone is planned for Nouakchott.

The Ministry of Industry and Mining is responsible for the formulation and execution of industrial development policies.

Manufacturing played only a limited direct role in the 1985-88 Economic and Financial Programme drawn up after the 1981-85 Plan targets proved unrealisable in the face of economic difficulties from the early 1980s onwards. More importantly, the plan aimed to improve linkages between the economic sectors especially between agriculture and processing industries. Fish processing was the only subsector to be emphasized in broad terms.

A new investment code has been adopted to stimulate private investment further, especially in areas that would generate export earnings and employment opportunities. Protective barriers are being lowered to force industries to become more competitive. At the same time, industry's access to imported inputs will be improved. Price fixing, already abolished for most products during recent years, will no longer apply to industrial production.

A UNDP/UNIDO project is to be introduced to reinforce domestic institutional support for the manufacturing sector.

## 5. The scope for rehabilitation

Within the framework of the IMF and World Bank supported economic programme, there is scope for rehabilitation particularly in training. If substantial export markets can be developed, there could be scope for 'reviving' and expanding projects already started in addition to rehabilitating existing plants particularly those based on the country's fishing and mining resources. There is also potential for developing linkages between the different sectors of the economy.

With World Bank backing, rehabilitation is already under way in the Société Nationale Industrielle et Minière (SNIM), 29 per cent owned by Arab governments and institutions and 71 per cent by the government.

(For ongoing UNIDO projects, please see Appendix.)

## MAURITIUS

### 1. General introduction.

The island of Mauritius has traditionally been seen as an extreme example of a one-crop economy with sugar output accounting for over 90 per cent of total cultivable land, employing 28 per cent of the labour force and, until recently, providing about 50 per cent of exports. In recent years, the government has introduced an agricultural diversification programme.

Subsistence farming, though on a small scale, is being expanded in order to diversify the economy and reduce food imports. The main cash crops apart from sugar are tea and tobacco. The effects of cyclone damage in 1989 were expected to cut food output by a third during the year. A tree-planting scheme, started in 1982, aims to supply about 50 per cent of total domestic timber needs by the mid-1990s, compared with 20 per cent at present. The dominance of sugar has been eroded by an expanding manufacturing sector and tourism, which has become the third most important foreign exchange earner after sugar and textiles.

Economic policy has been worked out to a large extent in consultation with the World Bank and the IMF regardless of the changes in government. Mauritius has become an attractive location for foreign investors because of its low wages, skilled labour force, good international transport connections and favourable financial legislation. The country's exports are not subject to EC tariffs, one of the main stimuli to the development of the Export processing Zone (EPZ) (see below).

Mauritius has increased its links with South Africa (tourism, trade and investment) but it is not clear to what extent the political situation in South Africa will influence future economic development on the island. Although Mauritius borrowed substantially to finance its economic development projects, its successful export drive has kept the debt servicing burden relatively low.

### 2. The manufacturing sector

The manufacturing base has been steadily expanded and diversified over the past twenty years. Before independence in 1968 manufacturing played only a very minor role in Mauritius's sugar-based economy. Low income and small size offered little opportunity for efficient import substitution. Activities were concentrated on the manufacture of food, beverages, tobacco, footwear, clothing, metal products, paints and board for furniture made from bagasse.

Most activity is centred on the Export Processing Zone (EPZ) which is involved in the labour intensive processing of imported goods for export markets. EPZ has about 600 enterprises employing about 90,000 workers, about 85 per cent of whom are women. The main markets for EPZ goods are the EC (85 per cent), the USA, Canada, Australia, Japan and South Africa.

The fastest growing EPZ sectors have been textiles and clothing which account for about 80 per cent of total EPZ exports. Mauritius is the world's third largest exporter of goods bearing the International Wool Secretariat's

'pure new wool' symbol. Other rapidly expanding sectors are electronic components and diamonds. Emphasis has been placed on the development of precision engineering (electronics, watch and instrument making) and skilled crafts (diamond cutting and polishing, furniture, quality goods).

Other goods include toys, razor blades, nails, industrial chemicals, detergents, rattan furniture, plastic goods, tyres and the assembly of recording cassettes.

Agro-based industries: A National Dairy Board was established in 1985 and several projects were started including a cattle improvement scheme assisted by W Germany and a study on the potential for deer farming. Studies have been carried out on the possible production of high-protein feeding stuffs manufactured from cane tops and molasses.

Cigarettes are made entirely from locally grown tobacco apart from a few luxury grades. Nearly all tobacco is grown and processed by BAT (Mauritius). Output was running at 903 tons/year in 1987.

There is a fertilizers plant producing up to 100,000 tons/year which also exports a small proportion of output.

A refinery is to start producing ethyl alcohol (ethanol) from molasses.

Fishing is being revived although about 70 per cent of marketed fish is still imported. A joint venture tuna-canning factory, 49 per cent owned by Japanese interests, was set up in 1972 and exports to EC countries. A second tuna-canning plant, with an initial capacity of 10,000 tons/year was opened in 1988. A new fishing port built with a Japanese grant opened in 1985 and is capable of handling about 6,000 tons of fish a year. Japan is offering to finance extension of the port. The experimental farming of prawns has been a success and there are hopes of developing it for export markets.

Large scale factories are found mainly in the sugar industry. The EPZ units employ about 200 on average. There appears to be no government ownership in industry; firms in the EPZ are foreign-owned.

Manufactured exports consists mainly of sugar and textiles. EPZ imports account for a high proportion of manufactured imports followed by machinery, equipment, chemicals in the form of fertilizer and fertilizer components for the sugar cane industry.

Larger companies are becoming more capital intensive and reducing the number of workers. This trend has affected smaller companies which depend on subcontracted work. To reduce costs from imported inputs there is a trend towards higher local value added. Thirdly the EPZ scheme has triggered interlinkages between manufacturing units stimulating the growth of industries which supply it with goods and services such as paper packaging, printing and plastics as well as banking, insurance, catering, construction and transport.

3. Obstacles to production

Owing to the small domestic market, expansion in manufacturing depends on increased demand from abroad. However, both the sugar and textiles sectors have to face problems of low prices and quotas in overseas markets.

The sugar industry has suffered from declining cane production and plant obsolescence.

Many EPZ industries experienced difficulties in the early 1980s and several closed down, partly because of stagnant European markets but also because of high rises in costs, both of labour and imported raw materials. Import quotas by France, UK, Italy and more recently the USA have also been damaging.

## 4. Policies directed at the manufacturing sector

After independence, the government encouraged export-oriented manufacturing along the lines of small Asian economies such as Hong Kong, Singapore and Taiwan. The Export Processing Zone Act of 1970 aimed to attract domestic and foreign investors in export processing. Its incentives included tax holidays on retained earnings and dividends, duty-free imported inputs, free repatriation of capital and dividends, flexible employment and land and factory space. Exchange rate and wage policies were also designed to ensure the profitability of export-oriented production.

When manufacturing growth slowed in 1979-82 as a result of world recession, the government responded rapidly with short term stabilization measures, exchange rate adjustment, trade policy reform and an effective incomes policy to hold down labour costs. It also signed bilateral agreements to avoid double taxation of dividends and introduced an export credit guarantee scheme to protect commercial banks against default and duty drawbacks for new exports by firms previously supplying only the domestic market. The government also encouraged export promotion abroad.

The government is currently promoting investment in capital-intensive industries producing high value-added goods. The Mauritius Export Development and Investment Authority (MEDIA) promotes growth in the EPZ and encourages investment in it, sending missions overseas to talk to potential investors and participating in international fairs. It also manages several industrial estates.

In 1987 a national leasing company was established to import capital goods for industry and to provide them under lease for up to five years, leaving entrepreneurs the option of eventually buying.

The government does not rely entirely on EPZ and is understood to be launching a small-scale enterprise project with the European Investment Bank (EIB) support which will include industrial establishments. An action plan for stimulating the sugar industry was submitted to the Sugar Authority in 1985; it includes factory rationalization, higher productivity of small cane planters, increased production of bagasse-based energy and research and diversification. It was used by the government and the World Bank to draw up a Bank-assisted Sugar Action programme in 1986 to be supported by the EIB.

## 5. The scope for rehabilitation

There is substantial scope for rehabilitation in the form of training and advice with regard to marketing, quality control, incentives and financing.

Under the World Bank supported Sugar Action programme, rehabilitation consists of the following:

. detailed analysis of the financial performance of the mills and the current financial incentives and disincentives system;

. comprehensive study of pricing and taxation options for future operations; the development of an incentives system to ensure adequate investment in the industry and concentrate milling capacity into fewer, more efficient units;

. replacement of obsolete machinery;

. research into new products and more efficient utilization of milling by-products such as bagasse;

. improving the mills' contribution to bagasse-based energy generation.

There will also be opportunities for rehabilitation of other agro-based industries. Secondary information suggests that priority should be given to subsectors such as textiles and fish processing. t

(For ongoing UNIDO projects, please see Appendix.)

**MOROCCO**

1. General introduction

In the early and mid-1970s high earnings from phosphates encouraged the government to start large scale public investment programmes which were partly financed by external borrowing. The programmes included several capital intensive manufacturing projects in a highly protected environment. As import-substitution continued during the 1970s, Moroccan industrial development accelerated during the 1973-78 period when manufacturing growth averaged about 6.6 per cent per year spurred by the phosphate boom in 1974-75 and public investment. However, when the phosphate boom was reversed in 1975-76 the investment programme was increasingly financed by foreign borrowing, grants and large public sector deficits. Excessive increases in both the balance of payments and budget deficits made it necessary to restrain domestic demand from 1978 as part of the 1978-80 stabilization plan.

Although the government made some attempts to stabilize the economy from 1978 onwards, it started another series of public investment programmes in 1981. Military expenditure in the Western Sahara was an additional major drain on resources between 1975 and 1983. By mid-1983 foreign exchange reserves were almost depleted. The government started an IMF and World Bank economic restructuring programme which had two major objectives: to stabilize the economy in the short term by reducing aggregate demand and the size of the government budget deficit; and to improve the country's international competitiveness and to increase the production of exportable goods. (see also under 4)

Since 1983 Morocco's standby arrangements with the Fund have paved the way for the restructuring of official and commercial external debt. However, the debt burden is still high, equivalent to over 100 per cent of GNP, and about a third of foreign exchange earnings must be channelled towards debt repayments after relief. The Finance Minister said in September 1989 that Morocco hopes to restructure about US$3,000 million of commercial bank debt under the 'Brady Plan'. Although the economy is highly dependent on world markets both for imports and exports there is no indication that this will lead to the serious reduction in essential imports that has taken place in other African countries. The trade balance has been persistently in deficit since the mid-1970s but the current account moved into surplus in 1987 as a result of higher inflows from tourism and transfers by Moroccans working overseas combined with reductions in interest payments on external debt in accordance with Paris and London Club rescheduling agreements.

2. The manufacturing sector

At independence in 1956 the manufacturing sector was entirely owned and administered by foreigners. Moroccans quickly engaged themselves in a progressive transition from economic dependency towards a programme of national industrial development. During the decade after independence Morocco

followed a policy of import substitution for most consumer goods and for some intermediate goods. Stimulated by the growth of domestic demand and heightened protection of the domestic market, industrial production expanded rapidly during the 1960s especially within branches oriented towards the domestic market such as mechanical engineering, cement, textiles and food.

Manufacturing has benefitted from the more liberal investment code of 1983 which triggered a switch to export-oriented industrialization. Fast growth during recent years has not yet compensated for the effects of the slowdown during earlier years and manufacturing's share of GDP fell from 17.5 per cent in 1981 to 15.6 per cent in 1987. Expansion has been concentrated in four branches: food products, textiles and especially in electrical equipment and chemicals.

Food processing is the most important branch producing for export (canned fruit, vegetables, fish) and for domestic consumption (flour, vegetable oils). A large quantity of grain is converted locally into flour although imported wheat is also processed at several mills. There are currently 13 sugar beet factories with an annual processing capacity of over 400,000 tons of raw sugar as well as three sugar cane factories. Annual production capacity of sugar is enough to cover about 90 per cent of domestic demand. Fish processing and fruit and vegetable processing have recorded slack growth rates.

Chemicals production is centred on transforming phosphate into phosphoric acid and fertilisers. The industry is centred at Safi where Maroc Chimie's first plant was opened in 1965. The Safi complex now has a capacity of 1.8 million tons of phosphoric acid and close to 0.8 million tons of triple superphosphate.

The Textiles subsector, employing about 25 per cent of the work force, has suffered from EEC quota restrictions on Moroccan exports but a new agreement signed in 1985 improved conditions and once a new association agreement is signed following Spanish and Portuguese entry, manufactured goods access to the EEC is expected to be unrestricted.

Engineering consists mainly of vehicle assembly plants. A limited range of components are produced locally including tyres, radiators, batteries, filters, fuel tanks, gaskets and some electrical parts. Railway goods, wagons, and mineral and tanker wagons have for many years been assembled by SCIF in Casablanca. Most parts, except specialized ball bearings, are made locally.

Other industries which have expanded rapidly since independence include cement, building materials, ceramics and paper. There are nine cement factories with a capacity of over 5 million tons/year. A steel rolling mill Société Nationale de Sidérurgie (Sonasid) began production at Nador in 1984. The state-owned Entreprise Nationale des Industries Electroniques (ENIE) is setting up a joint venture to build computer-manufacturing facilities by 1990 at Hassi Ameur. The plant will produce under the Alphatron label, exporting 80 per cent of output.

Since 1978 there has been a shift in the contribution of various branches. The agro-food subsector (food products, beverages and tobacco) and chemicals (including phoshate products) accounting for about a third each of total manufacturing output, with textiles and clothing contributing about 17 per cent.

Although information is scant, the traditional, artisanal sector is believed to be sizeable. Based on data referring to firm size, small-scale industry is predominant. Large establishments are typical of the chemicals, transport equipment and textile (spinning, weaving) industries, beverages and tobacco. In some cases (chemicals, transport equipment), the smaller entreprises serve as subcontractors or suppliers to larger units. The trend is to shift away from large-scale publicly owned entreprises engaged in import substitution towards an increased role for private sector industries particularly small and medium sized businesses with export potential. This is largely attributable to the revised investment code and liberalization measures such as reductions in price controls, import quotas and tariffs.

Interlinkages are poor. Manufacturing is divided into four insulated groups: export oriented which convert local raw material (about 13 per cent of manufacturing total and consisting of agro-food, leather, paper); export oriented by import dependent for raw materials (textiles, electronic, subsidiary of internationl companies); inward looking industries with imported raw materials (food, vegetable oils, paints, plastics); and inward looking industries with local inputs (44 per cent of gross manufacturing consisting of cotton, paper, sugar, leather).

Ownership is about 55 per cent private, about 31 per cent public and about 14 per cent foreign. France predominates among foreign investors with about 45 per cent of total foreign owned equity; foreign investors are mainly involved in the building materials, chemicals, textiles, garments and electrical goods industries. Entreprises which are wholly or partly owned by the government are large-scale and in agro-processing (tobacco, sugar) and chemicals, paper and pulp, oil refining, cement and metal products and machinery.

The main categories ofexports are food and beverages, non-oil minerals, semi-manufactured goods and consumer goods. Semi-manufactures and manufactured goods account for estimated 40 per cent of total. Major imports are industrial equipment, semi-manufactured goods and oil; of this, over 50 per cent are estimated to be inputs and equipment for manufacturing.

### 3. Obstacles to production

The most important constraints according to a 1989 UNIDO study are: insufficient domestic demand; shortages of imported inputs and intermediate goods owing often to delays in obtaining foreign exchange; difficulties in obtaining credit; high energy costs (especially in the case of the textiles industry); shortages of skilled manpower and qualified middle management; small size of most entreprises (over 80 per cent have a workforce of under 100); shortcomings of industrial services such as transport, maintenance insurance and export insurance. The most important is the delay in obtaining foreign exchange for imported inputs; almost all enteprises are forced to keep stocks of imported inputs at levels higher than would be otherwise necessary.

### 4. Policies directed at the manufacturing sector

Industrial promotion policies especially those in the 1983 investment code have moved away from an earlier bias against labour-intensive activities. A 1989 UNIDO study states that 'by increasing the cost of capital, the investment code appears to realign factor prices in accordance with Morocco resource endowments and to redirect indirect industry towards the adoption of

more labour-intensive production in line with its natural comparative advantage'. Exchange rate management and appropriate macro-policies combined with the dismantling of external trade barriers seem to have promoted exports and led to a sustainable level of imports. Furthermore, the review of the investment code in 1986 under which foreign investors are allowed a majority share in projects in some sectors of the economy has reversed the Moroccanization policy of the early 1970s.

The government has introduced several support measures for small and medium sized industries.

Three measures introduced in 1989 improve the climate for manufacturing.

- Under a June 1989 decree, any new investment applications not refused within two months are considered accepted.

- The renewed commitment to privatization led to the appointment of a minister in October 1989 specifically to oversee denationalization.

- The government announced in November 1989 that it would start the second phase of its privatization programme with the sale of shares in 113 entreprises over the coming six years. The list includes manufacturing companies such as the Societe Nationale de Sicerurgie (Sonasid), the Société Marocaine de Constructions Automobiles (Somaca) car assembly plant and general tyre factory, ten sugar factories and 24 subsidiaries of state industrial investment Office du Developpement Industriel (ODI) covering activities such as the manufacture of cement, clothing, footwear and machine tools. Eight subsidiaries of the state oil company SNPP and a subsidiary of the state phosphate producer Office Cherifien des Phosphates (OCP) are also to be privatized . The entreprises are to be transferred to private ownership either through the financial market or by tender, or a combination of the two. The draft bill contains safeguards designed to prevent the entreprises from being controlled by foreigners or by local private monopolies.

5. The scope for rehabilitation

As a 1989 UNIDO study has pointed out, the general environment for industrial development is better than in any other developing country and Morocco's situation is comparable with that of Newly Industrializing Countries (NICs). However, the sector would benefit from improved quality control, manpower training and work efficiency and greater availability of long- and medium-term investment as well as a reduction in family-run businesses. There is substantial scope for rehabilitation at plant level including those to be privatized. Priority candidates are likely to be in the food processing, textiles, chemicals and other industries based on locally produced raw materials which can supply both the domestic and the export markets.

(For ongoing UNIDO projects, please see Appendix.)

**MOZAMBIQUE**

1. General Introduction

Since independence in 1975 Mozambique's economy has suffered the damaging effects of a guerrilla war, drought, floods, famine, the displacement of the population and a severe lack of skilled workers and foreign exchange. Although services have traditionally been an important source of foreign exchange, notably charges for transit trade from Zimbabwe, Zambia, Malawi, Swaziland and South Africa, agriculture is the mainstay of the economy in peace time accounting for about 45 per cent of GDP, 80 per cent of exports and employing 85 per cent of the total working population. Only 5 per cent of arable land is cultivated. In addition, Mozambique has substantial fish, forestry, mineral and energy resources of which no systematic stock-taking has been made except in the case of forestry.

The civil war, the single most important contributory factor to economic decline, hit the country when it was at a particularly low level of development and almost totally reliant on expatriate skilled labour. The situation was exacerbated by the sudden loss of foreign exchange earnings from tourism, transit trade and miners' remittances as a result of South Africa's economic boycott. The resultant depletion of foreign exchange reserves coincided with high levels of external debt servicing commitments. Mozambique's need for foreign funds was partly relieved in 1984 by the resumption of US aid, accession to the Lomé Convention and membership of the World Bank and the IMF.

Since 1987 the government has been implementing an IMF supported economic recovery programme (ERP) which aims to increase economic efficiency and reduce internal and external deficits by liberalizing the economy. In June 1987 the IMF approved a 3-year loan in support of the ERP which triggered increased aid from both multilateral and bilateral donors and a rescheduling of repayments and arrears on external debt up to the end of 1988. Nevertheless, the government estimated that the debt service ratio in 1990 would reach 120 per cent; it consequently began seeking reductions in interest charges. A quarter of the rescheduled debt owed to Portugal has been converted into equity in joint venture companies.

Economic growth, spurred by a 7.2 per cent rise in agriculture, was 5.5 per cent in 1988, compared with a projected 4.1 per cent. In 1990 the government is aiming for economic growth of 4-6 per cent and a reduction in inflation from 40 per cent to 15-18 per cent. Although the armed forces share of the 1990 budget is to fall to 36 per cent (42 per cent in 1989) the deficit will still be in the region of US$ 55 million.

In 1989 export earnings fell to US$ 92 million (covering only 12 per cent of imports) owing to low world prices for prawns and cashew nuts (67 per cent of total exports). The servicing requirement of Mozambique's total external debt (estimated at US$ 4,400 million in 1989) would be over twice export earnings in the absence of substantial debt relief. Bilateral creditors such as West Germany have already agreed to cancel debts owed but the government is hoping that all fourteen Paris Club governments will either write off debt or reschedule at lower interest rates. The government is planning a debt equity scheme, applicable to investments in new or existing enterprises, but which must be accompanied by additional resources in the form of convertible currency, equipment, imported materials or the transfer of technology.

2. The manufacturing sector.

Manufacturing accounts for only about 10 per cent of GDP and Mozambique is still dependent on South African industrial products. About 47 per cent of manufacturers are located in and around Maputo although the government is encouraging decentralization towards Beira and northern Mozambique. Under the colonial administration investment from Portugal, South Africa, Italy and the UK established export-orientated industries.

Trends in gross output figures produced by the National Statistics Office show that whereas in 1980 oil refining was the main contributor to GDP, followed by food processing and beverages, by 1987 food processing ranked first, followed by beverages and textiles and clothing. Overall industrial growth in 1988 was only about 5.5 per cent, owing mainly to sabotage of power lines. Details of capacity of individual industries and its utilization are not readily available.

Food processing is dominated by sugar refining, cashew and wheat processing. Premier International has become involved in a joint venture with a state poultry enterprise, Avicola, in running poultry farms on the outskirts of Maputo.

Cotton spinning and weaving are carried out at Chiemo, Maputo and in Nampula province. In mid-1987 the Cia Agro-Industrial Lonro Mozambique, a joint venture formed in 1985, received a loan from the European Investment Bank towards the rehabilitation of its cotton ginnery (in addition to its vegetable-processing plant).

Building materials: The cement industry (Cimentos de Mocambique) has beenstimulated by work on the Cabora Bassa dam and on the rehabilitation of the 557 kilometre railway from Dondo, outside Beira, to the Moatize coal fields in Tete province. Balast will come from the stone quarry at Chimoio and the railway sleepers from the factory at Dondo with a current daily output of about 1,200 sleepers.

South African Breweries has undertaken rehabilitation of its subsidiary which runs the match factory in Maputo. The Anglo American Corporation is considering investing several million rand in projects such as the Pande natural gas field. The Maputo oil refinery, nationalized in 1977, has an annual capacity of 800,000 tons of crude oil.

Government ownership became increasingly important after independence and by the early 1980s the Government owned or partly controlled over 70 per cent of the most important industrial companies. Outright ownership is less common than ownership according to the 'interventation' system under which an outside manager is appointed by the Government to run an enterprise.

Exports of manufactures are limited to food especially refined sugar and some oil products. Spare parts and equipment account for about 20 per cent of imports, representing about 50 per cent of manufactured imports.

3. Obstacles to production

The main impediments to production are the same as those to overall development: war, low levels of development and a domestic resource base which has not been systematically explored. The low level of development at the time of independence is still reflected for example in the rudimentary

transport system and the serious shortage of skilled workers, technicians, managers and industrial planners. Industries that existed at the time of independence have generally not be modernized and, as a result, their obsolete machinery is subject to frequent breakdowns and their products are no longer competitive. The domestic market is very small owing to low incomes and marketing problems. Shipping of exports has been seriously dislocated by war. Inappropriate agricultural policies have further reduced productivity of the agricultural sector and hence the supply of raw materials to many industries.

4. Policies directed towards manufacturing.

Under the ERP, resources are to be focused on industries with high domestic value added and on import substitution. Government control of prices was relaxed in several industrial sectors in 1987. During the period 1989-91 priority will be given to the revival of the productive sector by supplying inputs, rehabilitating infrastructure and phasing out administrative controls.

The new 'non-administrative' system for allocation of a limited quantity of foreign exchange to enterprises in selected sectors came into effect in April 1989. The new arrangements were first referred to at a consultative group meeting of donors in November 1988. The aim is to allow companies and cooperatives in the designated industries - initally road transport, clothing and shoe making - to enjoy more direct access to foreign exchange for the import of listed spares and raw materials. The government is hoping eventually to extend the list of industries.

The government secured World Bank funding in early 1990 for its plan to revive 15 leading industrial and agro-industrial entreprises. The companies chosen have been abandoned or severely weakened by political instability and their production facilities are in generally poor condition. These include entreprises processing cashew nuts, edible oils, timber or citrus fruit; metal goods, cables, paper cartons or cement. The government's Enterprise Restructuring Technical Unit is to implement the programme and provide technical assistance.

5. The scope for rehabilitation.

There is substantial scope for rehabilitation at all levels but its success will depend largely on a return to peace and the adoption of economic policies likely to attract foreign investment and financing. More immediate opportunities include projects that will provide supplies of staple food. Rehabilitation of agriculture is essential to restore the country's self-sufficiency in food and essential inputs for agro-based manufacturing. The regeneration of many enterprises will also depend on improved physical infrastructure. Rehabilitation of individual plants or branches of manufacturing should be seen within the context of overall economic development and intersectoral linkages. It should also take into account potential world and regional demand for Mozambique's range of products.

(For ongoing UNIDO projects and progress reports, please see Appendix)

**NAMIBIA**

1. General introduction

The economy is based mainly on the production of primary commodities for export (minerals and agricultural products). Uranium, diamonds and base metals, primarily copper, lead, tin and zinc account for between one third and one half of GDP. Most mineral output is controlled by three multinational companies : RTZ, Consolidated Goldfields and Anglo-American Corporation. Agriculture and fishing together have traditionally ranked as the second most important activity. Production of fish, beef and sheep fleeces has declined from a peak of 46 per cent of GDP in the 1950s to only about 10 per cent.

Over 60 per cent of GDP is exported and most consumption and investment goods are imported, 90 per cent from South Africa. About 50 per cent of food requirements are imported. Although per capita income (US$ 1,049 in 1988 measured in 1980 prices) is relatively high for sub-Saharan Africa, income distribution is heavily skewed towards whites (about 7 per cent of the population) and a small number of black professionals. Over 50 per cent of the population is engaged in agriculture.

Economic growth was low in the 1970s (1.8 per cent annually) and negative in the 1980s (by 1 per cent annually) compared with an annual average population growth of about 3 per cent. Poor economic performance is largely attributable to:

. political uncertainty, violence and unrest which have lowered business confidence and disrupted output;

. the global mining slump;

. drought and ecological damage which have severely affected agricultural output.

War, drought (which affected some areas continuously from 1978 to 1985), over grazing and unscientific farming methods have had an adverse effect on the agricultural sector. Namibia has a fragile ecology and most of its territory can only support livestock.

Potentially, Namibia has one of the richest fisheries in the world and the fishing industry was formerly second in importance to mining. There are, in fact, two separate fisheries off Namibia- inshore and offshore. The inshore fishery, for pilchard, anchovy and rock lobster, is controlled by South African companies, based at Lüderitz and Walvis Bay. In 1975 the industry contributed 10 per cent of GDP. In 1984/85, however, the catch was only 3 per cent of its peak, while five of the nine factories were closed and four-fifths of the workers lost their jobs. The collapse was largely due to over-fishing, the South African authorities having bowed to pressure from fishing companies.

The offshore fishing fleets, which freeze their catch and take it back to their home ports, are almost entirely foreign-based. In 1981 about one-half of the catch was caught by the Soviet fleet, about one-quarter by other Eastern European countries and 15 per cent (including almost all the hake) by Spanish ships. Again, natural assets have been damaged by over-fishing. Before this depletion, the main fish was hake, stocks of which are now at

about one-third of their former level; while horse mackerel, which has become the main target for state-owned fleets, may also now be subject to over-fishing. Namibia receives no tax or licence fees from fishing because disputes over the status of the territory has deprived it of a recognized fishing zone within the usual limit of 200 nautical miles (370 km). The UN Council for Namibia signed the Law of the Sea convention and, in 198[illegible], declared its intention of proclaiming such a fishing zone, although it subsequently failed to do so. In 1986 for instance the Namibia fleet landed only 17 per cent of all fish caught within the exclusion zone.

## 2. The manufacturing sector

The manufacturing sector is extremely small providing only about 5 per cent of GDP and employing only about 10 per cent of the labour force. Activities are centred mainly on the processing of meat and fish for export and production of basic consumer products such as beer and bread.

Most processing of agricultural exports typically takes place outside Namibia: more than 50 per cent of cattle output is exported on the hoof to South Africa, landed fish catches are processed in the South African controlled enclave of Walvis Bay and all sheep pelts are exported untreated.

Fish processing including canning and fish meal/oil preparation is important but few details on the activity are available.

No manufacturing based on the processing of minerals (mainly diamonds and uranium) apparently takes place.

Minor activities include the manufacture of mining equipment, other metal goods, construction materials and assembly operations.

Overall the sector consists of about two dozen plants virtually all in or near Walvis Bay.

No information is available on manufactured exports and imports.

It is assumed that most companies are South African owned.

On the basis of available information it is difficult to review trends in manufacturing.

## 3. Obstacles to production

Few attempts have been made to develop manufacturing apart from fish processing owing mainly to the limited size of the domestic market and South Africa's dominance. Low domestic demand compounded by distance from other regional markets also militates against expansion. However, with independence, there should be opportunities for growth in food processing (particulary meat), in construction and in light industrial goods. Disruption

of the economy through war has also handicapped the processing of mineral raw materials and the production and diversification of agricultural inputs.

The non-white rural population has generally been confined to racially segrated regions accounting for only 31 per cent of farmed land. The combined effects of over-population on poor quality land and the imposition of taxes has sustained the contract labour system supplying cheap labour to the mines. The creation of economic inequality by restrictions on the movement and employment of non-whites has been supported by discrimination in employment and privileged access for whites to education, training and healthcare.

The skill distribution at independence, assuming marginal emigration, is likely to remain heavily skewed towards the white population which is predominantly professional, technical, administrative, clerical and commercial. Non-whites in paid employment are mostly labourers, farm workers and domestics.

4. Policies directed at the manufacturing sector

In contrast to long term constraints on development caused by a narrow production base, short term prospects for growth are promising as economic opportunities arise from independence including the revitalizing of agricultural output in previous war zones.

The South West Africa Peoples Organization (SWAPO), the most likely party to form the government of independent Namibia, has moved away from advocating nationalization of major industries to favouring a mixed economy with compensation for confiscation (if any) of private property. Recent dialogue between SWAPO and the leading multinationals is evidence both of the political importance of the former and the key role which the 73 different multinationals (35 from South Africa) will play in attaining future economic growth.

Encouragement of foreign investment would lead to the exploitation of known offshore gasfields. Foreign companies are interested in oil concessions in the Etosha Pan region of Northern Namibia.

5. The scope for rehabilitation

Independent Namibia will provide a wide range of opportunities for rehabilitation within the framework of overall economic revival. This assumes a peaceful transition to independence and continued moves towards encouraging foreign investment, capital and technology. At subsector level, priority is likely to be given to activities which both substitute for imports and expand export earning capacity such as agro-industries and fish processing.

(For ongoing UNIDO projects, please see Appendix.)

**NIGER**

1. General Background

Despite the development of uranium (commercially viable reserves estimated at 210,000 tons), Niger remains a very poor country with less than 3 per cent of its territory under cultivation. Uranium contributes about 80 per cent of revenue but the government is trying to develop into other mineral deposits such as gold, lead, zinc, copper. Several small cassiterite tin deposits are mined in the Air Massif. Traditional farming and stock rearing generate over a third of GDP. However, between 1965 and 1987 GDP per capita declined in real terms owing largely to the effects of the Sahelian drought. The most important cash crop is groundnuts. Tourism is the third largest foreign exchange earner after uranium and cattle and is being given greater priority under the current donor backed economic diversification programme.

Seven development plans have so far been introduced, all requiring considerable aid. Investment targets have consistently been missed. The fall in uranium revenues during the early 1980s (because of lower prices and output) caused the current budget to move into deficit. Current spending was first reduced, in 1983/84, and then held steady, partly as a result of cutbacks in public sector employment and of the sale to private ownership of some parastatal companies. Some modest growth was envisaged in 1986/87 and 1987/88 budgets, drafted in consultation with the IMF and World Bank together with a 3 year investment programme. The latter focussed on agricultural development and measures to combat desertification, with particular emphasis on smaller scale projects and increased local participation.

Government finances were to be helped by the restructuring of 10 state-owned companies and transfer to private ownership or participation of a further 18 companies. Nonetheless, Niger's budget is likely to remain critically dependent on external funding providing almost two thirds of total budget receipts.

Following the uranium boom in the late 1970s, the Government of Niger pursued a policy of expansion in the public sector, in some cases by borrowing on non-concessional terms. Consequently public sector enterprises grew rapidly, reaching over 60 and employing over 10,000 employees in the early 1980s. Financial injections notwithstanding, the sector performed poorly and incurred losses of CFAF 13,9 billion (over 9 per cent of total government expenditure) in 1982. Major losses were concentrated among a few enterprises, most notably, SONICHAR (the coal mining and electricity company), OPVN (the cereal marketing agency) and NigELEC (the power and water distribution company) which together accounted for about 80 per cent of total losses for the sector. These were financed largely by government budgetary transfers and domestic and external borrowings which were guaranteed by government. By 1983, the public sector accounted for about 25 per cent of outstanding domestic credit and about 20 per cent of external debt.

The government introduced emergency measures in 1983 to stem losses in a few trade enterprises. Measures included price increases, domestic trade liberalization, personnel reductions and improvements in management accounting systems. A study of the sector was also commissioned to pave the way for future reform efforts. In 1986, a broader reform programme was launched and in 1987 a second phase was undertaken to bolster 1986 measures and to expand the programme.

The results were encouraging. Emergency reforms introduced in 1983 led to financial improvement in all target companies, a reduction in redundant personnel and the introduction of an automated accounting system. Reform measures in 1986-87 reduced financial losses from CFAfr 13.9 billion in 1982 to CFAfr 2.4 billion in 1986; operating subsidies fell from CFAfr 2.6 billion to under CFAfr 1 billion between 1981 and 1987 and the PE share of domestic credit fell from 24 per cent to 18 per cent between 1982 and 1985. The state enterprise share of external debt declined from 30 per cent in 1981 to less than 10 per cent in 1986 although this was partly attributable to rescheduling. As for divestiture, three state enterprises were fully privatized, eight partially divested, four liquidated and nine rehabilitated. By early 1988 four more state enterprises were scheduled for total privatization and five for partial divestiture. Air Niger planes, which had been rehabilitated for sale abroad to the private sector, were kept in operation despite a history of weak financial performance. By late 1988, the government had entered into negotiations for the sale of one airplane.

With the continuing slump in the world uranium market, Niger's major official creditors agreed in 1983 to reschedule the country's external debt over a 9-year period, with payment to begin after four and a half years. Their action followed the approval of standby credits by the IMF and the introduction of austerity budgets for every year since 1982/83. Despite subsequent debt restructuring agreements with both official and commercial creditors, the debt ratio has remained high. Under the terms of the World Bank supported structural adjustment programme, no new commercial borrowing was to be contracted before 1988 and no loans were to be obtained with repayment under 12 years except for IMF standby credits.

However, with debt service payments on commitments by the end of 1986 forecast to equal over US$100 million for the coming few years (representing a debt service ratio of 25-30 per cent) Niger was classified as "debt distressed" by the World Bank. In April 1988 the Paris Club agreed to reschedule payments on external debt over 20 years with 10 years' grace. In April and December 1988 the Paris Club rescheduled portions of Niger's external public debt although the amounts involved were relatively small. The second agreement was reached in accordance with a system of exceptional debt relief (agreed in principle at the Toronto summit of industrialized countries in June 1988) and offering three alternative methods of debt relief. In 1990 France plans to cancel all public debt owed by Niger following the announcement by President Mitterrand in May 1989 of debt relief for 35 of the world's poorest countries. Belgium is also expected to cancel debt owed by Niger in 1990 (US$ 6.1 million). Bilateral debt, accounting for about 50 per cent of public long term debt (US$ 1,286 in 1988), could be further reduced for instance under initiatives such as the Toronto Agreement. However, about a third of total external debt (US$ 1,742 in 1988) is owed to multilateral organizations and, as such, is currently not eligible for rescheduling.

## 2. The manufacturing sector.

As in most other African countries, manufacturing takes the form of processing of agricultural commodities and import substitution. It is of minor significance contributing only about 2 per cent of GDP although in 1987 it employed 3,903 people, about three times the 1975 level. Details of individual subsectors and industries are not readily available.

Food processing currently includes one groundnut oil extraction plant. Two plants were closed in 1985 owing to the fall in domestic groundnut supplies.

There are several rice and flour mills. Import substitution has been stimulated by the high cost of transport. Current plans include the construction of a flour mill costing US$ 9.5 million with investment from International Finance Corporation (its first in Niger) and French and Arab finance, to produce 30,000 tons/year.

Other industries include canned vegetables, beer and soft drinks.

Textiles: In addition to several cotton ginneries, there is a textile mill with annual capacity of 1,600 tons/year. The European Investment Bank and France are funding the modernization of textile plant.

Other activities serving the very limited local market consist of light industries such as tanneries, soap, plastic goods, metal goods, farm equipment and construction materials.

Cement: There is a cement works with an annual capacity of 35,000 tons/year. The government also plans to build a cement plant, costing US$58 million, supported by concessional funds from Japan, with an annual capacity of 300,000 tons although this may be scaled down to about half its capacity. The development of these projects has been suspended as part of the overall austerity programme agreed with the IMF and the World Bank in 1985. Under the same programme the government is to restructure and transfer to private ownership many of the parastatal organizations which operate the main industrial establishments.

3. Obstacles to production.

In common with other developing countries, Niger faces problems such as:

. narrow domestic market;

. competition from imports from neighbouring countries (notably Nigeria),

. shortages of qualified manpower and personnel in key agencies for industrial development.

This last has resulted in the formation in the past of unrealistic policies and projects.

Additional obstacles to Niger are that it is land-locked and is vulnerable to frequent droughts. Foreign exchange availability depends largely on the world price of uranium).

4. Policies directed towards the manufacturing sector.

The 1987-91 Plan, which reflects the adjustment recommendations of the World Bank and the IMF, aims to streamline government, ease the burden of state supported and parastatal agencies and industries through privatization and to reduce the heavy debt burden while maintaining internal economic

development. In addition to food self sufficiency and efforts to combat desertification, priority projects in the plan emphasise protection of the manufacturing sector, diversification of mining, control of informal commerce and greater reliance on external infrastructure for energy needs.

Specific objectives for the industrial sector include improved technical and management training, liberalization of pricing policies and simplification of the tax structure, restructuring of the system of import duties/protective tariffs, simplified adminstration procedures, stronger integration with the national resource base and improved linkages, identification of potential growth industries and restructuring/privatization of Government enterprises.

The revised Investment Code (which is not specifically aimed at industry) is expected to simplify the rules and procedures for foreign investment. Foreign investors are also to be given greater freedom in conducting their business. On the other hand, the expected reduction of tariff and non-tariff barriers implies that investors focusing on the domestic market must expect to meet competition from imports. Special incentives are to be made available to small-scale, labour-and domestic-resource-intensive enterprises as well as enterprises outside Niamey, currently the principal manufacturing centre. An important Government agency providing support to small- and medium-scale enterprises is the Office de Promotion de l'Enterprise Nigerienne (OPEN) which receives World Bank and UNIDO support to help it overcome financial and staff shortages.

5. The scope for rehabilitation.

The structural adjustment programme and more particularly the privatization plan, should offer scope for rehabilitation in areas such as training and advice on productivity, marketing, financing and the development of linkages with other sectors of the economy. Based on secondary information, immediate opportunities for rehabilitation at plant level are most likely to arise in the agro-based industries such as groundnut oil extraction and rice and flour milling, both improve self sufficiency on food and to provide employment. Projects could be dovetailed with support from other organizations such as the European Development Fund and the European Economic Community which are helping fund an irrigation scheme in the Niger river valley which is aimed at increasing food self sufficiency.

(For ongoing UNIDO projects please see Appendix.)

**NIGERIA**

I. General introduction

Oil has been the lynchpin of the economy since the late 1960s when Nigeria was transformed from an agriculturally based economy to a major oil exporter by the mid-1970s. Nigeria has the potential to be self-sufficient in food and to produce cash crops such as palm kernels, coffee, cotton, cocoa, rubber and groundnuts. Nigeria still ranks as one of the leading producers of rubber in Africa. Mineral resources include lignite and sub-bituminous coal, tin, iron ore, columbite, uranium (as yet unexploited), phosphates, limestone and marble.

Coal reserves are variously estimated to total between 270 million and 1,000 million tons. Proven oil reserves stand at around 16-17,000 million barrels, according to OPEC; it is expected that new exploration will increase known reserves to more than 20,000 million barrels, sufficient to give Nigeria another 30 years of production. The country's oil is of high quality, with a low sulphur content and light gravity (37 degree API in the case of Bonny Light). Proven natural gas reserves, estimated at over 2,400 million cubic metres are believed to be the largest in Africa.

Increased earnings from oil exports in the early 1970s boosted economic growth and during the third national Development Plan (1975-80) real GDP growth averaged 6-7 per cent while the level of public spending and private investment more than tripled. With the collapse in oil prices in the early 1980s, the government found itself financially over-extended with insufficient oil earnings to cover the growing import bill or to finance major development projects. Arrears in trade debt accumulated and cuts in imports especially of raw materials and spare parts resulted in a sharp fall in economic activity. A series of poor harvests, an overvalued currency and a widening budget deficit compounded the problem. During 1981-83 real GDP fell by 8.5 per cent and consumer prices rose by an annual average of over 20 per cent.

The Buhari government responded by implementing a range of severe austerity policies including further cuts in public expenditure, a reduction in credit and restrictions on foreign exchange availability. Real GDP continued to decline in 1984. When the Babangida military government took power in 1985 it rejected assistance from the IMF and continued its predecesor's policies. Although manufacturing was hindered by lack of essential imports, the rescheduling of debts and an increase in oil revenues helped ease the balance of payments until world oil prices slumped again in 1986. In an attempt to win the confidence of the IMF as well as government and commercial creditors, a 2-year structural adjustment programme (SAP) was launched aimed at expanding non-oil exports, reducing imports of goods that could be manufactured locally, achieving self-sufficiency in food and increasing the role of the private sector.

The country's economic difficulties were compounded by the build-up of sizeable trade arrears especially between 1981 and 1983, and the bunching of principal repayments on medium and long term debt in the mid to late 1980s. While the servicing of medium and long term debts was not interrupted until 1986, rescheduling had by then become imperative if unilateral default was to be avoided. Matters were complicated by Nigeria's reluctance to accept an IMF loan package, the normal prerequisite for rescheduling by the Paris and London Clubs of creditors. Agreement on debt rescheduling were finally reached by the

end of 1986 after arrangements were made for IMF "enhanced surveillance" without (for domestic political reasons) the drawing down of an IMF loan. The debt rescheduling operations covered the period to the end of 1987, and were followed by negotiations to reschedule maturities due in 1988-90.

IMF approval of a 14-month stand-by arrangement in February 1989 triggered agreement in principle in March on the rescheduling of debt owed to foreign governments belonging to the Paris Club. The rescheduling agreement which came into effect in June covered US$ 5,500 million over 15/20 years with 3 years' grace and included a menu of options allowing conversion to naira obligations. A rescheduling of debt owed to commercial banks (The London Club) was also agreed in June 1989. Following widespread public unrest over the austerity of the SAP the government announced in June 1989 a series of relief measures under which 62,000 new jobs were to be created and agricultural production was to be boosted.

At Nigeria's first-ever World Bank Consultative Group meeting in Paris in early November, international donors promised concessionary finance of at least US$600 million for 1990 in support of Nigeria's structural adjustment programme (SAP). The government says that debt servicing commitments in 1990 are US$5,410 million; it hopes to obtain further relief from the Paris Club of official creditors in early 1990 and to take advantage of debt reduction options agreed for poorer countries at the Toronto Summit in 1988.

2. The manufacturing sector

Investment in manufacturing has been considerable since independence. Until the 1980s the emphasis was on import substitution, final assembly and secondary processing. Since 1984 federal government policy has been to encourage manufacturers to invest in developing local substitutes for raw materials. Manufacturing still accounts for under 10 per cent of GDP and textiles, beverages, cigarettes, soaps and detergents together account for about 60 per cent of local manufacturing output. The other main manufacturing activities are foodstuffs, vegetable oil processing, shoes, cement flour milling, vehicle and spare parts assembly, tyres, paper and packaging, electrical goods assembly, glassmaking, fertilizers, steel rolling and products and pharmaceuticals.

Refining capacity following the coming on stream of another refinery in March 1989 near Port Harcourt is 445,000 barrels/day. The government aims to meet domestic demand, estimated at 250,000 tons/year, and to provide a further 250,000 tons for export. Refineries in the past have faced technical problems, resulting in periodic shutdowns. Their rate of capacity utilization fell from 74 per cent in 1983 to only 42 per cent in 1987. Efforts to rehabilitate and expand capacity were boosted by the completion of the new Port Harcourt refinery which will have a processing capacity of about 150,000 b/d and be the largest in sub-Saharan Africa.

Gas: In 1988 the government announced the construction of a liquefied petroleum gas (LPG) plant at Kaduna with an annual capacity of 10,000 tons by 1992 to reduce the use of wood for fuel.

The government hopes to set up a liquefied natural gas (LNG) industry at Bonny, Rivers state, to use both associated and non associated gas in the south east. A planned LNG export scheme has failed to get off the ground, although it came close to realization in 1980-81 before the appointed operator suddenly withdrew. THe NNPC has since reached agreement with Shell, Agip and

Elf (in a 60:20:10:10 equity sharing arrangement) for preliminary investigations on the development of a smaller US$2,000 million project, to which additional units could eventually be added. When completed, the project will improve the level of utilization of the natural gas that is now being flared. Scheduled to come on stream in 1995, the project will also require a pipeline to transport gas from Shell, Elf and Agip fields in eastern Nigeria to the plant.

Development of an integrated petrochemicals industry has been a priority with successive governments and several processing units, constructed at the Warri and Kaduna refineries in 1987, will use feedstock from the refineries to produce benzene, carbon black and polypropylene. Plans for larger complex at Alesa-Eeme costing US$2,000 million were delayed. By early 1988 bidding and evaluation for most sections had been finished and annual output of the complex is projected at 330,000 tons of ethylene, 90,000 tons of propylene, 250,000 tons of polyentylene and 80,000 tons of polypropylene. The project is due to be finished in 1990 and will make Nigeria self-sufficient in raw plastics.

Another major industry under development at Onne is the nitrogenous fertilizer plant of the National Fertilizer Corporation of Nigeria (Nafcon). A joint venture of the government and the M W Kellogg company of the USA, the plant became fully operational in August 1987 and will generate savings of up to US$100 million/year on fertilizer imports. At full capacity, it will produce 400,000 tons/year of urea and 300,000 tons/year of compound fertilizer.

Metal industries: There are two tin smelters in operation, with a combined capacity in excess of current ore production.

An iron-ore beneficiation plant, being constructed at Itakpe, will eventually process 5 million tons of iron ore into 2.15 million tons of 55 per cent Fe ore for the Ajaokuta steel complex, under construction by Soviet, French and West German companies since 1980. Over 80 per cent of the first phase of construction was completed by the end of 1987. The second phase of the complex is expected to begin operations in the first quarter of 1992. There are ambitious long term plans to raise capacity to 5.3 million tons, making Nigeria one of the largest steel producers in the Third World.

The Associated Ores Mining Company (AOMC) at Itakpe, in ore mining since 1980, is to supply the raw materials for Nigeria's steel industry. The Delta Steel Company currently uses imports of Liberian and Brazilian iron ore for its direct reduction plant at Aladja, Bendelstate, and steel billets from Western Europe for its three inland rolling mills at Jos, Oshogbo and Katsina. The plant has recently been operating at only about one fifth of its capacity of 1 million tons/year because of shortages of imported iron ore and continued power cuts, a problem that should be resolved by the expansion of generating capacity at Ughelli.

Rubber industries: Benefits from replanting have yet to materialize and local demand from the tyre and footwear industries continues to exceed supply, estimated at 70,000 tons in 1987.

Nearly all the large concerns have the maximum level of foreign equity that was permitted before the revision of the Nigerian Enterprises Promotion Decree in January 1989, in most cases 40 or 60 per cent. Foreign interests are represented in such major companies as UAC of Nigeria, West African Portland Cement (Blue Circle), Peugeot Automobile Nigeria, Volkswagen of

Nigeria, Chemical and Allied Products (ICI), Metal Box, Dunlop, Michelin, John Holt (Lonrho), SCOA Nigeria, CFAO Nigeria, the Leventis and Mandilias groups, and PZ Industries. Many Lebanese, Pakistani and Indian trading houses have small manufacturing interests in addition to their trading presence. The largest foreign investments are from the UK and France. As payment problems deterioriated after 1982, the willingness of foreign shareholders to provide operational support or new investment in Nigerian operations declined, although disinvestment has been limited. Prospects are more favourable in the longer term following the recent debt conversion programme and revisions to the indigenization laws.

Trends: Manufacturers have been forced to rationalize product lines and methods of operation and to shift to local sources of supply based in many cases on agriculture. In 1985 the federal government set out the following five targets for minimum levels of local raw materials sourcing: soft drinks and breweries 100 per cent; agro-food industries 80 per cent; agricultural processing industries 70 per cent; machine tools 50 per cent; and chemicals 60 per cent. Many companies lack the necessary economies of scale to warrant the ventures they are undertaking. Technical demands are also difficult and in most cases there is still inadequate research into Nigerian substitutes. Heavy production costs also tend to make locally sourced materials more expensive than imported counterparts.

3. Obstacles to production

Efforts to stimulate industrial development in the 1970s resulted in costly projects which drained resources and proved ill-suited to the needs of the country. Many of them could only function behind extensive protective barriers. Infrastructure and linkages within manufacturing and with other sectors of the economy were neglected. Other obstacles to expansion include unrealistic and inflexible industrial pricing policies, complicated industrial investment procedures and, until its abolition in 1986, import licensing.

In common with many other African countries, Nigeria also suffers from a shortage of skilled manpower and of foreign exchange. The devaluation of the naira in making imports more expensive has exacerbated the problem. About 60 per cent of all raw materials used by local industry are imported; the car assembly plants depend on imports for about 95 per cent of their inputs.

The domestic market, although potentially one of Africa's largest, has narrowed owing to overall economic decline and austerity measures of recent years.

4. Policies directed towards the manufacturing sector

The Ministry of Commerce and Industry which is responsible for policy formulation has received UNIDO assistance in drawing up policies and programmes.

The launch of a new plan for the 1988-92 period was originally deferred due to the economic crisis and in mid-1986 the government unveiled a 2-year Sap (see under 1). The 1986-88 Plan, in addition to encouraging local

manufacture of raw materials, included the abolition of import licenses and a reduction in import duties as well as the creation of two exchange rates: one for foreign debt servicing and other specified outgoings and the other for commercial transactions determined by means of auctions of available foreign exchange. The Fourth National Development Plan (1981-85) had emphasised rapid manufacturing growth combined with expansion in agriculture and infrastructure.

The 5-year plan has now been abandoned in favour of a 12-15 year plan to be complemented by interim 3-year rolling plans. The first of these is due to be launched in 1990.

In 1988 the government issued a list of 96 state entreprises to be privatized or partially commercialized and a special technical committee was formed to carry out the privatization programme. Textile firms, breweries and agro-industrial groups are among the 49 companies in which the state will sell its entire equity interest. The national oil company (NNPC) heads the category of nine companies for full commercialization. A further 18 companies (including the Ajaokuta Steel Company and Delta Steel Company) will be partly commercialized.

The Nigerian Raw Material Research and Development Council attended the November 1989 Lagos International Trade Fair for the first time in order to promote the idea that the commodity needs of most Nigerian entreprises could be met locally. The council signed twenty raw material contracts with manufacturers, mainly in the agriculture and mining sectors. The council was set up in 1987 to stimulate local sourcing of raw materials.

Also at the November 1989 fair the president announced an 'exporter of the year' competition and certificates of merit to manufacturers or exporters of manufactured goods. The government is also increasing its efforts to attract investors by simplifying land acquisition. The controversial Land Use Decree of 1978 is being reviewed to make it easier for investors to acquire land for agricultural and industrial ventures.

5. The scope for rehabilitation

The scope for rehabilitation exists within the framework of overall structural adjustment to create incentives for efficient production and to generate greater linkages between the different sectors of the economy. Within the manufacturing sector most of the existing capital stock which was acquired during the 1970s needs replacing and production facilities need restructuring to use locally available raw materials. Candidate industries are likely to be those which will not only supply the domestic market but would also be competitive overseas.

(For ongoing UNIDO projects, please see Appendix.)

**RWANDA**

Landlocked Rwanda has limited natural resources and is one of the twenty poorest countries in terms of per capita Gross Domestic Product (US$ 199 in 1988 measured in 1980 prices). Mineral resources are not significant apart from cassiterite, reserves of which are estimated at 90,000 tons and natural methane gas estimated at 50,000 mn m3. The industrial and services sectors were negligible at independence and although they increased during the 1970s in response to overall economic expansion, further growth is limited by a small domestic and regional market.

The government is pragmatic enough to realise that the economy will remain predominantly agricultural and that reduction of the subsistence sector will be slow. The main cash crops are coffee, a high quality Arabica, followed by tea, pyrethrum and quinquina bark. Development of cash crops and of commercial agriculture has been constrained by a shortage of land suitable for cultivation, by Rwanda's coffee quota under the International Coffee Organization (ICO) and by the necessarily low level of public spending. Owing to high population densities on arable land, the government has aimed to increase economic growth and reduce food imports through higher agricultural yields and gradually rising investment with the help of aid donors. Following the fall in coffee prices in 1987, a united programme of privatization was announced in June 1988 including the sale of state equity in three companies in the services and industry sectors.

Rwanda has a mixed economy, with a low level of government intervention and a generally favourable foreign investment climate despite recent indications that the government is seeking to curb the influence of the foreign business community. Activities outside the agricultural sector before independence were largely Belgian-owned. The government has since taken a strategic shareholding in the mining sector and has recently developed a policy to increase Ruwandan ownership and influence in the economy. In addition to improving agricultural output and encouraging public sector manufacturing (see below), economic priorities include the improvement of import management, export promotion and transport and the reduction of public expenditure and external debt.

The trade balance as shown in the balance of payments accounts remained persistently in deficit during the 1980s. A downward readjustment of the fixed exchange rate with the SDR would do much to correct the imbalance although this option seems to have been rejected. Coffee will remain the principal export earner in the medium term. Although tin prices have improved, production is low and the prospects for increased foreign exchange earnings from tea are poor. The government aims to reduce the trade deficit by increasing import substitution. Although the current account deficit narrowed in 1988 to US$ 119 million following 3 years of steady deterioration, it has not been in surplus since 1979. The structural outflow on services owing to high transport costs has persistently more than offset rises in official transfers.

Largely as a result of concessional loans, particularly from Belgium and W Germany, China and the World Bank debt servicing is manageable by comparison with many other African countries. Rwanda has not had recourse to IMF facilities since 1972 and short term debt remains low. However, at end 1989 the government proposed a series of austerity measures to combat the decline

in Gross National Product (by 6.3 per cent in 1989 and 3.4 per cent in 1988) caused by falling world coffee prices.

2. The manufacturing sector

The manufacturing sector is still small representing only about 5 per cent of GDP and consisting mainly of import substitution industries based on agriculture. There is little evidence of structural change over the past two decades. Information on individual subsectors and industries is not readily available.

Agro-based industries: The largest agro-industrial company in terms of turnover is the brewery, Bralirwa owned by the Dutch brewing firm, Heineken. The plant also produces lemonade. In 1988 the Societe de Boissons et Limonades au Rwanda (Sobilirwa) commissioned a plant to produce 96,000 bottles/day of Pepsi Cola.

The largest company to emerge since independence is Rwandex, owned 51 per cent by the government and 49 per cent by private expatriate interests; it has the controlling position in the key coffee industry in addition to stakes in the insurance company, Sonarwa, supermarkets, Air Rwanda and agricultural tools manufacture.

The state-owned company, Opyrwa, has signed an agreement with UK Mitchell Cotts group to establish facilities for the processing of pyrethrum flowers which offers the prospect of high value added. A sharp fall in market prices has brought financial difficulties to the company.

Rwakina, set up with French support to transform quinquina bark into quinine sulphates went into liquidation in December 1986. Canadian and Dutch companies have expressed interest in relaunching the factory. Quinquina - a tree bark used to make quinine - is grown on 700 hectares, mainly in the southwest Cyangugu region.

A joint venture with Libya, Societe Mixte Rwando-Libyenne pour le Developpement & la Commercialisation des Produits Agricoles & d'Elevage (Sodeparal) plans to build a tea factory and expand tea plantations with Libyan commercial bank funding.

A match factory was opened in 1981 as a joint venture between the government and Swedish interests. investment was to raise production to 150 mn boxes/year in 1989.

A textile mill is currently being planned.

Other agro-industries include a dairy and sugar refining.
Non-agro-based industry includes the iron products manufacturer Tolirwa.
A subsidiary of UK's Anglo-Indonesian Trust, has built a factory at Kigali for the manufacture of agricultural tools.

A Chinese financed cement factory at Cyangugu, has been helped by the ban on imports since March 1985.

With European Community funding a pilot project is underway for the construction of two plants to produce gas.

Foreign ownership is widespread but many companies have traditionally manufactured in Zaire and exported from there to Rwanda and Burundi. Planned entreprises are expected to help reduce dependence on Zaire.

To increase manufacturing output and create jobs, the trend has been to promote small and medium sized entreprises (SMEs). The government has identified wood products and meat, cereal, fruit and vegetable processing as priorities. There is also potential for developing fish processing and ore concentration and smelting.

The UNDP approved US$ 700,000 grant in April 1989 towards setting up a support service for projects carried out by the Ministry of Industry and Crafts. The European Investment Bank is helping finance small and medium sized entreprises in industrial, mining and services sectors. The World Bank and other donors are providing support for agricultural development projects and to improve agricultural services.

Exports (covering only about 50 per cent of the cost of imported goods) consist of coffee (90 per cent) and other agricultural commodities - apart from tin ore which undergoes rudimentary processing. Rwanda imports almost all industrial inputs and equipment. A devaluation of the currency and the introduction of several tariff reductions, agreed in principle by the Referential Trade Area for Eastern and Southern Africa (PTA), is expected to stimulate exports to the region.

3. Obstacles to production

Growth, particularly in larger scale industries is limited by the small domestic market which itself is a small proportion of Rwanda's small population most of whom are employed outside the monetary economy. Landlocked, Rwanda has been regularly vulnerable to external disruption of trade routes. This was highlighted most recently in December 1987 when sporadic fighting broke out between Kenya and Uganda. In that Rwanda's roads are bad and extend over 1,500 km to ports on the Indian Ocean, transport costs are high. Production is also affected by an irregular supply of electricity and a shortage of skilled manpower and foreign exchange for importing raw materials.

Secondary information suggests that some import-substitution industries are heavily protected from competition, are not economically viable and depend on costly imported inputs and equipment. As in other African countries planning of these entreprises did not always fully take into account domestic resource costs, economies of scale and product quality.

4. Policies directed towards manufacturing

The Ministry of Mining, Industry and Artisanat is responsible for policy formulation and projects for industry which are generally established within the context of 5-year plans.

The government established several public companies under the 1977-82 Plan in an attempt to make industry the main engine of economic growth. Most of the entreprises were large-scale. Their problems (outlined under 3) were

compounded by political intervention in management and by the absence of project monitoring mechanisms.

Rwanda has an <u>investment code</u> that is generous to investors. Normally the government only expects a shareholding in the case of strategic industries. New businesses are guaranteed a five-year exception from corporation tax (50 per cent) and may be granted an exemption on the import of raw materials. The repatriation of dividends to overseas shareholders is allowed although the remittance may be in instalments on account of a shortage of foreign exchange. A <u>Special Guarantee Fund</u> is available for small-scale entreprises although it is not clear to what extent the Fund caters especially for manufacturing. To increase the effectiveness of the funds, eligibility criteria are to be clarified and simplified.

The government introduced a <u>Programme de relance</u> in 1985 to improve the performance of manufacturing. To improve the efficiency of public entreprises, an overhaul of the industrial incentives system was planned with the World Bank including a gradual reduction in protection, improved monitoring of projects, greater management autonomy, improved planning of future investment and a full reappraisal of public sector entreprises and their role in the economy.

The <u>Centrale Comptable et Organization (CCO)</u> was established in 1984 to improve accounting procedures and budget information on public sector companies.

The government, with UNIDO help, introduced a project in 1985-87 to identify and initiate new industrial projects, formulating industrialization strategies and improving the industrial environment.

5. The scope for rehabilitation

In the absence of reliable data it is difficult to establish the precise need for rehabilitation at the sectoral, branch and plant level. Available information on public entreprises suggests that the milk processing plant may not be viable in view of the limited size of the market, inconsistent quality of its product and competition from neighbouring countries.

There is some potential for rehabilitating the sugar plant in order to reduce sugar imports, if problems of insufficient cane supply and overstaffing are solved.

There is also scope for rehabilitating the pyrethrum plant which is believed to suffer inter alia from technical problems and competition on the international market.

UNIDO has been involved since 1985 in a US$ 27,300 project to rehabilitate a <u>small-scale ornamental stone quarry</u> which is believed to have both a good resource base and market potential. Rehabilitation included the acquisition of good quality second-hand machinery in Europe to minimise investment needs in addition to improving the range, quality and marketing of the products.

(For ongoing UNIDO projects, please see Appendix.)

## SAO TOME AND PRINCIPE

1. General introduction

The economy is based almost entirely on agriculture particularly cocoa which accounts for over 90 per cent of export earnings. There are no known mineral resources, the manufacturing sector is very small and the island's tourism potential is only just being developed. Fishing resources are modest but artisanal fishermen cover the needs of the local market. With the decline in agriculture, public administration has emerged as the second biggest contributor to GDP. Sao Tome and Principe depend for oil supplies on Angola which maintains a considerable military presence on the islands.

Economic growth has been hindered by an overvalued currency, the limited domestic market, the islands' isolation owing to inadequate air and maritime links, the shortage of skilled manpower and the mismanagement of the state farm sector and other publicly owned enterprises. Low absorptive capacity in terms of project preparation and execution has militated against mobilizing foreign aid.

The country has suffered several disruptive developments since independence which have adversely affected economic performance. The first was the mass departure at independence of the Portuguese and many Sao Tomense elite and Cape Verdean labourers. This led to not only a drain in skills but also a breakdown in discipline. Cocoa output declined and, despite some progress in reorganising and reviving production, it was set back further by the collapse in world market world prices. This sent the economy into a downward spiral from which it has still not escaped. The extreme shortage of foreign exchange further compounded the problems of the cocoa plantations by limiting imports of vital inputs and food for the plantation work force.

Economic policy at independence in 1975 centred on nationalization which brought over 80 per cent of cultivated land into state ownership. Public investment in food crop and livestock development was channelled through state farms and a state trading company, Ecomex, had monopoly trading rights for most imports and exports. Wholesale trade was monopolized by another state company, Ecomin. The government spoke of diversifying the economy to reduce imports of food, in particular, while rehabilitating the cocoa industry. Major rehabilitation projects began in 1986 with funding from international aid, but dependence on cocoa has increased and, with pessimism as to the future of cocoa, there are belated attempts at diversifying cash crop exports.

In early 1985 the government reappraised its economic strategy and began a series of radical reforms designed to liberalize the economy, attract foreign investors and increase aid flows. Ecomex's import monopoly was restricted and in 1988 agricultural entreprises were authorised to sell their products abroad. Wholesale monopoly was also curbed and in March 1986 the government withdrew from retail trading by deciding to leave the 'people's shops' to private traders. In agriculture more assistance was provided to family farmers and foreign companies were invited to run plantations on management contracts. However, the government has steadily refused to relinquish the ultimate ownership of land and foreign management of former state farms has been limited to a minority of the fifteen agricultural entreprises.

Negotiations with the IMF and bilateral creditors were delayed owing to disagreement over devaluation, subsidies and the budget deficit, in particular. Although devaluations since 1987 have narrowed the difference between official and parallel rates and price subsidies have almost disappeared, the government feared that reducing the budget deficit would involve sacking a fifth of the its employees.

Most external debt is on concessional terms and rescheduling with East Germany in 1985, Portugal in 1986 and 1989 and the USSR in 1987 has eased the debt service burden. A major restructuring of external debt was approved in principle at a donors' roundtable in Geneva in March 1989 and after protracted negotiations, the IMF approved a 3-year structural adjustment facility (saf) in June 1989.

2. The manufacturing sector

Manufacturing accounts for only about 5 per cent of GDP, is centred mainly around the capital and is limited to a few small factories involved in food processing such as beer, spirits, soft drinks, bread, palm oil; timber processing (sawn wood and furniture) and other light industrial activities (bricks, ceramics, soap, textiles). In the long run manufacturing of textiles for export to regional markets could play an increasing role in the economic diversification strategy.

The expansion of private manufacturing took a step forward when Industria Pro-Africa SARL, a joint Portuguese and Sao Tomense venture produced its first gin, based on the distillation of sugar cane. A West German chemist has been employed to set up the small factory and he intends to expand production to other alcoholic beverages and alcohol for medicinal purposes. Essentially import substituting at this stage, the company hopes to be competitive in the regional market. One hopeful sign is the careful use of appopriate technology, easy to maintain with local skills and cheap to operate.

Manufacturing output since 1988 has benefitted from an improvement in the supply of electricity for which the World Bank provided finance.

In June 1989 the government reported that the small garments and soap industries had resumed production in 1988 after being paralysed in 1987 for reasons not specified. Beer output increased but the production of soft drinks fell.

The UK's VSO organization has been running an experimental unit for the production of salt with solar energy; there are hopes of EC funding for commercial production.

Projects for fertilizers, animal feed, sugar cane by-products and artisanal production of bamboo and straw objects are in the pipeline, the latter with Chinese assistance. Cocoa fermenting, drying and grading could become an important industry.

Fish processing is potentially a leading industry. A state-owned industrial fishing company, Empesca, was set up at independence to exploit fish resources off the coast of Angola. It had two trawlers with on-board freezing facilities and cold store intallations. Managerial and financial

problems led to the formation of a new state company in 1988, Sopec, in which Empesca has 49 per cent and the Greek group Zourikadis 51 per cent. In 1989 the government was threatening to rescind the contract with the Greek company because of delays in refitting the two boats.

In the longer term the government hopes to exploit the tuna resources off the Gulf of Guinea. It estimates that the potential viable tuna catch could be 17,000 tons/year within the island's Exclusive Economic Zone (EEZ). The EC is financing research into the shellfish resources of the country. So far tuna has been caught under licence in the EEZ by Spanish, Soviet and EC vessels. The European Development Fund is financing a regional Gulf of Guinea fishing programme including the building and repair of fishing vessels in the Neves shipyard.

3. Obstacles to production

In addition to problems inherent in overall economic development, the islands suffer from lack of infrastructure, a small population and a weak administration which has led to delays in introducing projects. In common with other African countries, there is also a shortage of skilled manpower and a lack of foreign exchange to pay for necessary inputs and spare parts.

4. Policies directed towards manufacturing

In May 1989 the government authorised the creation of free trade zones. The exemption from taxes and tariffs will be applied to industrial, service and commercial undertakings. The zones, the number of which is not limited, will operate either under a government agency or under an autonomous body accepted by the government. No date has been set for the creation of the zones. The government is hopeful that any progress towards a true common market within the Communaute Economique des Etats de l'Afrique Centale (CEEAC) will improve the chances of success for this strategy.

The government promised end-1988 legislation by 1990 to promote the idea of Sao Tome being a potential provider of manufactures and services for the whole of equatorial Africa on an offshore basis.

The new investment code adopted in March 1986 reflects the government's liberalization programme.

5. The scope for rehabilitation

The potential for rehabilitation is constrained by the small size of the existing manufacturing base and the limited domestic sector. There should be scope for advisory and training assistance within the framework of overall economic restructuring. Apart from improving self-sufficiency in essentials such as food and revitalizing and expanding existing cocoa production, a major target for rehabilitation and expansion would seem to be fish processing.

(For ongoing UNIDO projects, please see Appendix.)

**SENEGAL**

1. General introduction

Since independence in 1960 Senegal has suffered from one of the lowest GDP growth rates of any African state not affected by war or civil strife. Living standards have fallen in towns as a result of the elimination of subsidies and rising public sector unempoyment and, in the countryside, due to successive droughts. In seeking to turn the economy round the government drew up with the World Bank a Medium and Long Term Economic and Financial Adjustment Programme (PAML) with the aim of restructuring the agricultural and industrial sectors by 1992. During the first phase (1985-87), reforms were largely successful in budget and public sector management, in public expenditure programmes and debt management, in industrial incentives and agricultural policies.

Services dominate the economy although about 80 per cent of the population is engaged in agriculture which is based mainly on groundnuts. Output has fluctuated partly as a result of droughts and partly because of marketing and pricing policies. The government is trying to reduce dependence on groundnuts by expanding cash and food crops particularly cotton, rice, sugar and market-garden produce. Senegal has important fish resources with total fish catch estimated at about 300,000 tons/year. Mineral resources include aluminium phosphate estimated at 100 million tons, calcium and aluminium phosphates estimated at about 80 million tons, high grade iron ore estimated at 330 million tons, marble, gold and oil estimated at about 55 million tons. The government adopted a new mining code in mid-1988 to encourage further exploitation of Senegal's mineral resources. Despite attempts to diversify, economic growth and foreign exchange earnings still depend on a few commodities: groundnut oil, phosphates, cotton and fish. In addition to recurring drought in the early 1980s, unfavourable world commodity prices, especially for groundnuts, and exchange rate movements militated against redressing internal and external imbalances.

Owing to another poor agricultural harvest, real GDP growth in 1988/89 was only 0.6 per cent but the rate of inflation declined and the overall external position improved. A new IMF loan was agreed in December 1989 in support of the second annual arrangement for 1989/90 under the enhanced structural adjustment facility (ESAF), the country's fourth structural adjustment package since 1979. This loan was expected to trigger US$50 million in soft loans from the World Bank and US$150 million in co-financing from bilateral donors. Senegal's medium term strategy continues to emphasise privatization and industrial rehabilitation as well as the restructuring of the banking system. Senegal is among the beneficiaries of debt reduction initiatives announced for the poorest debt distressed countries although Senegalese GNP per capita is generally over the qualifying threshold of US$425. Public debt owed to the French government is to be cancelled following the Mitterrand announcement in May 1989. Senegal was also one of the sixteen sub-Saharan African countries to benefit from a US$1,000 million US debt cancellation plan which came into effect in late 1989.

2. The manufacturing sector

Senegal has the most developed manufacturing sector in francophone west Africa after Côte d'Ivoire, with production accounting for about 17 per cent of GDP in 1987.

Around one-half of output, by value, comes from the food sector, with groundnut-oil extraction (annual capacity 920,000 tons) representing the major activity, while fish has grown in significance in recent years.

Import-substituting enterprises include soft drinks, refined sugar, milk products, cigarettes, canned fish and vegetables.

Fish processing: The catch of the Dakar tuna fleet consisting of 22 boats of which 6 are Senegalese was 10,315 tons in 1988, still down on 1985 record of 15,385. Landings are distributed on a quota basis between canneries:

- Societe Nouvelle de Conserverie du Senegal (SNCDS) with 32.5 per cent Senegalese interests. Canning capacity at Dakar is 25,000 tons; 1988 throughput was 6,438 tons. There are plans to open new faciltiees capable of canning 30,000 tons/year of sardines in tomato sauce.

- Societe Africaine des Industries et du Batiment (SAIB) with a canning capacity of 6,500 tons of tuna and 2,400 tons of sardine. Throughput in 1988 was 2,811 tons.

- Societe Africaine de Produits Alimentaires (Sapai) with a canning capacity of 8,000 tons and throughput in 1988 at only 1,566 tons. The main shareholder, France's Saupiquet, announced liquidation of the company in 1989 to concentrate on the Indian Ocean.

Senegal's textiles industry is the most important in black francophone Africa, with three cotton ginning mills and spinning, weaving, dyeing and printing plants. It is the only industry in the country in which all manufacturing stages (from cotton ginning to the production of garments) are represented. It accounts for about one-tenth of industrial output. Exports are expected to grow strongly following the coming into operation in early 1988 of the SOTEXKA integrated textile complex at Kaolack, scheduled to produce around 1,500 tons per year.

The chemical industry (soaps, paints, insecticides, plastics, pharmaceuticals and a petroleum refinery) is aimed at import substitution, as are nearly all the metalworking, engineering and electrical plants (including three shipyards, and truck and bicycle assembly plants). The petroleum refinery's annual capacity, raised to 1.2 million tons at the end of 1983 has provision for expansion to 1.4 million tons.

Industries Chimiques de Sénégal (ICS), Senegal's largest chemicals plant near Dakar, has plants to produce sulphuric acid (600,000 tons per year) phosphoric acid (249,000 tons), ammmonium phosphate (250,000 tons) and triple superphosphate (250,000 tons). Production started in 1984, with 180,000 tons of fertilizer output to be sold in Senegalese and Malian markets, and the rest to be exported, mainly to other west African markets. ICS is the single most important industrial project in Senegal, which has been funded by the ADB, the European Investment Bank (EIB), the International Finance Corporation, France and Arab agencies and has equity shares from the governments of Nigeria, Côte d'Ivoire and India. There were plans in 1989 to expand ICS to remove

bottlenecks in the production of phosphoric and sulphuric acid allowing capacity to be expanded at a relatively low cost.

At the Societe Senegalaise des Phosphates de Thiès (SSPT) output of aluminium phosphates was running at only 119,300 tons in 1988.

In line with the policy of development output for the domestic market, the annual capacity of the cement plant at Rufisque was expanded from 380,000 to 80,000 tons by the end of 1983.

Manufactured exports account for about 70 per cent of total exports and consist of groundnut products (oil, cakes), processed fish and phosphate products.

All manufactured products apart from some agricultural and non-metallic mineral products have to be imported.

3. Obstacles to production

Stagnation in production is attributable to a combination of factors including decreased agricultural production for raw materials; reduced markets both abroad and at home, a system of protection, lack of skilled manpower and inadequate physical infrastructure. In addition, Senegal has also suffered from lack of foreign exchange in common with other African countries.

4. Policies directed towards the manufacturing sector

Manufacturing has been protected by an extensive system of import restriction and tariffs in the past. Misapplication of the system has led to a highly unfavourable market position vis-a-vis imports and export subsidies have often encouraged the production of goods that are not internationally competitive.

The Ministere du Developpement Industriel et de L'Artisanat (MDIA) is responsible for industrial policy-making and implementation. In the past policies have stressed import substitution and manufactured exports for the region. To stimulate industrial development, the government also invested in large-scale projects in textiles, phosphate products, ship building and oil refining. With the assistance of UNIDO and other multinational organizations, five EPZs were established during the 1970s. The only major one is the Dakar EPZ. The establishment of a free trade zone (EFZ) at Dakar, offering tax incentives and low cost electricity, attracted few companies in its initial phase of operation.

In 1979 the government prepared a revised strategy for industrial development. Emphasis was to be given to the processing of domestically-produced raw materials, with output directed primarily at the home market, and to stimulating employment and regional development. There was to be increased emphasis on the indigenization both of ownership and of management and supervisory personnel.

The government's priorities were defined as the improvement of capacity utilization (which has been low because of inadequate domestic production of raw materials), the modernization of equipment and the encouragement of small scale cottage industry, which has a greater potential for job creation.

Under the 1985-92 Adjustment Programme, the government launched the New Industrial Policy (NIP) which aims to reduce government intervention, improve

competitiveness, stimulate export industries, encourage small and medium-sized entreprises. Specific targets for manufacturing include better resource allocation, the restructuring of production with emphasis on higher value-added products, the strengthening of industrial linkages and the promotion of industrial development in the more marginal areas.

NIP emphasised increased efficency by allowing greater play to market forces. Protective tariffs were to be lowered, labour laws and price controls were to be relaxed, and direct government participation was to be reduced; it was proposed to offer wholly or partly state-owned enterprises for private ownership or share(including the SOTEXKA textile mill) and partly to privatize a further 13 (including the Dakar-Marine ship-repair yard). A total of 30 companies, including the ICS chemical complex, were to remain under state control. By the late 1980's some progress had been made towards the implementation of tariff reforms; however, no state-owned companies had been transferred to private ownership.

In early 1989, a year after the loan agreement with the World Bank affiliate IDA, funds were made available to companies through a newly activated industrial restructuring fund. The fund takes the form of a credit line, administered by the BCEAO and distributed by local banks to companies undertaking modernization and restructuring. Detailed criteria are set out to ensure that the funds are used only to modernize potentially profitable enteprises and to assure full documentation to the administering authorities.

In mid-1989 the government announced as the second phase of duty reform aimed to correct distortions implicit in duty reductions under the economic restructuring programme in 1985 and 1987. The changes are designed to soften the impact on Senegalese industry of greater international competition Manufacturing has been under pressure from the reduction in tariff and quota protection within the IMF and World Bank supported structural adjustment programme(SAP). In agriculture, new ways are being sought to ensure that farmers have access to seed, fertiliser and equipment they need following the end of government sponsored credit and distribution programmes.

Senegal's privatization programme announced in 1989 that efforts would be focused on seven of the more worthwhile entreprises and that state shareholdings in at least three would be disposed of as soon as possible on an experimental basis. Of the seven only two are in manufacturing Societe Nouvelle des Salins du Sine-Saloum (SNSSS - salt manufacture) and Societe Berliet-Senegal (vehicle assembly). President Diouf has appointed his most senior minister in charge of other stages of the privatization.

5. The scope for rehabilitation

Based on a branch- and plant-level survey of the performance of manufacturing carried out by NIP,MDIA and the Ministry of Planning and Cooperation, the average level of capacity utilization during the first half of the 1980s was about 70 per cent; excluding the six largest companies, this was about 50 per cent. The problems were caused by declining labour productivity, plant obsolescence (textiles, chemicals), poor input quality (leather), poorly developed skills and techniques (building materials, leather), energy costs (textiles, leather, building materials), high prices of imported inputs (metal goods) and marketing problems (all branches).

These problems are often interlocking. In considering rehabilitating needs and potential the general industrial environment must also be taken into account including weak administration, foreign competition, inadequate agricultural input production. Under a World Bank industrial restructuring project 1988-90 technical assistance, investment training is to be provided. Apart from manufacturing, the project also aims to improve agriculture, transport and trade and to reorganize the incentives system.

There is scope for rehabilitation in all branches at the plant level particularly where this would improve interlinkages with the other sectors of the economy, provide employment opportunities and diversify the country's export earning capacity.

(For ongoing UNIDO projects, please see Appendix.)

**SEYCHELLES**

1. General introduction

The Seychelles archipelago ranks as upper middle income according to the World Bank. Dominated by tourism and activities related to it, the economy is highly import dependent. Mining is currently limited to salt, granite quarrying and guano collection. A preliminary survey in 1984 suggested that there are rich reserves of polymetallic modules on the seabed which could be commercially viable towards the end of the century as land based minerals become scarce. Fish resources are believed to be substantial. Despite limited land surface, there is scope for agricultural development and output has started to increase following the abolition of marketing and price controls in 1987. The two main cash crops are cinnamon and copra. Oil exploration is in progress.

Following the tourism boom the government borrowed heavily to fund several projects which later proved to be unproductive. The vulnerability of the economy became evident in the early 1980s when GDP declined in response to depressed tourist receipts following reports of various coup attempts. In an attempt to diversify away from reliance on tourism, the government created thirty parastatals during the mid-1980s including the Seychelles Marketing Board, one of the cornerstones of President Rene's socialist transformation.

The 1985-89 Plan had four aims: to reduce unemployment; to improve the balance of payments through self-sufficiency and tourism; to restore economic growth; and to increase exports. The parastatals had some success in reversing economic decline aided by a rise in tourism but the necessary external financing resulted in budget and balance of payment deficits by 1986. The second phase of government policy was to diversify away from dependence on tourism towards farming, fishing and manufacturing. The Plan also aimed at self-sufficancy in food especially in vegetables, animal feed and short cycle fruit. Exports of cinnamon were to be raised to 1,800 tons of dry bark by 1989 and the coconut industry was to be developed including the establishment of a desiccation plant.

The René government has changed its policies and become increasingly willing to increase private sector involvement (see also under 4). Real GDP expanded by an estimated 6 per cent in 1988. Growth prospects continue to be good, spurred mainly by tourism and fishing. The trade deficit, reaching a record SR 654 million in 1988, was only partially offset by earnings from tourism and was exacerbated by capital outflows mainly in the form of loan repayments. Foreign exchange reserves consequently fell and were only equivalent to about three weeks' imports. High debt servicing and a high dependence on food imports continue to be a drain on foreign exchange earnings.

2. The manufacturing sector

Manufacturing has grown steadily since the 1970s and contributes about 10 per cent of GDP. Agro-based industries dominate the sector. Copra and canned fish are the main products of the food processing subsector as well as being the country's leading exports after oil re-exports. Other activities include beer, soft drinks and cigarettes.

Fishing is the biggest potential growth area. A tuna-canning and fishmeal plant, Conserveries de l'Ocean Indien (COI), was established in June 1987 as a joint-venture with France. The plant was running at a third of its capacity of 8,000-10,000 tons in 1988. The government which has a controlling 70 per cent stake in COI hopes to boost capacity utilization. The Seychelles Fishing Authority (SFA) which registered a record catch of 221,000 tons of tuna by purse seiners in 1988 planned to launch its first industrial purse seiner by end-1989.

Other industries include textiles, paints and varnishes, television assembly and printing and publishing. Small units produce plastics, fibreglass, soap, detergents and furniture, mostly for the domestic market.

Apart from COI, information on ownership and size of entreprise is scant.

Information on the breakdown of manufactured exports and imports is not readily available.

3. Obstacles to production

The main obstacles to expansion in the sector have been the country's geographical isolation, the particularly small size of the local market, the lack of raw materials. In common with other African countries there is also a severe shortage of skilled manpower and foreign exchange.

4. Policies directed towards the manufacturing sector

In late 1988, following years of lobbying by the manufacturing sector, the government released a new industrial development policy paper outlining enhanced incentives for industry in manufacturing.

To stimulate industrialization, the government halved the tax on imports of industrial machinery and spare parts to 15 per cent in May 1989. All industrial concerns, irrespective of their size, are eligible.

The 1989-93 Industrial Development Policy is to be followed by an investment guide. No formal investment code is planned. The government acknowledges the importance of attracting private capital particularly in manufacturing, tourism and oil exploration but indicates that it will seek a major stake in bigger projects.

Following the June 1989 Presidential Elections the government delegated more power to individual ministers dealing with the different sectors of the economy. In July 1989 it established a new Consultative Committee on industrial policy representing both the public and private sectors.

The 1990-94 Development Plan, based on advice from private business, is expected to emphasise the role of the private sector and the need to modernize the existing productive sector and improve management skills.

5. The scope for rehabilitation

Secondary information suggests that there should be potential for rehabilitation in conjunction with overall economic policy changes. Opportunities are likely to arise in areas such as training, technical support and advice on incentives and improved resource allocation. At a plant level, however, the small size of the market and the nation's geographical isolation may limit the extent and range of projects. Priority industries are likely to be in food processing, based on the country's agricultural and fishing resources, with linkages to major sectors such as tourism.

(For ongoing UNIDO projects, please see Appendix.)

**SIERRA LEONE**

1. General introduction

In addition to subsistence agriculture which still supports a large part of the population, the economy depends on exports of diamonds, bauxite, gold and rutile in the mineral sector and cocoa, coffee and palm kernels in the agricultural sector. Fish reserves, particularly of prawns, are believed to be considerable. There are plans to raise diamond production by developing an underground kimberlite mine with an estimated potential annual yield of 250,000 carats. Sierra Leone is one of the few centres of production of rutile (titanium dioxide used in space technology and in non-stick frying pans) but currently accounts for only about 3 per cent of global output. Another bauxite mine is to be developed at Port Loko in the north together with an alumina plant. Reserves of mineral sands are estimated at 146 million tons; if projects currently under way succeed, production could start by 1991 at an annual capacity of 56,000 tons of rutile, 83,000 tons of ilmenite and 6,000 tons of zircon. Oil has not yet been found in Sierra Leonean waters but exploration continues.

Since independence in 1961 Sierra Leone has been plagued by political instability and the government has been unsuccessful in bringing the extensive 'parallel' economy under control. Mismanagement of state entreprises is common. Apart from the acute shortage in foreign exchange as a result of the fall in diamond exports, Dr Siaka Stevens' administration ran down foreign exchange reserves to provide infrastructure for an OAU summit in Freetown. The government borrowed heavily abroad to finance imports and capital projects. In 1976 the IMF intervened for the first time to finance a 3-year stabilization programme. In 1980 the government received a further IMF loan but by 1984 it disagreed with the Fund on issues including the repayment of previous loans, devaluation and the removal of subsidies from rice and fuel. The IMF broke off negotiations in February 1988 and the relations with the World Bank and other creditors became strained. Internally the government ran large budget deficits which were financed mainly by the banks and money creation. The large civil service continued to swell the wage bill, the biggest expenditure item. Vital infrastructure deteriorated. There were shortages of electricity and water.

Economic growth was one of the fastest in Africa between the 1950s and 1972, with rates averaging 7 per cent per annum, based as now on mining, especially diamonds. Economic growth began to slow after 1972 mainly as a result of world oil price increase and by 1985 the situation had deteriorated sharply causing recession in 1986-88. Real GDP growth in 1988 was only fractionally above its 1987 level with agricultural output almost unchanged and industrial production falling because of lower mining production. The only source of growth, albeit modest, was in the services sector.

In an attempt to revive the economy the government included in its 1988/89 budget tax incentives to stimulate what it called 'non-performing crops' such as palm kernels, kola nuts, piassava, ginger, cashewnuts, groundnuts and allowed exporters to retain all their foreign exchange earnings. The 1989/90 budget includes measures designed to boost production, curb the growth of government spending, increase official revenue and improve the atmosphere for re-establishing international credibility is aimed at recapturing the support of external creditors particularly the IMF. In January 1990 the government

devalued the leone and announced further measures to reduce the budget deficit.

However, the cautious attitude of foreign investors is unlikely to change until there is a serious attempt to clear external debt arrears. Arrears to the IMF alone are estimated at about US$70 mn and until these are cleared Sierra Leone is ineligible for new borrowing. The World Bank suspended operations in 1987. The trade balance moved into deficit in 1988 by about US$50 million (fob/cif) owing mainly to a sharp drop in both the volume and value of official diamond exports. The sharp devaluation in April 1989 was aimed at moving into line with IMF requirements and to avoid the appearance of making too many concessions at budget time. Assuming that the government will continue to follow IMF prescriptions, there are likely to be further devaluations, albeit more frequent and on a smaller scale. At end June 89 foreign exchange reserves were only US$7.7 million, sufficient to cover only about two weeks' imports. Meanwhile, external debt has continued to rise reaching over 232 per cent of exports in 1988. Sierra Leone hopes to benefit from debt relief such as France's proposal to write off public debt owed to 35 of the poorest African nations in early 1990.

2. The manufacturing sector

Improvement in infrastructure is expected to revive manufacturing which accounts for only about 6 per cent of GDP. Centred on import substitution since independence and based on a narrow range of products - beverages, beer, tobacco - it has been starved of investment and in recent years, of foreign exchange. Most firms are in light manufacturing, producing consumer goods for the domestic market, such as cigarettes, plastic footwear, small items of furniture, clothing and nails.

Large-scale plants are few. The brewery industry consists of only one plant and the food sector as a whole is dominated by about three plants. Although branch-level information is scant, the food industry is believed to be the most important .

China is providing a grant (US$3mn) towards the rehabilitation of the Magbas sugar complex at Tonkolili, originally built by the Chinese in 1974 to supply the local market. Machinery and equipment for the work will be purchased from China which still maintains a large team of advisers at the complex. The Magbas Sugar Industry is one of the 12 publicly owned companies listed for privatization. Its plantation complex covers about 1,230 ha and produces 60,000 tons/cae a year employing about 2,000.

The National Produce Company (Napco) is diversifying from coffee and cocoa to voacanga and oyster beans. The former is used in the manufacture of medicines for cardiac diseases and the latter in the cosmetic and paint industries. In addition, the company is planning to increase exports of cashew nuts, piassava and calabar beans. The 1989/90 budget includes assistance to boost exports of palm kernels, kola nuts, ginger, piassava, cashews and groundnuts by removing export taxes and providing relief on related imported inputs. This is especially welcome given the continued failure of the 'green revolution' launched in December 1986 to reduce persistent food shortages.

Sierra Leone's Atlantic coastline should be capable of supporting a substantial fishing industry, but development of the sector has so far been disappointing. The country's fish stocks have also been exploited by foreign vessels operating under licence, and by poachers. Sierra Leone has no effective navy and its territorial waters are difficult to police. In January 1988 the government passed a Fishing Management Development Act which gave it exclusive management control over the country's fishing zones but the lack of effective policing means that poaching continues unabated.

Public ownership is believed to play a minor role in the sector as a whole. Large public sector entreprises however dominate oil refining, metal working, non-metallic minerals, wood products and palm oil production. Despite the country's private enterprise orientation, much of Sierra Leonean participtation is via parastatals; there is also substantial Lebanese and some Indian ownership.

Manufacturing enterprises have few linkages with the rest of the economy. They depend heavily on imports of capital and semi-processed goods and have, consequently, been adversely affected by the acute shortage of foreign exchange, as well as the sharp increase in prices of imports. Most government-managed enterprises require subsidization which has led to pressure for their privatization which started in 1986 under the auspices of the IMF. Wholesale trade, historically dominated by Europeans, is now controlled by a small number of influential Lebanese (who are also prominent in retail trade) and Indians. Market and itinerant trading is carried out by Africans. In 1988 the government launched a long term programme to rehabilitate about 10,000 km of roads.

Manufactured exports are about 90 per cent iron ore concentrates. Manufactured imports dominate total imports; the sector is almost entirely import-dependent for spare parts, equipment and for most intermediate inputs.

3. Obstacles to production

Firms are forced to acquire foreign exchange in the parallel market at rates far above the official rates making locally manufactured goods more expensive than imports. With many machines idle owing to lack of spare parts, industry is operating at 25 per cent of capacity. Wholesaling and to some extent retailing (despite the 1969 Act which reserved this sector for Sierra Leoneans) also depend on imports and are largely in the hands of Lebanese who represent the only group of people with sizeable capital in hand in the country.

Sierra Leone suffers from a limited domestic market, lack of skilled manpower, and foreign exchange shortages which have constrained imports of essential inputs, new equipment and spare parts.

There are frequent power cuts and the institutional framework (policy-making, finance and industrial services) is insufficiently developed. In addition, public sector entreprises have had to cope with inflexible price control systems. Finally, low producer prices and transport problems have reduced the availability of agricultural inputs.

The Ministry of Industry and State Enterprises believes that a further obstacle has been the amalgamation of trade and industry under one ministry under the previous regime and the tendency of that ministry to place more emphasis on trade than on industry.

4. Policies directed towards manufacturing

In spite of the generous tax incentives provided by the Development Ordinance of 1960, the objective now is to move away from import-substitution and to attract foreign investment, preferably in joint ventures in agro-based industries. The Development of Industries Act of 1960, updated in 1983, offered capital repatriation guarantees and tax holidays to investors in the industrial sector as a whole. There is a range of incentives for export and resource based industries in particular, with additional bonuses for companies setting up outside Freetown. New investors are given surtax and income tax relief for up to five years, partial or total exemption from customs duties on capital equipment and new materials, and preferential access to import licences.

The government announced in 1989 that 12 publicly owned companies would be privatized including in the manufacturing sector: Forest Industries Corporation, Precious Mineral and Mining Company, Mining and General Services, Wellington Industries, National Petroleum, Magbas Sugar and Sierra Leone Oil refinery.

Sierra Leone's state entreprises (28 in total) contribute 12 per cent of GDP and provide employment for nearly 14,000. The government aims ultimately to withdraw from industry which it believes the private sector is better placed and better-equipped to run. Meanwhile efforts will be made to improve the efficiency of state entreprises.

The government is to set up a State Entreprise Promotion Commission which will be manned by experienced, proven people in the private sector; this will constitute the policy-making authority for all state entreprises in the country. Within it there will be a State Enterprise Monitoring Unit which will be staffed by experts in finance, management and engineering to monitor the performance of each state entreprise and formulate policies for approval by the Commission.

The Ministry of Trade and Industry is responsible for policy making and implementation. The 1983 Development of Industries Act provides the framework for current manufacturing programmes. The government's objectives for the sector are to stimulate growth, provide a guarantee of protection of foreign investments and repatriation of profits. The Minister of Industry hopes that a certain percentage of foreign exchange earned will be set aside specifically for industry.

5. The scope for rehabilitation

There is substantial scope for rehabilitation in conjunction with the government's continued economic reforms in general and in its privatization plan in particular. Opportunities will arise in areas such as training, technical support and advice on productivity, marketing, management and financing. Apart from the companies listed for privatization (see under 4), secondary information suggests that there is potential for rehabilitation at plant level in most industries involved in or linked with food processing such as the jute bag factory and the palm oil milling industry.

(For ongoing UNIDO projects, please see Appendix.)

## SOMALIA

1. General introduction

Somalia has many minerals, in trace at least, but they have so far been neither quantified nor qualified. During the 1979-81 development plan, deposits of manganese, copper, lead, zinc, gold, zircon, coal, kyanite and uranium were found. Non-metalic minerals include sizeable deposits of almost pure limestone (see cement below), iron and glass sands. Work has begun on uranium development and the operations of a pilot plant at Dusa Mareb are promising according to the Ministry of Planning. Other uranium deposits were found to the west of Mogadishu in the early 1970s.

The civilian governments of Somalia's first nine years of independence presided over a series of economic development plans and managed to attract substantial inflows of aid, mainly from Italy, the USA and the USSR. The main economic activity continues to be nomadic stock rearing although exports of bananas continued to rise for several years after independence. Infrastructural building started during this period included the building of roads and ports at Berberca and Chisimaio, new schools and a hospital at Mogadishu.

The military government in 1969 changed economic direction creating a substantial state sector. The drought of 1974-75 delayed the 1974-78 Plan and the war with Ethiopia in 1977-78 was followed by further droughts in 1979-80, 1982-83 and 1986-87. Real GDP which had fluctuated during the 1970s fell by an annual average of 3 per cent between 1978 and 1980 and substantial deficits on budget and balance of payments resulted in sharp rises in external debt.

In 1981 the government embarked on an IMF supported stabilization programme but the economy was plunged into crisis again in 1984 owing to renewed drought and the imposition of a ban on Somali livestock by Saudi Arabia. The government decided not to implement further stabilization measures, refusing another devaluation, price controls or financial restraint.

By 1985 the government was forced back into a major adjustment programme under a new IMF standby which was designed to reduce the deficit on the budget and the current account while stimulating the economy through controlling demand and allocation of resources. The standby was abandoned in September 1986 mainly because of arrears to the Fund on previous borrowing.

An IMF structural adjustment facility (SAF) was agreed in June 1987 for 3 years triggering a World Bank sponsored donors' meeting and a rescheduling of external debt owed to the Paris Club of government creditors. A priority investment programme aimed at real annual GDP growth of 4.7 per cent in 1987-89 with a fall in the inflation rate to under 10 per cent by end 1989 and emphasis on rehabilitation of transport and communications as well as agriculture. Development of manufacturing was to be left largely to the private sector. By September 1987 Somalia had broken away from classic IMF policies when, in addition to abandoning foreign exchange auctions, it restored price controls and pledged to cut back on new borrowing, shelving most of the aid packages promised by donors and consequently jeopardising the investment programme.

Relations with the IMF were resumed in 1988 ending in agreement on an interim programme for July-December 1988. The World Bank and the IMF endorsed in 1989 a policy framework paper outlining the government's medium term economic programme. By October 1989 the government was seeking to clear arrears with the IMF with the help of a special programme of assistance by donors.

## 2. The manufacturing sector

The manufacturing sector is small and has been hard hit by economic decline during recent years contributing only about 5 per cent of GDP towards the end of the 1980s compared with 8 per cent in 1980.

Food processing and beverages, remains the most important branch. The most important manufactures are sugar, with output rising to 42,000 tons in 1987 compared with 30,000 tons in 1986) and pasta and flour products (4,300 tons in 1987 down from 10,000 tons in 1986 ). There is a milk factory at Mogadishu.

Other activities in which output has declined include textiles (3.2 million yards in 1987 compared with 11.1 million yards in 1986), boxes and bags (8,000 tons in 1987 compared with 15,000 tons in 1986) and oil refining (114,000 tons in 1987 compared with 131,000 tons in 1986).

In addition to the Badhera cement plant, the Cement factory at Berbera has an annual capacity of 200,000 tons and is supplied by Somalia's almost pure limestone deposits. A nearby gypsum plant with an annual capacity of 1,620 tons of calcined gypsum is located close to gypsum and anhydrite reserves estimated at 7 million tons.

The public sector accounts for about 80 per cent of gross output and provides about 95 per cent of gross domestic investment in industry.

Manufactured exports are negligible apart from hides and skins, meat products and forest products (incense). Imports are dominated by oil products but almost all manufactured goods are imported.

The potential for increased livestock-based manufactured exports (canned meat, semi-processed hides) is good. Fishing could also become an important activity. Part of the catch is processed by licensed overseas fishing vessels although onshore processing is also developing.

## 3. Obstacles to production

War and drought have exacerbated the constraints facing Somali manufacturing such as:

. a very small domestic market

. poor and insufficiently explored national raw material base

. shortages of managerial and technical skills

. lack of foreign exchange to buy essential spare parts and inputs

. frequent breakdowns

. marketing problems

. spasmodic shortages of fuel

. poor infrastructure.

For instance, output of the Mogadishu refinery which relies on imported inputs has been affected by its obsolescence and high operating costs. The plant is no longer competitive.

In the leather industry where an UNIDO assistance project has started, the main obstacles have been associated with skill shortages and machinery breakdowns. Similar problems are common in the meat products industry.

Although details are unavailable, capacity utilization decreased after 1977 and the trend was only reversed in the late 1980s.

4. Policies directed towards the manufacturing sector

Under the 1987 IMF stabilization programme the government aimed to reduce public sector ownership and the public sector work force.

The government concentrated investment on industries in the public investment programme such as :

. the Juba sugar estate

. the SNAI sugar complex at Jowhar being rehabilitated to produce 24,000 tons in 1991

. the Mogadishu milk factory

. the cement factories at Badhera and Berbera

. a pharmaceuticals plant

. a urea plant.

The programme included extensive infrastructural improvements. However, the extent to which local industries are involved in producing supplies is not currently known.

In 1984 public sector managers were given autonomy and powers to run factories on private enterprise lines. It is still too early to say whether this has made a real impact on the problems of the manufacturing sector.

Under its medium term economic programme announced in 1989 the government aims to reduce inflation to 20 per cent by the end of 1991 through a combination of control mechanisms in the commercial banking system together with stronger monetary and supervisory procedures to maintain credit ceilings. Other measures are aimed at promoting exports. Price controls have been abolished on all but a few selected goods and services. In addition, the government has ended its monopoly on shipping and the marketing and export of hides and skins, frankincense and myrrh.

5. The scope for rehabilitation

Apart perhaps from the sugar mill (see under 4) on which detailed plant diagnosis is unavailable, there is little scope for rehabilitation except in the context of an overall recovery programme which is at present lacking.

Available information suggests that rehabilitation of the Mogadishu refinery would not be worthwhile given the high capital cost, the loss of comparative advantage which originally led to the construction of the refinery and political instability in the region.

(For ongoing UNIDO projects, please see Appendix.)

**SUDAN**

1. General introduction

As at independence in 1956, agriculture is the mainstay of the economy providing the bulk of export earnings and GDP as well as employing most of the economically active population. The most important crops are cotton for export and sugar and wheat for import substitutes. Sudan also has forestry and inland fish resources. Oil deposits so far discovered in the south west are forecast to produce at 190,000 b/d. Other known mineral resources include marble, mica, chromite, gypsum and gold.

Civil war has been the major cause of economic problems. Military spending accounts for about 30 per cent of the budget. War in the country's fertile southern region has seriously affected potential earnings from agriculture. In addition to civil war, the economy has also been dislocated by drought and flooding. In April 1989 the UN launched an emergency relief operation to prevent mass starvation in Southern Sudan.

Economic planning has tended to be unrealistic and incoherent. In some cases, plans have been abandoned before their target dates. Huge, capital-intensive projects have been initiated but have either run into deficit or not been finished. Most expansion under the plan took the form of public sector investment. The projects were often misconceived or mismanaged.

The funding of these projects led to a sharp rise in external debt. Since full repayment is increasingly unlikely, a further accumulation of arrears is expected. Although the government has accepted World Bank and IMF proposals for reform, it was only after the return to civilian government in 1986 that some progress towards economic stabilization and public sector adjustment was made.

An IMF supported interim recovery programme started in 1987. This included a devaluation of almost 45 per cent which triggered fresh inflows of aid and negotiations with the London Club of commercial bank creditors. In March 1988 the government agreed a medium term economic programme with the World Bank and the IMF in order to pave the way for rescheduling of official debt owed to the Paris Club and to attract further inflows. However, in addition to the dislocation of the economy in 1988 as a result of floods, locusts and drought, the war in the south was costing the government US$ 2.5 million a day by 1989. Although in November 1989 the government proposed sweeping economic reforms, support from the IMF and major donor countries depends on the government's willingness to reduce substantially the budget deficit and curb inflation (unofficially estimated at over 100 per cent). By mid-1989 total external debt was estimated at over US$ 13,000 million, about a quarter of which was due for repayment. Arrears to the IMF alone are estimated at US$ 1,024 million. Meanwhile, exports of goods and services have failed to average more than about US$ 1,000 million a year during the 1980s and by mid-1989 the annual trade deficit was running at US$ 1,400 million. The lack of foreign exchange to buy spares and raw materials has forced many factories to work at far below full capacity. Meanwhile, the road, rail and telecommunications networks have fallen into disrepair.

2. The manufacturing sector

Manufacturing is based on agricultural raw materials, principally cotton. Except for enterprises producing cement, soap, soft drinks and vegetable oils, large scale manufacturing of import substitutes started in Sudan only after 1960. This is reflected in the manufacturing sector's contribution to GDP, which in 1987 was only 8 per cent.

Manufacturing, like other sectors of the economy, has been severely affected by political changes during past years. More than 100 manufacturing enterprises closed down while the civilian government was in office, while those that continued their operations did so at minimal capacity. In mid 1988 the textile industry was working at about 25 per cent of capacity. In 1988/89 industrial production fell even further. At the time of the military coup on 30 June 1989, it was estimated that many factories were operating at only 5 per cent of capacity.

Textiles: The ginning of cotton encouraged the beginning of industry in Sudan in the early 20th century. With the expansion of cotton production the number of ginning factories has increased. The Gezira Board alone operates the world's largest single ginning complex, on which rehabilitation work was started in 1985 as part of the 10 year improvement programme for the scheme.

There are 25 spinning and weaving mills, the majority of which were built in the 1970's. The country is not yet self-sufficient in basic cotton cloth owing to a disparity between spinning and weaving capacity. In March 1989 the minister for industry announced a programme for the rehabilitation and modernization of 11 spinning factories. A programme for upgrading the spinning sector was also proposed.

The most important activities in food processing are sugar refining, cereal milling and vegetable oil milling.

Cotton seeds are partly decorticated, while exports of cotton-seed oil and oilcake are increasing. Groundnuts are also partly processed, with oil and cake dominating exports of groundnut products.

The USSR and Yugoslavia have agreed to rehabilitate the canning plants and tanning factories. Modernization of the sugar sector has been 90 per cent implemented.

Government-ownership predominates throughout the sector but particularly in sugar refining, textiles, canning, cement and the fertilizer industries. However the biggest company, a sugar mill, is a joint venture.

State involvement was minimal before 1960 but thereafter expanded dramatically, particularly in the 1970's, owing to the 1971 nationalizations and, subsequently, to the government's development plans. By 1986 the public sector included the four sugar factories, three tanneries, a number of food processing plants, the two cement works and the spinning and weaving mills, as well as joint-venture participation in the Port Sudan tyre factory with a Republic of Korea company and in the fertilizer plant south of Khartoum with a US company.

All State-controlled enterprises in the manufacturing sector operated with varying and increasing degrees of inefficiency (the two cement plants were still producing at less than 30 per cent of capacity in 1985/86 with an output of 150,500 tons), owing to a combination of technical problems and inadequate

management skills. Some enterprises, such as Khartoum's main dairy, were returned to the private sector as early as 1975, but the principal trend towards 'privatization' began after 1980 with the shift in emphasis towards a more mixed economy. Some enterprises were sold directly to members of the public, while in others, such as the sugar estates, foreign management was introduced under aid-funded contracts. After having been virtually abandoned during the political uncertainties after 1985, the privatization policy was revived in 1988 as part of the medium-term economic recovery programme approved by the IMF and World Bank.

Details on small-scale manufacturing are scarce but in the northern part of the country cottage industries are believed to be about fifteen times as numerous as modern industries. Food and beverages account for about 80 per cent of the output from cottage industries. Some of the small-scale food processing such as flour milling is organized on a cooperative basis. Productivity per unit of investment and per worker is believed to be higher than in large-scale manufacturing.

Exports of manufactures are limited to ginned cotton. Machinery, transport equipment, chemicals, oil products and a wide range of consumer goods are imported.

Trends are difficult to distinguish in the absence of reliable data. The share of small-scale units, especially those based on agriculture, is expected to expand in the future. Cooperative food processers are planning to diversify their product lines for instance into bakery products. However, the success of diversification policies will depend on the introduction of more efficient agricultural methods and more intensive exploration and exploitation of mineral and forestry resources.

3. Obstacles to production

The main constraints to expansion of Sudan's manufacturing sector include civil war, natural hazards (drought, flooding, locusts), inadequate power and transport infrastructure; overstaffing in public enterprises, cost and price distortions; ill-conceived and badly executed industrialization projects; and a cumbersome bureaucracy.

To these must be added the problems faced by most other African countries

- shortages of spare parts and inputs both foreign and domestic;
- lack of skilled management and labour;
- limited size of the domestic market;
- competition from imports.

4. Policies directed towards the manufacturing sector

The Ministry of Commerce, Industry and Cooperation is responsible for formulating and executing policies affecting manufacturing within the overall framework provided by the Ministry of Finance and Economic Planning. Although past development plans have included strategies for industrial development, actual implementation of projects has been rather haphazard.

Widespread __nationalization__ of the sector in 1970 led to the dominance of government investment and control. Although the __1980 Encouragement of Investment Act__ allows tax, customs and other concessions to investors, the main obstacle to foreign investment is foreign exchange control. This severely limits the retention or the repatriation of profits and capital and has resulted in highly complicated procedures for obtaining essential imports. An amendment to the act which would stimulate private, especially foreign, enterprise is being considered.

The __4-year Salvation Programme for Manufacturing__ drawn up after the 1986 national conference on the economic crisis indicated a need for better coordination of industrial planning and plan implementation; and a review of export and import regulations and licensing. It identified small-scale industry as a major source of future industrial development in view of its low capital requirements, relatively low dependence in imports and high employment creation. Agro- and other industries relying on domestic resources as well as industries producing a range of simple capital goods were also to be encouraged. The programme recognised the need for expanded training facilities and export promotion.

5. The scope for rehabilitation

Once peace is restored the scope for rehabilitation in all sectors of the economy will be substantial. Opportunities will also aris[illegible] the [illegible]rnment continues to improve overall economic policy in consultation w[illegible]F and the World Bank. As in other African countries there will be dem[illegible] training and advice in creating a suitable institutional environment [illegible]or developing manufacturing and encourging linkages with other sectors of the economy. This will include the review of issues such as policy incentives, the domestic resource base, manpower training, capacity rationalization, methods of improving quality control, potential export markets and the enhancement of the role for small-scale companies.

At a subsector level secondary information suggests that priorities would be improving productivity in textiles, food production, leather products and building materials.

(For ongoing UNIDO projects, please see Appendix.)

**SWAZILAND**

I.General Introduction

Athough one of the smallest countries of mainland Africa, Swaziland enjoys one of the highest living standards of the continent. With exports accounting for over 60 per cent of GDP and imports equivalent to over 80 per cent of GDP, the economy is relatively open compared with other African countries. Agriculture is the mainstay of the economy and the leading source of employment. About two thirds of total land is devoted to subsistence farming,the remainder comprising individual tenure farms owned mainly by Europeans and commercial companies.Swaziland, Africa's second largest sugar exporter and an important supplier of wood pulp, is consequently still vulnerable to changes in world demand for its primary products.

Nevertheless, the economy is relatively diversified with manufacturing accounting for about 20 per cent of GDP and providing about 14 per cent of formal employment.Various subsectors of services are also important contributors to GDP. In addition to agricultural resources,Swaziland has large coal reserves and modest quantities of asbestos.Owing to depressed export markets and drought,the average rate of real GDP growth declined from 6 per cent in 1978-80 to about 2 per cent in 1980-83,recovering to 3.8 per cent in both 1986 and 1987, sufficient to offset the country's estimated 3.2 per cent annual increase in population.

As Swaziland is contiguous to South Africa and as it is a member of the Southern African Customs Union (SACU) and was a signatory, with Lesotho and South Africa, of the Rand Monetary Agreement (until mid-1986),Swazi government control over its fiscal, monetary and pricing policies has been somewhat limited. The degree of Swaziland's autonomy in these areas has increased under the provision of the Tripartite Monetary Area (TMA) agreement, which replaced the Rand Monetary Agreement on July 1,1986. Under the TMA, Swaziland is able to determine the exchange rate of its own currency; although the South African rand has ceased to be legal tender in Swaziland, the lilangeni (plural;emalangeni) has so far remained at par with the South African rand. Ties with South Africa remain close and include a security pact and an agreement under which Swazi labour works in South Africa mines. South Africa is Swaziland's main trading partner and her main source of foreign investment.

Fiscal management is exemplary. The budget, in surplus in 1987/88 and 1988/89, is expected to be balanced in 1989/90. This is largely attributable to four factors: a policy of contracting only soft loans; an increase in donor aid; tight monitoring of recurrent expenditure; and buoyant income from company and sales taxes. The investment budget allocations have been cut owing to delays in preparation, design and implementation of projects. Swasiland's debt service ratio is only about a fifth of the African average of over 30 per cent. The government plans to absorb domestic savings, currently being directed to investments in South Africa, through incentives such as the opening of a stock exchange.

Swaziland is unusual in that its finances and resources come from a dual adminstration; the Tibyo Takangwane or Swazi Nation for the land resources (agriculture and minerals), representing ethnic Swazis living in rural areas,and the Swazi Government for the remaining economic activities. The Tibyo, however, has expanded its involvement to include several other economic

activities such as transport and construction using Government funds to finance its projects. As the Tibyo is directly accountable to the King rather than to parliament, co-ordinated planning of economic activities is sometimes difficult.

2. The manufacturing sector.

Excluding the processing if agricultural and forestry products, most of Swaziland's manufacturing is based at the Matsapa industrial estate. A second industrial centre is being developed in the south at Nhlanpano. There have been five major developments in the manufacturing sector since 1984. Firstly, the fertilizer factory ceased operations, mainly as a result of drought in Swaziland and neighbouring areas of South Africa where much of the fertilizer is sold. Secondly, a brickworks has been constructed to exploit high grade deposits near Mpaka with an annual potential of 65 million bricks. Thirdly, a shoe factory started production in 1985, employing 350 people. Fourthly, a textile mill for spinning cotton began operations in 1986. In 1988 Natex Swaziland, formed in 1987 to take control of the National Textile Corporation of Swaziland, was undertaking a US$35 million project with World Bank, Commonwealth Development Corporation and European Investment Bank funding to transform the spinning mill into an integrated weaving and finishing plant with an annual production and export capacity of 13 million sq metres of fabric. Finally, several smaller factories producing textiles, knitwear, gloves, office equipment, beverages and bricks have come into operation, creating more than 2,000 new jobs. Most of the bigger manufacturing units export most of their output.

In November 1988 Swaziland's first paper mill was opened. The new company is a private venture by the Sharma family of the UK which owns similar plant elsewhere in Africa, the plant currently has an annual capacity of 6,000-7,000 tons of tissue produced from waste paper for sale on the domestic and South African markets. The second phase of the project will enable the company to produce kraft packaging paper using local wood pulp. In January 11989 the South African manufacturer of safety glass, Pilkington Shatterprufe, announced plans to build a factory at Matsapha to produce glass for the motor industry. This investment reflects the continuing benefits accruing to Swaziland from the threat of further trade isolation of South Africa.

3. Obstacles to production.

In common with many other African countries, Swaziland suffers from <u>shortage of skilled manpower and managers, a narrow domestic market and depressed world market for its products</u>. In the case of Swaziland, this is compounded by the country's <u>landlocked position</u> (with transport routes threatened by political instability), <u>the strength of and Swazi dependence on the manufacturing sector of neighbouring South Africa,</u> and <u>the low productivity of the traditional sector</u> which, as indicated, has considerable political power. Potential foreign investors have consequently often tended to opt for South Africa owing to its more favorable investment terms.

One of the most serious impediments to growth of small industries was the policy of incentives being offered by the South African government and its "homelands" administrations in their efforts to attract and decentralize industry. Recently, however, conditions for investment have become more attractive and more competitive compared with neighbouring states. In 1085 the government ontroduced a programme of incentives for investment in a

attempt to attract investors and labour intensive industries. It also embarked on a promotion exercise to advertise the benefits of Swaziland to industrialists. The restructuring in 1985 of the National Industrial Development Corporation (SIDC) is expected further to assist the effective promotion of new investment from abroad.

4. Policies directed towards the manufacturing sector.

Although not following an IMF supported structural adjustment programme, the Government recognises the need to increase accountability in the public sector and has prepared a bill whose aims include the creation of a unit to monitor and research public sector companies in order to improve their efficiency. Although privatization is on the government's agenda of policy options aimed at increasing discipline and accountability, the Government is anxious to avoid measures that would merely transfer monopoly from public to private hands.

The Government continues to encourage foreign investment through favourable tax and other incentives.

5. The scope for rehabilitation.

Available information does not indicate a need for extensive factory rehabilitation in that constraints to expansion are largely a result of external factors: low productivity, the special socio-political status of the rural sector, the political situation of the region, the country's strong dependence on South Africa, the limited size of the domestic market, inaccessibility to regional markets and the shortage of skilled manpower. The performance of industries under the Tibyo, including artisanal production, is unknown. Expanded cooperation within the framework of SWADCC, reducing the country's reliance on South Africa, seems to be a necessary precondition for rehabilitation of the sector as a whole.

(For ongoing UNIDO projects, please see Appendex)

## TOGO

### 1. General introduction

Togo has one of the richest deposits of phosphates (81 per cent) in the world. Estimated reserves of top grade ore were put at 260 million tonnes in the mid-1970s and of lower grade ore (carbonate phosphates but with very low cadmium content) at 1 billion tonnes. Although phosphates accounted for 36 per cent of export earnings in 1988, Togo's economy is essentially based on agriculture which accounts for about 33 per cent of both GDP and export earnings and provides employment for about 80 per cent of the economically active population. Increased production of food crops has enabled Togo to become virtually self-sufficient but export earnings of cash crops such as coffee, cocoa and cotton, while an important source of export taxes, have been adversely affected by depressed world prices. The services sector nevertheless remains the largest contributor to GDP accounting for about 45 per cent in 1988.

The optimism generated when phosphate prices quadrupled in 1974-75 and the price of cash crops (coffee, cocoa and cotton) began to soar in 1975-76 was expressed in ambitious programmes to modernize the economy with a heavy emphasis on manufacturing. The government not only had extra revenue directly to finance its investment programme but it also could borrow on the money markets. However, by 1978 export prices had plummetted and Togo began to fall behind on its repayments. The government's financial problems were exacerbated by the need to subsidize the new industrial units which were suffering from a combination of factors such as inadequate project research, unsuitable technology, exaggerated costs and inadequate management.

The government launched a programme of financial rationalization in 1979 with the backing of an IMF stand-by arrangement which triggered the rescheduling of external debt. A second arrangement was negotiated in 1981 but as the reorganzsation programme was never applied it was suspended in 1982 by which time Togo's arrears were equivalent to 75 per cent of export revenue. Since 1983 the government has been pursuing an IMF and World Bank financed structural adjustment programme. Relations with both the IMF and the Fund have been generally good although the 1986-88 stand-by agreement was suspended in February 1987 after Togo fell behind with repayments. A third structural adjustment loan was agreed in February 1988 with co-financing from France and Japan. A stand-by arrangement and a structural adjustment facility from the IMF were approved in March 1988 triggering a rescheduling of external debt, the sixth time since 1979. In June 1989 the IMF announced its approval of a three-year arrangement under its enhanced structural adjustment facility. One of the main thrusts of economic policy is privatization.

### 2. The manufacturing sector.

Manufacturing is small, accounting for only about 8 per cent of GDP in 1988. Employment in the sector has remained at under 6,000 since the early 1980s. The manufacturing base was expanded after independence to include the processing of agricultural commodities for export (palm oil milling, coffee roasting, cassava flour milling, cotton ginning) and import subsitution of consumer goods (textiles, footwear, beverages, confectionery, Plastics).

During the 1970s government involvement in industry increased rapidly as higher export earnings from the commodity boom (phosphates, coffee, cocoa)

were directed into a major industrialization drive. Several state run industries were established including a regional clinker plant, an oil refinery (original capacity 800,000 tons/year), a steel mill (capacity 20,000 tons/year) and two integrated textile complexes. However, continuing losses resulted in the closure of many of the enterprises by the 1980s. The textile plants have since reopened under US/South Korean joint ownership. Overall the industrialization programme of the late 1970s proved to be an expensive failure and only one large industrial project was planned under the 1981-85 plan - a phosphoric acid plant using low quality phosphate rock. The scheme fell behind schedule owing to lack of finance; it has been made supplementary to the 1985-90 Plan, with work unlikely to start before the early 1990s.

To improve efficiency in the economy, the government has been selling or leasing a number of state enterprises to private interests since 1985. The oil refinery has been leased by Shell for six years for use as a storage depot and the steel mill, renamed Societe Togolaise de Siderurgie has been leased for ten years to private US interests which have converted it into a re-rolling facility. Both operations are intended to serve the regional market. Both intergrated textile mills were sold to US interests and eight others were disposed of by end 1988 while nine others were closed down. The Government is still actively seeking foreign participation in the rest of the state owned sector, with the notable exception of the phosphate industry. Foreign interests have also taken over factories for agricultural implements, food and dairy products.

An interesting example of the failure of the 1970s industrialization plan is the Cimao clinker plant which began production in 1981 as one of the largest industrial ventures in Togo. With an initial capacity of 1.2 million tons, the plant aimed to supply Togo, Cote d'Ivoire nd Ghana (joint shareholders in the company) and other regional markets. Employing 504 Togolese, 46 Ghanians, 17 Ivorians and 12 other expatriates, the project was dogged by a variety of problems including weak management since its inception. In August 1989 it was finally decided to liquidate the company, leaving each shareholder to pay US$1 million per quarter for four years to pay off accumulated debts. Cimtogo, producing about 28,000 tons of cement in the early 1980s for domestic consumption only, has also been affected by the closure of Cimao which supplied the clinker.

3. Obstacles to production.

In response to structural adjustment and more liberal policies, the overall environment for manufacturing has improved since 1985 slowly reducing the effects of misguided past investments. However, the existing manufacturing sector has inherited an inadequate domestic raw material base and lack of inter-industrial linkages. Pricing of industrial products has been distorted by unrealistic measures. In common with other developing countries, there is a lack of qualified personnel both in industry and in industry-related Government agencies and foreign exchange shortages severely limit imports of necessary input and spare parts.

4. Policies directed towards the manufacturing sector.

Apart from continued liberalizing of the economy within the framework of the IMF supported structural adjustment programme including the privatization plan, one of the most important policy changes in 1989 was the decision to turn Togo into a Free Zone. The creation of such a zone is expected to

attract considerable domestic and foreign investment by offering fiscal and other advantages in return for guarantees regarding export levels and employment. In effect, businessmen will be able to set up anywhere in the country, not just in a particular zone, and enjoy the benefit of free zone status including generous tax exemption if they export 80-90 per cent of their output. Togo hopes to follow the example of Mauritius, the only successful African free zone to date, and attract labour intensive activities such as clothing manufacture and electronic assembly. The US owner of the steel plant is interested in investing US$2,000 million in opening two companies, one producing equipment for the Ghanaian mining industry and the other packaging for the cotton industry in Burkina Faso.

5. The scope for rehabilitation.

Apart from general rehabilitation particularly in connection with the privatization programme, there is scope for developing more inter-industrial linkages and improving the domestic supply of raw materials. At the plant level, opportunities will arise in all branches of industries inherited from the 1970s which can be restructured and possibly privatized.

(For ongoing UNIDO projects, please see Appendix)

**TUNISIA**

I. General introduction

Tunisia has a relatively diversified economy based on agricultural, mining, energy and manufacturing production. It is potentially a leading exporter of olive oil and citrus fruits, and produces dates, grapes, figs, sugar beet and a range of cereals. Agriculture which accounted for over 50 per cent of GDP at independence has failed to expand enough to make the country self-sufficient in food. The fishing sector continues to expand; the government plans to develop about twenty new fishing ports and has established joint ventures with Algeria, Mauritania and Italy. Petroleum reserves are estimated at about 1,000 million barrels and the government is encouraging more exploration through production sharing and tax incentives. Reserves of natural gas are variously estimated between 84 and 150 billion cubic metres. Tunisia is the world's fifth largest source of phosphates derived from eight mines near Gafsa. Iron ore (295,000 tons in 1987) and lead (3,400 tons in 1987) are also mined.

Despite prudent economic management, growth remains vulnerable to external factors such as severe drought and flooding and to the value of earnings from crude oil exports and tourism. Economic growth, which tends to be above the average for Africa as a whole, was negative in 1986 as the shock of declining oil prices in late 1985 and early 1986 was compounded by drought, reduced government spending and growing social unrest. Real GDP resumed its growth path in 1987 and 1988 in response to improved external factors combined with IMF and World Bank supported policy changes. Under the 1987-91 Development Plan, Tunisia's seventh, agriculture was to be given priority among productive sectors and the government hoped to increase non-oil exports by about 8 per cent annually with growth rates of 6-9 per cent forecast for agriculture, tourism, mining and textile production. GDP was projected to grow at an annual average rate of 3-4 per cent in real terms.

The trade balance is traditionally in deficit despite government policies in the past years aimed at promoting exports and restricting imports. However, these policies were often in conflict as exporting manufacturers have found it increasingly difficult to import equipment, spare parts and materials essential for production. Tourism is a leading foreign exchange earner, third only to oil and textiles, and is an important source of employment. The government is encouraging the development of new tourist centres and three state-owned hotels were sold in 1987 as part of the government's plan to dispose of non-strategic assets. Despite earnings from tourism and workers' remittances, the current account was persistently in deficit between 1975 and 1988 when it moved into surplus. Estimates of Tunisia's medium and long-term external debt vary considerably and generally ignore the sharp rise in arms purchases mainly from the USA. In 1988 total external debt was equivalent to 70 per cent of GNP and debt service commitments were 28 per cent of export earnings. Tunisia has a 3-year extended stand-by arrangement with the IMF which runs until July 1991.

2. The manufacturing sector

Manufacturing contributes about 15 per cent of GDP. It has tended to develop around traditional artisanal activities such as textiles and leather and the creation of 'downstream' industries based on large phosphate reserves. Details of installed capacity of individual plants and its utilization are not readily available.

Food processing includes a sugar refinery, flour mills, vegetable oil and tobacco factories and fish canneries.

A 34,000 b/d refinery with a 3,300 b/d reforming capability is operated at Bizerte by the Societe Tunisienne des Industries de Raffinage. Although petroleum is a major export, petroleum refining has not become a major manufacturing activity. Plans for an expansion of the refinery built in 1962 have moved slowly. The 1.5 million tons/year distillation unit processes crude oil into fuel oil and gasoil along with small amounts of kerosene and petrol. An earlier plan to expand the refinery's capacity to 5 million tons/year was abandoned in 1983 owing to budgetary constraints. The government is now considering bids for a project to expand capacity either by a additional 1.5 million or 3 million tons/year. Also under study is a larger 200,000 b/d refinery at Cap Serrat.

Textiles, Tunisia's largest industry after oil, account for over 20 per cent of exports and employ over 10 per cent of labour in the private industrial sector.
This subsector consists of textile mills, clothing, footwear and leather goods manufacturers.

Phosphates are processed at Gabes and Sfax into superphosphates, phosphoric acid and phosphate fertilisers. An investment programme of US$125 million to modernize old mines and develop new ones is under way at Gafsa and at a new source near El Kef. Production has risen since 1986 following the inauguration of a new phosphate complex, Tunisia's third.

A steel complex at Menzel Bourguiba started production in 1965 and is based on iron ore from domestic mines.

Other industries include cement, construction materials, motor vehicle assembly (Peugeot, Renault, General Motors and Mercedes-Benz Espana), sparking plugs, electronic equipment, sheet and bottle glass, fertilizer and plastic factories and a television assembly unit, construcion materials, paper and wood. Tunisia also manufactures furniture, batteries, paint and varnish and rubber goods.

Most industries are based on domestic resources apart from the textile industry which depends on imported cotton and cotton yarn. Food processing is dominated by cereal derivatives, meat and olive oil. The chemical industry is dominated by the processing of phosphate rock into phosphatic fertilizers and phosphoric acid.

3. Obstacles to production

The main obstacles to expansion are low domestic demand, a persistent shortage of spare parts through lack of foreign exchange, a shortage of skilled manpower and inadequate infrastructure. An additional drawback was the overvaluation of the Tunisian dinar until 1988. The vehicle assembly and

construction branches have suffered most: two plants have been closed and production suspended at others. The production of textiles, leather and shoes all rose in 1986 benefiting from rising external demand.

## 4. Policies directed at the manufacturing sector

In the 1982-86 Development Plan manufacturing and the rest of industry was allocated 20 per cent of total investment and emphasis was on large-scale projects. The slump in 1986 forced a change in course.

The government started several export oriented programmes in 1986 coordinated by the new National Commission for the Promotion and Expansion of Exports and supported by the Compagnie Tunisienne pour l'Assurance du Commerce Exterieur (Contenance), an export credit guarantee organization established in late 1984. The government is also trying to expand and diversify exports with the help of a US$50 million World Bank loan which will finance three major development institutions. Furthermore, the government is liberalizing the trade system in part of a wider programme of economic reform.

The 1987-91 Plan reflects the change in emphasis from large-scale to small-scale projects which attract foreign investment and stimulate the exports of manufactured goods. The new investment code enacted in August 1987 has liberalized investment and provides various tax incentives and guarantees on the repatriation of capital and investment income by non-resident investors.

The on-going reform of public entreprises (providing over 60 per cent of value added in the manufacturing sector) aims :

- to cut half the number of public entreprises;

- to facilitate the privatization of sectors where private firms are competitive and could operate profitably;

- to draw action plans for the rationalization of entreprises which are to remain in the public sector because of their strategic nature, the size of the investment concerned or their position as natural monopolies.

Government plans for privatization of many companies have been delayed owing to fears of increasing unemployment.

## 5. The scope for rehabilitation

The potential for rehabilitation is substantial in view of the overall favourable economic situation, political stability, pragmatic policies and increased regional economic cooperation including [illegible] proximity to Europe. Falling investment and stagnating output [illegible] years means that the conditions are ripe for rehabilitation in a wi[illegible] of branches. Priority candidates are likely to be food processing, textiles, transport equipment, mechanical and electrical industries. Rehabilitation programmes could dovetail with current government policies to attract private capital, both domestic and foreign and to maximise on existing raw materials while creating greater linkages between the different sectors of the economy.

(For ongoing UNIDO projects, please see Appendix.)

## UGANDA

### I. General introduction

Subsistence agriculture remains the cornerstone of the Ugandan economy accounting for about three quarters of GDP. In addition to a wide range of food crops, Uganda also produces coffee, cotton, tea and tobacco for export. Although these crops were traditionally important foreign exchange earners, insecurity and low producer prices in recent years have resulted in a switch to food production for local consumption. Uganda's repeated failure to fill its quota under the International Coffee Agreement has led to a reduction in its quota.

Economic mismanagement during the 1970s, war with Tanzania in 1979 and continued insecurity during the 1980s have militated against economic expansion. This has been exacerbated by the suspension of trade with, and transport through, Kenya in recent years. Although IMF-supported reforms during the early 1980s revived economic growth between 1981 and 1983, the economic situation has since deterioriated. A new reform package introduced in 1987 and backed by bilateral and multilateral aid was slow to yield positive results owing partly to a lack of manpower to put the programme into effect. The IMF approved a 3-year extended structural adjustment facility in April 1989.

By 1988 external debt, owed mostly to multilateral organisations, was equivalent to over 700 per cent of export earnings. The debt service burden has also increased, reaching equivalent to 47 per cent of export earnings in 1988. In January 1989 the Paris Club of creditor gvernments rescheduled US$ 101 million worth of external debt with options agreed at the 1988 Toronto economic summit meeting. This was the fourth rescheduling of Paris Club debt (November 1981, December 1982, June 1987) in addition to bilateral debt relief in 1983 in parallel with the 1981 agreement. The African Development Bank has approved new loans to the government but funds are unlikely to be disbursed until arrears totalling about US$ 30 million are cleared. Falling world coffee prices have militated against Uganda's ability to service its US$ 1,600 million external debt. However, in late 1989 donors underlined their growing confidence in the government's reforms at a World Bank consultative group meeting indicating that they would provide US$ 640 million in project and balance of payments support in 1990.

The government is slowing the rate at which dollars are released through the special import programme and evaluating the programme's impact on the economy. Since the programme began in June 1989 the prices of car spares, cement and other goods has declined in absolute terms. Local business has complained about delays in getting dollars and alleged bribe-taking. Low disbursement of dollars through the system has been blamed for the steady drop in the parallel market value.

2. The manufacturing sector

Manufacturing has been adversely affected by the economic and political problems of the late 1970s and early 1980s and by 1986 output was estimated at only about a third of post-independence peak levels achieved during the period 1970-72. Only eleven of the 82 manufacturing units covered by the annual survey by the Ministry of Planning and Economic Development were operating at over 30 per cent of capacity in 1986. Nine recorded no output at all. Small industries performed better than bigger plants; their share of industrial output rose from 30 per cent in the early 1970s to 70 per cent in 1982. Although output increased by 16 per cent in 1987 and 25 per cent in 1988, the manufacturing sector contributed under 5 per cent of GDP compared with about 50 per cent in the mid-1970s. In 1989 only BAT (where output grew by 76 per cent) and Uganda Animal Foods (62 per cent) were operating at over half capacity. Capacity utilization was over 40 per cent in the two major brewing and bottling plants but in most cases it was well under 20 per cent.

The sector consists mainly of the processing of cotton, coffee, tea, sugar, tobacco, edible oils and dairy products, grain milling, brewing. Large scale industries include textiles, tobacco, beverages, wood and paper products, construction materials and chemicals. Small scale manufacturing is dominated by the clothing industry but it also includes sugar and maize mills, furniture making and general workshops. Copper refining was formerly important, but production ceased during Amin's government.

Food processing: The Sugar industry (with output running at 152,000 tons in 1968 before the three big estates were expropriated in 1972) had almost collapsed by 1980. The recovery programme of 1981 envisaged the rehabilitation of the Kakira and Lugazi estates with the invivement of the original owners (the Mehta and Madhvani groups) in government joint ventures. The project was delayed by the civil war but by mid-1986 work was again under way on the Lugazi estate and a new factory was commissioned in 1988 with estimated production of 40,000 tons in 1989. Progress on the Kakira estate has been delayed owing to probems over ownership structures but part completion was expected to allow production of 4,500 tons in 1989. Rehabilitation of the Kinjala plant is still at the planning stage but the government aims for self-sufficiency by 1995.

In 1989 the Madhvani group began to bring nine of its 10 industrial companies back into production. The Masaka food processing plant and cannery started to produce fruit beverages in late 1989.

Toro & Mityana Tea Company, the country's largest tea processor and exporter, has cut production target by 17 per cent in 1989 to 2.5 million kilos owing to drought.

Tobacco, produced mainly in the West Nile area, has been particularly hard hit by security problems and production was only 63 tons in 1981. Following improvements in security, together with rehabilitation of plant and increases in producer prices, marketed production was 2,500 tons in 1988. The crop is processed and marketed by the National Tobacco Corporation.

The textile industry is suffering from a lack of skilled personnel and spare parts although external aid, mainly from the African Development Bank, the European Community and Arab countries, is helping to establish new ginneries, spinning and weaving mills and to repair existing plants.

Nyanza Textile Industries (Nytil) is to float 28 ordinary shares following the October 1989 devaluation. The shares belong to Nytil's major investor, Uganda Development Corporation (UDC), the government's industrial development arm. This will be Uganda's first bigh public share issue. The move follows registration of the Kampala stock exchange in October 1989 although Nytil's shares are to be sold privately.

Nytil is east Africa's oldest spinning and weaving textile mill. It was incorporated as a private copany in 1949 and went public ten years later. Output increased to 10.6 million linear metres in 1988. It operates at about a fifth of capacity because of lack of foreign exchange and spares. In addition, raw material production has declined in the main cotton growing areas in the north and east because of security problems since 1986.

Switzerland's Roko began work in April 1989 on the rehabilitation of the Lira Spinning Mill, the biggest industrial concern in the north. On completion, estimated in April 1990, the factory will employ 1,600. Lira has installed capacity of 3,600 tons a year. When it closed in 1985 production had fallen to 240 tons a year.

A new tannery at Jinja is expected to make Uganda self-sufficient in leather goods.

Cement: The Hima Cement Works in Kasese is to be rehabilitated with funds from donor countries. The plant has two production lines lying idle. The repairs are concentrated on line two which was running at only 15 per cent of capacity when the plant was closed. When the plant reopens, it is expected to operate at 70 per cent of capacity, giving annual output of 200,000 tons. Total capacity of the plant's two lines is unlikely to exceed 300,000 tons, less than half domestic demand (650,000 tons) estimated for 1985. Output at the only other cement works, at Tororo, is limited to 150,000 tons a year. However, 13 million tons of limestone have been found near Hima.

The country's first vehicle assembly plant, operated by General Motors Company is planned as a joint venture between the local Spear Motors and Peter Bauer of the Republic of Germany. Capacity will be 490 commercial vehicles and 350 trailers per year, with about 40 per cent available for export. There are also plans to build a farm equipment factory in Soroti.

Chloride (Uganda) has been expanded and it is expected that Uganda will be eventually self-sufficient in batteries.

Government control or participation predominates in most key industries but the status of ownership is confused partly by the uncertainty over ownership of former Asian property.

Manufactured exports are negligible but most manufactured goods including petroleum products, machinery and equipment, road vehicles and a wide range of consumer goods all have to be imported.

The scarcity of information combined with continued political unrest and disorganization militate against assessing development trends. From available data, initial growth in food processing under the 1982-84 Recovery Programme was not sustained.

3. Obstacles to production

Much plant and machinery is in a bad state of repair and there is a severe shortage of fuel, spare parts and skilled manpower. The main constraint has been the lack of foreign exchange as a result of overall economic decline and political instability. The imposition of a 10 per cent tax on raw material imports is likely to exacerbate the situation. Working capital is in short supply and the power and water supply is irregular. The domestic market is limited owing to the low per capita income and the deterioration in road transport. The shift back to subsistence agriculture also resulted in lower supplies of raw materials for industry.

4. Policies towards the manufacturing sector

The 1982-84 Plan included rehabilitation of several large industries such as sugar, textiles, tobacco, beverages, cement and phosphates. Funds were also made available for a wide range of smaller projects, most of which involved manufactured food products and textiles. Progress in rehabilitation was delayed owing to lack of creditworthiness of the entreprises involved; continuing uncertainties with regard to ownership; continuing security problems; the weakness in project preparation and implementation; and inadequate information on market size and growth.

The 1987-91 Rehabilitation and Development Plan gives priority to steel, textiles, beverages, sugar, cement, salt, phosphates and edible oils. This plan reflects the large-scale industry priorities of the 1982-84 Plan although the targets are more modest. However, industry (with tourism) will receive only 21 per cent of resources - less than either transport or agriculture - so that the shortage of foreign exchange for inputs is likely to continue. The main aim of the plan centres on encouraging self-sufficiency in consumer goods and developing linkages with agriculture. The government has also started to return nationalized firms to the private sector.

5. The scope for rehabilitation

Given improved security and appropriate macro-economic policies, the scope for successful rehabilitation is substantial. Opportunities will arise at all levels including areas such as training, technical assistance and advice on productivity, management, marketing, financing. There is potential for both restoring the existing manufacturing base and expanding it while improving interlinkages with other sectors of the economy. Priority subsectors will be those based on agriculture notably food processing and textiles. Appropriate agricultural polices will be essential to ensure an adequate supply of raw materials. Improved infrastructure would also be a prerequisite.

(For ongoing UNIDO projects, please see Appendix.)

## UNITED REPUBLIC OF CAMEROON

1. General introduction

Although oil production started in 1978 agriculture is still the cornerstone of the economy employing about 80 per cent of the active population and generating substantial export earnings. Coffee, cocoa and wood are the three main export crops followed by bananas, rubber, cotton and palm products. Cameroon also has substantial mineral resources. Available recoverable reserves of oil are estimated at 48 million tons and of natural gas at about 10,000 million cubic metres. In addition, there are also estimated 300 million tons of iron ore, 300 million tons of high quality bauxite and deposits of copper, nickel, chrome, platinum, gold, diamonds and uranium.

For two decades after independence economic growth was strong, based on a wide range of agricultural exports and the development of self-sufficiency in food. There was relatively little structural change until the late 1970s when the oil sector began to develop. By 1980 oil had become the main export and during the first half of the 1980s economic growth averaged 7-8 per cent, more than double the annual average in the previous two decades. The steep fall in international oil prices in 1986 meant that the government had to introduce austerity measures including major reductions in both current and capital budgets. This led to a sharp contraction in the economy. Short term prospects were overshadowed by an inadequate infrastructure, a weak industrial sector and a cumbersome and inefficient administration.

Successive conservative budgetary policies largely insulated the country from liquidity crises until 1986. Foreign borrowing was limited to development projects. External debt has consequently remained low equivalent to under 40 per cent of GNP. Although about half of the loans were borrowed on favourable terms, Cameroon's traditionally modest debt servicing has become an increasing burden owing to depressed export earnings, denominated in weakening dollars, while imports mainly from France and the EC have to be paid for in appreciating EMS currencies.

Foreign exchange availability has been difficult to assess in the absence of full information on oil exports. Under President Ahidjo it became government practice to place a substantial part of oil export earnings into separate bank accounts under the heading 'Compte Hors Budget' which was excluded from the national accounts. To restrict the cost of foreign borrowing a more rigorous approach is being applied to the terms of new loans and to foreign debt guarantees for parastatal organisations. Agreement was reached in 1988 with the IMF on a medium term stabilization programme. The government had previously resisted pressure to seek assistance from the Fund for social and political reasons. In May 1989 the Paris Club of official creditors agreed to reschedule US$ 500 million of external debt commitments.

## 2. The manufacturing sector

Cameroon has a relatively large and diversified manufacturing sector, serving primarily the needs of the domestic market and to a lesser degree for export to UDEAC. Most manufacturing is centred around Douala and uses domestic inputs. The contribution of the secondary sector (manufacturing ,mining, construction and utilities) has grown in recent years from 19 per cent of GDP in 1978/79 to about 40 per cent The sector is still dominated by the processing of domestic raw materials, on the one hand, and by the processing or assembly of imported raw materials and components, on the other. Cameroon industry tends not to be fully integrated into the economic structure and inter-linkages are limited.

Tobacco and beverages (in which breweries predominate) account for about 25 per cent of output; food and timber processing, fishery and forestry for a further 25 per cent. Metal production (notably aluminium); textile industry including clothing, leather working and shoemaking; and activities concerning electricity, water and gas each account for about an eighth to tenth of output. Growth in these sectors is uneven, being highest in building materials, followed by drinks and tobacco, metal, chemicals, rubber and plastics.

The sector is dominated by several large state and foreign companies. The Cameroonian private sector consists mainly of small- and medium-sized companies serving the domestic market although exports are consistently increasing.

The oil refinery, Societe Nationale de Raffinage (SONARA) , founded in 1981, has a refining capacity of 2 million tons/year. It is the single largest industrial unit with 34 per cent owned by foreign oil companies, the refinery's capacity is enough to serve the needs of the domestic market and provide an exportable surplus.

Another major industry is Alucam which started in 1958 and is the oldest factory in the country. It manufactures aluminium ingots from imported Guinean bauxite and is adjacent to a rolling mill. It has had difficulties breaking even in recent years. Alucam, with capacity raised from 60,000 to 85,000 tons per year, produces mainly for Societe Camerounais de Transformation de l'Aluminium (Socatral), Socatral, with a capacity of 30,000 tons/year, produces aluminium sheets for export, corrugated sheets and other items for the domestic and Udeac markets and inputs for the local utensils manufacturer, Alubassa.

The other major manufacturer is the cement plant, Cimencam. Plans announced in 1988 by the UK-based Blue Circle Group to set up another cement factory at Limbe with a 500,000 tons capacity have apparently been scrapped. Cement locally produced is inadequate for national requirements in both quality and quantity.

There are about 20 large saw mills and five plywood factories. A paper pulp factory with an annual capacity of 126,000 tons, Cellucam, began production in 1981 but was closed in 1986. Cellucam came into operation in 1981 but operating at a considerable financial loss and had suffered serious damage from explosion in the chemical plant because it had been fitted with equipment which was ill-suited to the quality of the wood found in Cameroon. The mill was closed down in 1982 and the project was finally wound up in 1986.

In terms of value added the textile industry is the second largest. Textiles and national clothing use locally produced cotton. Exports have been stagnating owing to competition from second generation newly industrialised countries.

A tannery came into operation during the 4th 5-year Plan (1976-81), with a target annual output of 200,000 cattle hides and 650,000 sheep and goat hides.

Other important industries based on agricultural raw materials include two sugar refineries, Sosucam and Camsuco, and palm oil refineries. Palm nuts are used in secondary sector production of soaps for export. Rubber is partially processed with litle value added for export. Heavy investment has been made in rubber trees and there is a tyre factory.

Fabricated metal sub-sector has grown rapidly and considerable gains have been made in chemicals, pottery, china and earthenware, glass and non-metallic mineral products.

A fertilizer plant, with a rated capacity of 60,000 tons per year, came into operation in 1976, was closed for technical reasons in 1978 before reaching its operational capacity, and recommenced operations in 1980.

Ownership is dominated by joint ventures between French companies and the government which has pursued fairly active industrial policy and taken substantial shareholdings in major ventures. The state has large holdings in major industries such as Socatral Alubassa and Sonara. There are about 60 parastatals. Foreign interests are still majority shareholders in large organisations. For instance in food, beverages and tobacco ; les Brasseries du Cameroun, Guiness Cameroun, Chococam, Sic-Cacaos, Bastos; in wood; Alpicam and Ecam-placages (Italian); in oil ; Elf Serepca, Bouygues Offshore Cameroun; in the Metal industry ; Alucam, Socatral, Alubassa, the SCDM and Socomecam, in textiles, clothing and shoes ; Cicam, Sicabo, Solicam and until recently the Bata factory. In the processing industries, Cameroon interests are now in the majority at least in terms of capital. the government has the lion's share. Asian interests are growing stronger. State companies include Sosucam (sugar), Cimencam (cement) and Crevecam (prawns).

The trend has been to pursue an industrial policy in line with overall development strategy based on import substitution. Another trend is to develop domestic supplies of raw materials such as rubber and wood.

Manufactured exports excluding petroleum account for about a quarter of known exports (figures for contraband being unreliable). These include aluminium (metal, sheet, plate and household items), textiles (fabric, household linen and furnishings, clothes and millinery), soaps, perfumes, rubber, some wood products and some vegetable oils and fats. Exports of food should be treated separately since they are closely linked to national agriculture (cocoa and chocolate, sugar) except beer which uses malted barley and maize and imported hops.

Imports of manufactures are about a half or two-thirds of total with emphasis on machinery, transport equipment, household goods and semi-processed goods. Cameroon trades mainly with Japan and European Community countries, notably France.

3. Obstacles to production

Large import-substitution industries face structural problems such as undercapitalization, overstaffing and managerial deficiencies. In addition, some entreprises such as Alucam have been adversely affected by rigidities in the pricing system. In common with other countries, another major obstacles to production is the shortage of foreign exchange. The fishing industry is hindered by boundary disputes.

4. Policies directed towards the manufacturing sector

While the Edea dam and aluminium-smelter complex (drawing on bauxite from Guinea) were completed in 1958, the bulk of other export-processing and domestic consumer-goods industry is of post-independence origin. The government has given priority to industrial development aimed at national and regional markets as a means of accelerating growth. To this end extensive tax and financing incentives have been made available, while the state has taken substantial shareholdings in major ventures, held through the Societe National d'Investissement (SNI). After recording major losses this company announced its intention of selling some holdings, and the government has appointed a commission to examine the restructuring of the parastatal bodies.

The government is considering a shift from import substitution to opening up manufacturing to more competition. The government holds an equity interest in 60 companies in various sectors of the economy through the Societe Nationale d'Investissements (SNI). These companies, entirely or partially held by the government, represent about 40 per cent of total value-added of the manufacturing sector. The budgetary burden of these companies has led to the establishment of a Mission for the Rehabilitation of State Enterprises to prepare the companies for restructuring and privatization. Only companies considered to be of strategic importance such as hydrocarbons are expected to remain under government control.

In the case of small and medium sized companies, the 1984 investment code gives priority to light industries that generate new employment. The Credit Industriel et Commercial du Cameroun with banking status was created in 1987 to provide financial support.

The fourth Five Year Plan (1976-81) had a relatively interventionist industrial strategy. Linkages between the raw material base and manufacturing were increased by development of an integrated pulp and paper mill, a tyre factory based on local rubber, the expansion of cement production (quadrupling to 510,000 tons in 1981), the increase in aluminium production capacity, and the installation of a petroleum refinery. At the same time, the government pursued a policy of state participation (normally at a minority level), 'Cameroonization' of management, decentralization from Yaounde and Douala, and local ownership of small and medium sized units.

Under the 1981-86 Development Plan, industry and energy were together allocated 17 per cent of planned investment, a lower proportion than under the previous Plan. This share of total investment was to be maintained during the 1986-91 Plan period.

The 1988/89-1991/92 investment programme agreed with the World Bank benefits manufacturing indirectly through improved raw material supplies and infrastructure. Agriculture will receive 24 per cent of planned expenditure to consolidate self-sufficiency in food, restructure the Hevea-Cameroun

(Hevecam) rubber company and combat low world commodity prices. A further 23 per cent will go towards improving roads and finishing an international airport, 14 per cent towards improving water and electricity supply and 14 per cent towards education and training. By 1992 gross public investment is planned to rise to 15 per cent of GDP, the same level as in 1987 before the effect of the 1986 oil price fall began to bite.

5. The scope for rehabiliation

There is substantial scope for rehabilitation in conjunction with macro economic reforms in general and the privatization programme in particular. The government recognises the need for rehabilitation in manufacturing particularly of the parastatals and the World Bank is assisting in the reconstruction programme. Opportunities are likely to arise in areas such as training, technical support and advice on productivity, management, financing and marketing Existing secondary information also suggests that there is scope for developing linkages with other sectors of the economy and for studying the demand for Cameroon's manufactures both in the region (notably the Zone Franc) and in the expanding European market. Based on secondary information on the existing manufacturing facilities most plants are potential candidates for rehabilitation. However, in order to increase foreign exchange earnings priority is likely to be given to privatized industries based on local raw materials which could compete on regional and world markets.

(For ongoing UNIDO projects, please see Appendix.)

**UNITED REPUBLIC OF TANZANIA**

1. General Introduction

Tanzania exploits diamonds, gold, various gem stones, phosphates, coal, gypsum, kaolin and tin although the formal mining sector has stagnated in recent years. Prospecting for oil and natural gas has been carried on for several years. Natural gas reserves are estimated at 130,000 million cu metres in the Kimbiji offshore field and 42,890 million cubic metres in the Songo Songo field; a project for using natural gas is being considered (see under Manufacturing).

Agriculture remains the mainstay of the economy accounting for about 80 per cent of export earnings and employing about 90 per cent of the economically active population. Only about 5 per cent of total land area is cultivated and only about 2 per cent of cultivated land is irrigated. Between 1978 and 1986 the annual rise in agricultural output was well below the population growth rate and there was a serious shortfall in many of the main export crops: coffee, cloves, cotton, tea, cashew nuts, sisal and tobacco. This was due partly to drought but also to other important factors such as low producer prices, inadequate research, dependence on imported machinery, fuel and other inputs; inefficiency of marketing and distribution systems; and inadequate storage and transport facilities.

The economy was also dislocated by the break-up of the East African Community in 1977, regional conflict in 1978/79, sharp increases in the price of oil in 1973/74 and 1979/80 and the generally import-intensive investments which were made, especially in industry, during the 1970s. The balance of payments subsequently deteriorated and the widening budget deficit was increasingly financed by monetary expansion. Although gross capital formation averaged over 25 per cent during the 1970s, the capital stock created could not be fully used owing to scarcity of imported inputs and to the deterioriation of land resulting from lack of maintenance.

Economic policy, which had originally centred on total self-reliance but proved ineffective in the face of high oil and other import costs, changed direction in 1982 when a 3-year structural adjustment programme (SAP) was prepared in consultation with the World Bank with the aim of:

. stimulating productive sectors (particularly the main export crops);

. curtailing unproductive development schemes and government spending;

. relaxing price controls.

A 3-year Economic Recovery Programme (ERP), launched in 1986 and closely linked wit the IMF programme and associated new aid arrangements agreed with the World Bank, aimed at an annual average real growth rate of 4.5 per cent, compared with actual rates of 3.6 per cent in 1986 and under 4 per cent in 1987 to 1989.

The 5th Development Plan, delayed from 1988, was launched in April 1989. It requires total investment of US$ 1,300 million over five years and aims to achieve real annual GDP growth of 6 per cent by 1992/93. Transport and communications are to receive 24 per cent of total investment, agriculture

18.5 per cent, industry 10 per cent and public works 9 per cent. The target for export earnings by 1992/93 is US$ 681 million compared with US$ 388 million in 1987/88 with imports rising to US$ 1,450 million from US $1,200 million.

Formal IMF approval of the 3-year structural adjustment facility (SAF) is expected in early 1990 following successful conclusion in late November of negotiations with the Fund on the pace of the reform programme. This paved the way for a World-Bank convened consultative group meeting for 18-21 December. The government announced a 17.4 per cent devaluation at the beginning of December to help sustain progress made in agriculture and industry under the IMF supported structural adjustment programme. The devaluation, the second in 1989 after the 4 per cent rate announced with the July 1989 budget, was expected to trigger about US$ 800 million from donors for 1989-90. Tanzania is to benefit from options under the Toronto Summit covering about 99 per cent of bilateral loans received in recent years. Tanzania is believed to have made no debt service payment on its bilateral debt since 1986.

## 2. The manufacturing sector

The decline in manufacturing has been steeper than that of the economy in general. Between 1980 and 1986 manufacturing value added is estimated to have declined by an annual average of 4.85 per cent owing to the lack of imported inputs and equipment required for operating industries and rehabilitation. The situation was aggravated further during 1982-85 when inflows of foreign aid declined, pending the government's agreement with the World Bank and the IMF. Overall industrial capacity utilization slumped to 20 per cent in the 1980s as the foreign exchange for essential spares was not available. Based on calculations for the early 1980s, small-scale industry is considered to be more efficient than large-scale.

During the second year of the ERP (see above), manufacturing value added increased as a result of improved access to foreign exchange for imported inputs under import support arrangements, the retention scheme and own-fund imports. Industries which showed considerable output recovery during 1987 were automobile batteries (22.6 per cent output rise over previous year), soap (50 per cent), corrugated iron sheets (86.5 per cent), cement (12.6 per cent), bags (42.9 per cent), hoes (18.8 per cent), tyres and tubes (25.2 per cent),, blankets (6.3 per cent), radios (44 per cent), soft drinks (21.8 per cent) and fish-nets (42.9 per cent).

In the <u>food processing</u> branch there are reportedly 25 small processing plants (of which only five are capable of producing) for canning and bottling of fruit products. Two of the five currently operating factories, Tangold and Tanganyika Packers, are parastatals while others are privatly owned. In general fruit canning and bottling factories operate on a small scale using manual operation and filling techniques.

The <u>animal feed</u> branch relies mainly on locally-produced raw materials such as maize, oil-seed cake, wheat bran, fishmeal, bonemeal, limestone and salt, supplemented by imported vitamins, amino acids and trace minerals. The branch is dominated by the four plants owned by Tanzania Animal Feeds Company (TAFCO) , a parastatal group, with a total installed capacity of 170,000 tons/year, the largest of which has a capacity of 10 tons/hour. The smaller private units have an estimated capacity of 80,000 tons.

Fertilizers, ammonia/urea, are to be produced using natural gas from the Songo Songo field (estimated 42,890 million cubic metres) under a project established by the Tanzanian Petroleum Company and a joint venture Kilwa Ammonia Co (Kilamco). The plant is expected to be built by Signal Companies, part of the US Kellog group. Funding, estimated at US$ 700 million, will be necessary although several countries have expressed interest including Italy, China, Yugoslavia and Japan. However, large export markets would have to be found for the project to be economic since Tanzania would consume only a small proportion of output.

Paper processing is dominated by Southern Paper Mills with an overall installed capacity of 90,000 tons/year of newsprint, kraft, machine-finished paper and pulps. There are several other small to medium sized units. All companies face stiff competition from better quality and cheaper imported products when foreign exchange is available.

The state-owned cement producer Tanzania Saruji Corporation (TDC) was expected to raise production at its three plants by 17 per cent in 1989 to 700,000 tons. With domestic consumption projected to rise to 580,000 tons and exports at 70,000 tons, this will leave 50,000 tons added to stocks. TDC has an annual capacity of 1.2 million tons. Tanzania has been self-sufficient in cement since 1983.

The Tanzania Electrical Goods Manufacturing Company (Tanelec), producing transformers and exporting switchgear and electric cookers, and NEM, a second electrical company exporting wall lamps and fluorescent light fittings, raised output in response to the devaluation.

In an effort to improve levels of capacity utilization, four engineering firms are to expand their production of spare parts for the cotton ginning and transport sectors. Guru Engineering Works, National Engineering and Mang'ula Mechanical and Machine Tools are to provide the cotton ginning spares. Tanzania Automobiles Manufacturing Company is to make radiators, silencers, bumpers and tyres for Scania trucks.

Future growth trends will depend largely on overall economic recovery, especially in the rural sector. Based on their performance in recent years, small-scale industries are the most likely to grow, particularly those producing food products, beverages and textiles. The metal products and machinery industries could grow in response to demand for tools and equipment.

Manufacturing is dependent on natural resources. Although producer prices have been raised and the exchange rate adjusted, there are still severe shortages of supply and manufacturing consequently still relies on imports. Forward linkages are limited except in the case of the textiles, paper and chemicals industries which supply the packaging industry; the sawmills which provide intermediate inputs for furniture and packaging; and the tanneries which supply the leather industries.

State-ownership dominates the tobacco, cement, iron and steel and large scale paper and textile plants. There is little public ownership in small-scale industry.

Exports of manufactures are negligible and include textiles, sisal products, cement and electrical goods. Petroleum products (20-30 per cent of manufactured exports), which are surplus refined products based on imported crude oil are considered to be re-exports. Imports are dominated by oil products, machinery and vehicles.

3. Obstacles to production

In common with other African countries, Tanzania suffers from a lack of skilled ma..ower and a shortage of foreign exchange for importing essential raw materials and spare parts. Past investment has tended to be in large, capital-intensive plants without taking into consideration the country's potential and needs. Power, water and road infrastructure are inadequate. Overall economic stagnation has limited the domestic market and policies have failed to encourage manufacturing.

About 50 per cent of activities performed by parastatals in the industrial sector are unproductive and produce negative value added when imports were valued at world prices. In most cases there is a clear relationship between high protection rates and low efficiency in industrial production. Other obstacles to production include

. oversized industries with a high import dependency;

. agricultural and transport bottlenecks;

. organisational and management weaknesses;

. discrimination against the private sector.

4. Policies directed towards the manufacturing sector

The adoption of the Arusha Declaration in 1967 resulted in the transfer of the ownership of major industrial units to the public sector.

The Basic Industries Strategy (BIS) adopted in 1974 was designed to bring about a structural transformation of industry with emphasis on self-reliance, greater domestic production of consumer goods and stronger linkages. However, industrial production stagnated owing to the heavy import content of new industrial investments and acute shortages of foreign exchange.

Since 1986 the ERP has helped revive the manufacturing sector. While ERP entailed substantial reduction in resource allocations to industry, investments in other sectors, especially agriculture and transport, together with rehabilitation of industrial entreprises, have reduced some of the production bottlenecks.

The Structural Adjustment Programme includes proposals for revitalising the industrial sector. The Ministry of Industry is responsible for industrial sector programming.

Under the programme the government aims to increase the domestic supply of agricultural inputs and of basic consumer goods throughout the country; to reduce the import content of industrial production; to generate a higher level of industrial exports; to minimize demands on the balance of payments for the expansion of industrial capacity; and to maximize revenue generating potential from new production units. Priority in the allocation of foreign exchange will be according to the supply of certain basic amenity goods; ensuring a reasonable flow of incentive goods to stimulate production; inputs and equipment for agriculture; the production of goods generating high sales and excise tax revenues (beer and cigarettes); and the production of export goods.

Foreign exchange allocations will aim to ensure capacity utilization of the most efficient plants. The overriding criteria for measuring efficiency will be the foreign exchange cost per unit of ouput compared to the cost of imports (in the case of the domestic market) and net foreign exchange earnings (in the case of the export market). Industries with surplus capacity or plants producing low priority goods are to be closed down. Although a few large-scale projects are still to be finished, the focus of the Programme will be rehabilitation. Procedures, controls and incentives are to be reviewed, simplified and made more coherent. The industrial support infrastructure in government agencies is to be strengthened.

A new investment code is to be introduced in early 1990. The main provisions of draft proposals are to open the economy to foreign investment in all sectors; to allow investments of over US$ 500,000 to benefit from concessions on duty and sales tax on imported capital goods; to reduce corporation tax from 50 to 45 per cent; and to allow registered firms to meet the tax bill of expatriate staff. A new code has been awaited since the shift in emphasis towards the private sector in 1986.

5. The scope for rehabilitation

There is substantial scope for rehabilitation within the context of the government's overall economic reform programme including areas such as training, technical assistance and advice on productivity, management, financing and marketing. The potential for rehabilitation in all subsectors is considerable, particularly within the context of the parastatal restructuring programme. Priority candidates are likely to be those industries based on agricultural inputs which can supply both the domestic and regional markets. Opportunities will also arise for developing linkages between manufacturing and other sectors of the economy. Bilateral assistance under the structural adjustment programme has already helped to remove some of the bottlenecks improving the performance of factories through the provision of spare parts.

The government recognises the need for rehabilitation in subsectors such as food, beverages and tobacco, textiles, clothing and leather; paper and printing, chemicals, rubber and plastics; cement and glass; metal products and machinery. However, the longer term viability of the industries to be rehabilitated needs to be assessed to ensure that they are competitive in the foreseeable future.

(For ongoing UNIDO projects, please see Appendix.)

**ZAIRE**

1. General introduction

Although landlocked, Zaire has enormous economic potential and is richly endowed with a wide range of resources. In addition to copper, diamonds, cobalt and zinc, the most important, there are also mineral deposits of gold, cassiterite, manganese, cadmium, silver, wolframite and columbo-tantalite. The state-owned mining company, Générale des Carrières et des Mines (Gecamines) is the leading producer accouning for over 90 per cent of copper output and all cobalt, zinc and coal production. A smaller-scale copper-producing company Société de Développement Industriel et Minier de Zaire (Sodimiza), also state-owned and originally a Japanese venture, is scheduled to merge with Gecamines in 1990. Gecamines has remained the lynchpin of the economy, providing estimated 45 per cent of total national revenue in 1989. With copper increasingly substituted by other materials in world industry and with Chile planning to bring on stream one of the world's largest and lowest cost copper mines in 1990, economic activity in Zaire clearly needs to be more diversified.

Zaire became an offshore producer of oil in 1975 and current oil reserves are estimated at about 140 mn barrels. Zaire has the potential to be not only self-sufficient in food but also to be a net exporter. However, the agricultural sector has suffered both from widespread expropriations of privately-owned plantations in the early 1970s and subsequent decline in output as well as lack of transport and communications. Forest, covering over 1 mn km2, has been little exploited.

Since independence the government has regularly overspent as a result of poor budgetary control and its ambitious programme to make Zaire a regional industrial power. Economic performance has consequently been disappointing. Per capita income is only about a quarter of what it was in the early 1970s. Export growth has stagnated. Agricultural output has fallen. Inflation was been runing at 100 per cent and the currency has depreciated sharply. Meanwhile, the external debt and debt service burden have risen. The main causes of these problems have been the deteriorating transport and communications system, weak economic institutions, shortage of skilled and technical manpower and an annual population growth rate of about 3 per cent.

Zaire has been following an IMF supported structural adjustment programme (SAP) since 1983. Relations with the IMF have frequently been strained. In October 1986 the government announced that Zaire would limit payments on foreign debt to 10 per cent of export earnings and 20 per cent of national budget. This threat was abandoned under IMF and World Bank pressure. In January 1987 Zaire reaffirmed its commitment to the 1983 SAP and a 3-year structural adjustment facility was approved in May of that year. Talks on continued IMF disbursements broke down in May 1988 and Mobutu announced that Zaire would 'go it alone' because debt service payments exceeded aid and lending inflows. A one-year standby was approved in June 1989 after protracted negotiations, triggering resumed IMF lending under the structural adjustment facility.

2. The manufacturing sector

The manufacturing sector was to have been the beneficiary of major state investment under the 'politique de grands travaux' which aimed to change Zaire's industrial direction by promoting the manufacture of finished goods and nurturing a spare parts industry.

The only project of importance to have been finished is Sosider, founded in 1972 and intended to form the base of an iron and steel industry. Its metallurgical plant outside Kinshasa has a theoretical capacity of 250,000 tons/year but production has never passed 10 per cent of capacity. The import of inputs has been irregular because of foreign currency shortages and the low level of capital support from the government. Sosider is to be privatised. Steel production never started on a commercial basis and the company currently only manufactures railings, sheet metal and irons goods.

Manufacturing centred mainly in Lubumbashi, is currently dominated by the food, tobacco, and textile industries. The output of units producing metal products and transport equipment remains limited although there is a growing trend towards local assembly of cars.

Brewing: the Bralima brewery is 70 per cent owned by Heineken and is the leading manufacturer in Zaire.

Cement: output was 500,000 tons in 1988 compared with a total capacity of estimated 881,000 tons. The six units, Ciza, Cinat, Cimshaba, Ciment-Lacs, Cimenki, CCC-GCM tend like other subsectors to be dominated by the state and Société Générale de Belgique (SGB).

Manufacturing is still dominated by the private sector, particularly subsidiaries of leading multinationals (Heineken, Unilever, BAT and Continental Grain). SGB tends to have a shareholding, if only a minority one, in most companies.

Exports are largely mineral-based. Manufactured imports consist mainly of road vehicles, machinery and consumer goods. Consumer goods other than food and clothing are imported because the main market consisting of wealthy Zaireans and expatriates tends to prefer foreign goods.

3. Obstacles to production

Before the introduction of the IMF and World Bank supported programme in 1983 (see under I), the generally unfavourable economic climate militated against industrial development. Ill-conceived, large-scale projects and the Zaireanization of management, for which the country had neither sufficient financial nor human resources, caused widespread closures of plants and withdrawal of foreign capital.

As in many other sub-Saharan countries obstacles include the limited domestic market, shortage of foreign exchange for essential imports of raw maeterials and spare parts and lack of skilled manpower.

However, one of the most immediate obstacles to development of Zaire's manufacturing sector remains the lack of infrastructure of all types: road, rail and river transport and telecommunications. Also,

regular supplies of foreign exchange to buy essentials are often available only to the larger, foreign-owned companies with good banking connections. Administrative inefficiency is an additional problem.

4. Policies directed towards the manufacturing sector

The 1983 recovery programme aims to improve efficiency by reducing the role of government and to encourage privatization.

Zaire has tended not to pursue conventional 5-year economic development plans. The 'Mobutu Plan' of 1977 was not specific and was never published in full.

The 1986-90 Plan provides for continued economic growth with new projects for infrastructure and industry including the aluminium smelter and fertiliser plant in the Inga Free Zone and the deep water port at Banana. Apart from strategic subsectors such as mineral processing, future manufacturing investment is to come mainly from the private sector. Although the plan has not been officially abandoned, economic policy in the second half of the 1980s has been devoted almost entirely to reducing inflation and the level of budget deficits.

The Department of Planning, responsible for industrial planning, has been strengthened substantially since 1985 and planning cells have been set up in public companies. UNIDO has prepared a project to improve industrial planning and promotion.

A new Investment Code is being drafted providing incentives to foreign investors if they contribute to job creation or the use of local resources. Eligible firms will be exempt from the employer's contribution to tax paid by general-category employees and from part of the income tax levied on expatriate staff responsible for training Zaire personnel. Eligible firms will also be exempt from tax on foreign raw materials and semi-finished goods and in certain cases from all import duties and taxes. Local factories supplying eligible foreign firms with equipment will be exempt from indirect taxes.

Changes in import and export taxes and duties have also been made.

To attract foreign investment, UNIDO assisted in setting up the export processing zone, Zone Franche d'Ingra (see also above).

5. The scope for rehabilitation

There is scope for rehabilitation in conjunction with the government's overall economic programme including areas such as training and advice on management, productivity, financing and marketing. Linkages between manufacturing and other sectors of the economy should also be developed within the overall restructuring programme. There is also potential to rehabilitate and expand agriculture (including the substantial forestry resources) to provide inputs for the agro-based industries. Transport problems (see under 3 above) should be reduced during the 1990s as a result of the large project being funded by the World Bank, the African Development Bank and other donors.

(For ongoing UNIDO projects, please see Appendix.)

**ZAMBIA**

1. General introduction

The cornerstone of the Zambian economy is mining, mainly copper and until the sharp fall in copper prices in the mid 1970s the economy performed well. Apart from unfavourable world prices, copper mining faces exhaustion of current recoverable reserves by the end of the century. Other minerals exploited include cobalt, zinc, lead, emeralds, amethysts, limestone. There are also deposits of gold, silver and selenium. Agricultural potential is considerable and Zambia has the capacity for self-sufficiency in food, supplying regional markets and providing raw materials for its food processing industry. Both the climate and low population densities favour further expansion of cultivated land. Agriculture remain the main source of employment although it contributes less than a fifth of GDP. In recent years the economy has also been vulnerable to the political instability in Southern Africa. Zambia is landlocked and depends on transport routes through South Africa and Mozambique.

Economic growth has followed an uneven downward trend since 1975 owing to the fall in world copper and cobalt prices compounded by internal problems including rising production costs, strikes and falling predctivity owing to a lack of investment. Plans have aimed to reduce reliance on copper and to stimulate agriculture and develop export industries. Although the break with the IMF in May 1987 led to the reversal of the measures undertaken under the austerity programme, the aims of the restructuring programme remained essentially unchanged. The emphasis in the Interim National Development Plan (July 1987-December 1988) was the promotion of agriculture, rehabilitation of mining and export promotion. The INDP envisaged a growth rate of 2 per cent over the 18-month period and its main measures were the revaluation of the kwacha, the lowering of interest rates, the introduction of price controls and the limiting of debt service payments to 10 per cent of export earnings with certain priority exceptions.

Since June 1989 the government has been introducing reforms to restructure the economy in the hope also of triggering release of aid frozen since IMF-sponsored reforms were abandoned in May 1987. The government's Policy Framework Paper, endorsed by the IMF and the World Bank in September 1989, was expected to be adopted as a 1990 shadow programme at a consultative group meeting in February 1990. With loan arrears to the World Bank and the IMF estimated at $1,000 million and debt to western governments and banks at US$ 7,000 million, the government will be seeking a substantial debt rescheduling in February 1990.

The 1989/90 budget announced in November 1989 emphasises public spending cuts and structural changes while cutting the budget deficit to 5 per cent of GDP. It also aims to reduce inflation which was running at 100 per cent in 1989. With real GDP growth for 1990 budgeted at 2 per cent compared with zero growth in 1989, the government plans to improve infrastructure and to encourage investment in order to increase productive capacity. Parastatals' requests for the government to capitalize loans will be curbed. Positive interest rates are to be maintained to encourage investment.

2. The manufacturing sector

Zambia has a relatively large manufacturing sector accounting for about 20 per cent of GDP. Immediately following independence, manufacturing output rose sharply under the stimulus of the rapidly expanding local market and import substitution of consumer goods produced in capital- and import-intensive plant and protected by high tariff barriers. Industrialisation in Zambia increased rather than decreased import dependence.

Gains were offset by the return to comprehensive import licensing and an administered exchange rate. Manufacturing output in 1987 was barely ahead of its level in the previous year and several firms experienced difficulties during 1987/88: for instance, Lyons/Brooke Bond suspended exports, owing to a decline in profitability associated with exchange rate changes; Bata sent 200 employees on three months' unpaid leave owing to shortages of new materials; Zambian bottlers could not obtain concentrates for their soft drinks; a foundry at Kitwe producing steel bearings for ore-grinding mills on the Copperbelt was working at only a fifth of capacity because of a shortage of carbon electrodes.

The government estimates that manufacturing grew by 1.3 per cent in 1989.

Consumer goods dominate and food and textiles account for over half of total manufacturing output, value added and employment. Information on the individual subsectors is however scant.

The Industrial Development Corporation (INDECO) accounts for about three quarters of registered manufacturing entreprises.

Indeco is heavily involved in food processing and beverages. The Zambia Sugar Company together with breweries and maize mills dominates the parastatal food sector. The food sector is potentially capable of satisfying domestic demand for all major foodstuffs and for many industrial raw materials. Oil seeds, tobacco, tea, coffee and poultry could also be exported. Raw materials are usually domestic in origin although in the oils and fats sub-sector much crude vegetable oil is imported and refined locally. About 80 per cent of firms in the food sector are privately owned, the remaining 20 per cent being parastatals or controlled by Indeco. There are about twenty agro-related industries including meat products, cereals, stockfeeds and packaging materials.

Indeco has also entered into partnership with foreign companies in order to establish a number of new activities, including a car assembly plant, a chemical fertilizer plant, an oil refinery, an explosives plant, a textile mill, a glass bottle factory, batteries and brick-making, a commercial vehicle assembly plant and the copper wire manufacturer - the first substantial domestic user of Zambian copper.

Central Cigarette Manufacturers has become unprofitable largely as a result of the government's policy of controlling the price of tobacco products (in line with its designation of tobacco as an essential commodity).

Textiles: a Zambian-German joint venture company established in 1973 to manufacture clothing. Hit by the shrinking domestic market and restrictions on imported inputs in the late 1970s, the company developed a niche market producing military and airline uniforms for export. The company's success is attributable to its competitive costs and quality and technology transfer through training.

The Kafue textiles plant, which is said to be well managed and has been steadily increasing exports, has experienced financial problems owing to difficulty in obtaining foreign exchange. The International Finance Corporation and the Commonwealth Development Corporation have consequently agreed to reschedule debt owed to them.

A sawmill supplied by Finland has doubled output to 80,000 cubic metres a year of timber, the quality of which is considered to be the best in the region. However, the company needs about US$ 4 milion for essential spare parts and raw materials.

In the chemicals sector the fertilizer producer, Nitrogen chemicals of Zambia, is dominant, representing the single largest investment outside mining.

Vehicle assembly is a fast growing sector, Rover Zambia has expanded its Ndola plant to assemble Toyota, Mitsubishi and Volkswagen trucks; Livingstone Motor Assemblers produces Peugeot and Fiat saloon cars, and Leyland Zambia has built a new assembly plant in Lusaka to produce 2,000 commercial vehicles per year. Czechoslovakia agreed in 1983 to help set up a tractor assembly plant with an eventual output of 2,500 units/year. A bicycle factory started operating in late 1982 with an annual capacity of 100,000 cycles. All of these ventures, however, have faced slack demand and input constraints as a result of Zambia's economic difficulties.

Ownership : The private sector has traditionally dominated the metal and engineering industries. The foreign corporate sector is especially strong in vehicle assembly, trye manufacturing and food processing. Private sector companies are generally smaller and less capital intensive than the parastatals which provide about two thirds of employment and value added. The key public entreprise is the Zambia and Industrial Mining Corporation (ZIMCO), involved in a wide range of industrial activities including batteries and parts, nitrogenous fertilizers and industrial acid.

Manufactured exports account for under 5 per cent of total. Under the 50 per cent Retention Scheme, enabling companies to keep foreign exchange earnings to purchase imported inputs and raw materials, many entreprises have been seeking export markets in neighbouring countries. Cement has been exported to Malawi and stock feeds to Tanzania.

Imports cover a wide range of manufactured goods. The import content as a percentage of inputs ranges from about 90 per cent for Dunlop Zambia to about 25 per cent in food processing, beverages and tobacco industries. The average for the sector as a whole is about 60 per cent.

3. Obstacles to production

In common with many other countries, Zambia faces a shortage of skilled manpower, and lack of foreign exchange. Additional obstacles include dependence on copper, landlockness, regional political situation, decreasing domestic demand and political interference.

Industry has also suffered from the rationing of electricity, owing to damage at the Kafue Gorge power station, and the diversion of foreign exchange to import fertilizer, grain bags and maize seed. Farm output was hit by poor weather in 1982.

4. Policies directed at the manufacturing sector

The INDP (see above) set the following objectives for manufacturing: to give priority to parastatal and private sector firms which produce goods which are essential; to improve quality; to encourage import substitution and export promotion through domestic resource use; to improve capacity use of existing plants and to promote small- and medium-scale firms. Policies affecting the manufacturing sector directly are the industrial development policy and taxation policy. Others of importance include trade, regional, tariffs, the exchange rate, interest rates and pricing policies.

The New Economic Recovery programme's industrial policy emphasises the use of domestic inputs, linkages with agriculture, promotion of non-traditional exports, encouragement of small-scale industry and rehabilitation of existing plants. This policy is more likely to advance the development of both manufacturing and agriculture than the previous import-substitution policy. Policy makers seem to see rehabilitation as a means of increasing the availability of management and other skills as well as a better supply of inputs.

Under the 1989/90 budget, the government plans to improve gemstone and precious metals sectors by reoganisation, to encourage domestic processing, and improve sales strategies. More competitive marketing of maize would be started and maize subsidies are to be kept to a minimum without damaging the interests of producers and consumers. The government plans to exempt from duty inputs used in the manufacture of fertiliser and to invest in agriculture in general to improve overall manufacturing productive capacity.

Zambia participated in the founding in July 1984 of the Preferential Trade Area (PTA) for East and Southern Africa. The PTA aims to reduce tariffs on local manufactures in trade among the 14 signatory nations. It has its own unit of account and clearing house at the Zimbabwe central bank. Its impact on Zambia's manufacturing output and trade appears, at present, to be small.

5. The scope for rehabilitation

About half of manufacturing units are located in the Copperbelt and a third in the central province including Lusaka. These two provinces also claim the widest range of industries with all major manufacturing branches represented. Industrial units are concentrated in a narrow belt along the Chingola-Kafue 'line-of-rail'. Several factors including the wide range of industries, good transport, a large percentage of the population, increase the likelihood of successful rehabilitation there. Inter-industry linkages can be easily established and a local market for consumer goods already exists. There is also the advantage of access to retail shops and metal working industries of the copper belt.

Given the right macro-economic environment and improved political stability in the region, the potential for rehabilitation in all branches of manufacturing is substantial. In addition to plant rehabilitation opportunities will also arise in areas such as training, technical support and advice in planning, management, productivity, marketing and financing in conjunction with the government's overall economic reforms.

(For ongoing UNIDO projects, please see Appendix.)

## ZIMBABWE

1. General introduction

The sophistication of the Zimbabwean economy and the pivotal place occupied by its manufacturing industry have led to the suggestion that Zimbabwe could become the first country in sub-Saharan Africa to join the ranks of the Newly Industrialising Countries (NICs) currently confined to Asia and Latin America.

Zimbabwe is rich in mineral resources including chrome, asbestos, iron ore, copper, nickel, platinum, palladium, gold. Agriculture remains the main employer and the engine of growth and development, not least because a high proportion of agricultural output serves as raw materials for the food processing and textiles. The most important activities are cattle ranching and the cultivation of maize, wheat and tobacco of which Zimbabwe is generally second to the USA as world exporter.

During the 1965-78 Unitilateral Declaration of Independence (UDI) period the white minority government, faced by an international economic boycott, started an import-substitution drive that stimulated the industrial sector mainly through tight foreign exchange control and a ban on profit repatriation by foreign companies. Both of these measures continued after independence although they have since been partly relaxed. Despite the highly protected environment in which expansion took place, World Bank studies indicate that production is fairly efficient.

Economic growth was strong during the early years of independence with good weather conditions for agriculture in addition to the positive effects of peace and normalisation of internationl economic relations. Growth during the 1980s was adversely affected by drought, falling world mineral prices and Zimbabwe's involvement in the regional conflict with South Africa. A sizeable part of the army has been stationed in Mozambique mainly to protect the Beira railway line, Zimbabwe's shortest link to the sea.

Apart from tobacco, Zimbabwe exports asbestos, meat, copper, pig iron, chrome ore and sugar. The trade balance tends to be in surplus and the current account moved into surplus in 1986, the first time since 1978. At independence Zimbabwe's external debt was negligible and debt servicing accounting for under 3 per cent of export earnings. As a result of falling exports and increasing financing needs, the external debt burden rose during the second half of the 1980s when debt service commitments averaged over 30 per cent of exports. Zimbabwe has hitherto avoided negotiations for debt rescheduling and IMF supported adjustment programmes. It has however borrowed extensively from the World Bank for agricultural, urban and infrastructural development.

2. The manufacturing sector

Zimbabwe's manufacturing sector has expanded over more than sixty years to become one of the most advanced and diversifed in sub-Saharan Africa. At independence Zimbabwe inherited an industrial base developed and expanded by an incentive structure established during UDI which protected and nurtured domestic industry. Manufacturing has been internationally competitive owing to the following factors:

- the relative openness of the economy during the Federal period encouraged the establishment of a wide range of competitive industries simulatanesusly;

- domestic consumer pressure for internationally-substitutable products (comparable with South African and British products);

- Zimbabwe had in place a sufficient skill and engineering base to adapt technology and production processes and make highly efficient use of foreign exchange for capital investment, frequently by buying second hand equipment;

- it had a sufficiently-beneficial export incentive system to encourage external trade, boosted by more lucrative gains from sanctions-busting operations.

Zimbabwe produces a wide variety of manufactured products, both for the local market and for export. The manufacturing sector accounted for 25 per cent of GDP in 1988, and for 16 per cent of the formal sector work-force in 1986. The volume index of manufacturing production (1980=100) reached 134 in the November quarter of 1988, the highest level since independence.

Foodstuffs have expanded broadly in line with increases in domestic demand and with changes in the agricultural sector leading to a reduction in imported food and the further processing of a wider range of crops and livestock. The subsector can be divided into meat products, canning and preserving fruit and vegetables and grain and animal foodstuffs. Among the most significant investors for export since 1980 have been Dandy (Denmark) for chewing gum; Heinz's investment in Olivine Industries and the UK's Dalghety in a joint venture with the local comglomerate Cairns Holdings.

Textiles: The Italian silk industry has set up a company called Tessile to breed silkworms and spin silk thread. Annual target production of raw thread is 500 tons, equivalent to about 10 per cent of Europe's requirements. Silkworm breeding is to take place on areas previously used for growing tobacco. Demand for tobacco has fallen steeply in recent years owing to the international decline in cigarete and cigar consumption. There are several cotton mills and clothing is manufactured.

Metal and metal products consist mainly of steel, ferro-alloys and agricultural machinery. The firms are almost all private. Zimplow and Bulawayo Steel Products manufacture a range of hand-tools and other implements while Tinto Industries is by far the largest of the firms making machine-drawn implements and supplies about 60 per cent of the domestic market. Of the 8 main manufacturers of agricultural implements these three account for about 90 per cent of total turnover.

There is vehicle assembly mainly of tractors with discusssion of building a tractor factory.

Paper and paper products are made by two leading companies of which Hunyani is one.

Fertilizers: To meet growing demand, Zimbabwe has had a long history of fertilizer manufacture with its origins going back to the early 1920s when a superphosphate factory was opened in Harare. It was in the late 1960s early 1970s when an ammonia plant based on an electrolytic process, was established. There are currently four main fertilizer companies, two upstream plants producing ammonium nitrate and phosphate fertilizers and two which manufacture, package and distribute a broad range of fertilizers from local manufacture and imports.

Stockfeeds are almost entirely locally produced from inputs themselves supplied by the agricultural sector including maize meal, limestone, flour, milk powder and groundnut, sunflower, soyabean and cotton seed cake. Imported grain bags are being phased out with the coming on stream of a polyweave bag plant at Bulawayo.

Ownership : manufacturing has tended to be owned, managed and operated by skilled personnel from either the settler white community or else owned by foreign capital interests which made use of these settler skills. Production is dominated mainly by large firms.

Interlinkages both within manufacturing and with other sectors of the economy are strong by comparison with other African countries. About a third of all input used by the different manufacturing subsectors is believed to be obtained from within the manufacturing sector itself.

Trends show that despite foreign exchange shortages, the environment for further development of industry is improving. Zimbabwe's financial infrastructure is highly developed,there is increasing computerisation within both the financial and commercial sectors, the domestic transport network is well maintained and there is an increasingly automatic, satellite-linked telecommunications system.

Manufactured exports are mainly ferro-alloys, textiles and processed food. Manufactured imports consist of energy products, machinery and parts (for assembly) and basic chemicals for further processing. Zimbabwe's industrial sector is the largest of all member countries of the Southern African Development Co-ordination Conference (SADCC) and the country is expected to become an key supplier of manufactured goods to the region.

## 3. Obstacles to production

The main obstacle to growth is continued political instability in the region which has diverted resources into defence and deterred private investment. This is compounded by Zimbabwe's landlocked position. Economic obstacles to production include:

. Shortages of foreign exchange for capital equipment and spare parts. The food industry for instance is affected by a growing shortage of tin-cans and the variable quality of cans which Metal Box is currently manufacturing.

.slower speed of bureaucratic decision-making is becoming an increasing handicap to industrial efficiency and to securing export orders.

.inward-looking nature of the sector has accelerated since the mid-1970s and as a result manufacturing's contribution to national foreign exchange saving and earning has deteriorated.

. falling real incomes in Zimbabwe.

. decreasing ability of neighbouring countries to buy Zimbabwean manufactured goods, many of which remain internationally competitive.

4. Policies directed towards the manufacturing sector

Zimbabwe's major import substitution thrust occurred before UDI when direct controls were imposed. The main source of manufacturing growth during the UDI period came from domestic demand expansion.

The Ministry of Finance, Economic Planning and Development formulates overall policies directed at manufacturing although the Ministry of Industry and Technology is directly responsible for industrial planning.

Under the Transitional National Development Plan 1982/83-1984/85 the objectives for manufacturing included the expansion of the sector and the intensification of linkages; improved competitiveness; the promotion of labour-intensive technologies; further import substitution; training and upgrading of staff; decentralization; increased local participation, ownership and control; and energy efficiency. These objectives were only partly realised owing mainly to world recession and obstacles to overseas trade.

The First 5-Year National Development Plan (1986-90), based on experience of the Transnational Plan, identifies manufacturing as the key sector for changing the structure of the economy, sustaining economic growth and generating foreign exchange. The projected annual average growth rate for the sector was 6,5 per cent with contribution to GDP of about 30 per cent by 1990.

The government has borrowed extensively from the World Bank to improve sectoral development (see above) and is receiving a US$ 36 million contribution towards a US$ 117 million 6-year credit scheme to increase smallholder production of food, cash and export commodities while encouraging commercial farmers to diversify into export and import-substitution crops. The World Bank is also interested in a 7-year project designed to conserve forests while sustaining fuelwood production and upgrading logging, sawmilling and manufacturing.

Problems of high import dependence, oligopoly and monopoly are to be addressed through the Industrial Development Corporation (IDC), the Small Entreprise Development Corporation (SEDCO) and local authorities in order to stimulate decentralisation, small-scale industries and wider ownership.

Government criteria in considering foreign investment proposals (as published in 1982) include contribution to managerial or technological expertise, training, employment promotion, impovement in quality and range of goods and services, promotion of rural development, export promotion or import substitution, research and development. Preference is given to joint ventures and transfer of technology.

5. The scope for rehabilitation

Before rehabilitation at a plant level is considered it is recommended that overall macro and industrial economic policies be reviewed to ensure maximum competitiveness of exports, availability of foreign exchange, incentives to foreign investors, more liberal trade and pricing policies and improved fiscal management. Increased political stability and secure transport links are also essential.

(For ongoing UNIDO projects, please see Appendix.)