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FINANCING THE SECOND INDUSTRIAL DEVELOPMENT DECADE FOR AFRICA (1991-2000)

Issue paper*

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I. INTRODUCTION

1. This approach paper is a first attempt to tackle a problem of immense complexity, namely to assess the funding requirements for the Second Industrial Development Decade for Africa (IDDA) and to suggest ways and means of mobilising the resources required.

The complexity of this exercise arises for four distinct reasons:

2. First, we are not dealing with one planning and development agency but with 51 independent sovereign states, each of which has a different political, economic and social scenario and all of which are at varying levels of industrial development.

3. Second, the timeframe of ten years is rather long for making precise estimations in the face of volatile price situations, inflationary conditions and changing patterns of the world's economy. Furthermore, we are faced with a situation where the governments concerned themselves design national development plans of durations extending only over four to five years and the donor agencies have even shorter planning periods. The ability both of national governments and of donor agencies to make such long-term commitments is questionable.

4. Third, long-term financial planning by governments is generally associated with and is more feasible in the case of countries which adopt systems of comprehensive national planning, where economic activity is largely in public sector hands and where the state is "dirigiste" in character. While, till recently, this may have been the situation in many African countries, the scenario is rapidly changing. There is a perceptible shift to economic liberalisation, a move from the public to the private sector. Investment decision making and consequently the assessment of funding requirements is passing on to a much larger field of actors. The imponderables in calculation have certainly intensified.

5. Fourth, the degree of confidence with which one can make projections is in direct proportion to the degree of confidence one has in the economies concerned. In this regard, Africa's recent record had been very unhappy. The imbalance between exports and imports, the colossal debt burden, the gross underutilisation of existing industrial assets, weaknesses in the institutional and physical infrastructure and the lack of adequate human resources - all these factors are disincentives to investment and certainly constrain foreign equity involvement.

6. These four factors have been stated not in a spirit of defeatism or as a counsel of despair. It is necessary to recognise them frankly - and indeed this has been done by the Conference of

African Ministers of Industry (CAMI) - in order to appreciate the limitations of undertaking a ten-year financial assessment and to highlight the enormous challenges confronting African planners, leaders, administrators and managers.

7. Despite the difficulties involved, it is imperative that the effort to calculate the resources required and to mobilise them be made if the second IDDA is to become a reality. The position could not have been stated better than in paragraph 302 of the approved IDDA document, "visions and dreams of development, strategies of industrialisation, projects and programmes acquire a sense of reality if they can be backed by financial resources, specifically mobilised and deployed for the purpose. One of the handicaps faced during the first IDDA and one of the reasons, amongst others, why the first IDDA did not come up to expectations, was that the required investment finance was not forthcoming."

II. THE CHARACTERISTICS OF THE SECOND IDDA

8. Before embarking on the financial analysis which is the main purpose of this approach paper, it is necessary to understand the conceptual basis of the second IDDA, its strategic orientation and the earlier background which had led to its design. Second IDDA is not an exercise prepared in a vacuum. It is a continuum from the first IDDA and the strategies envisaged in the Lagos Plan of Action.

9. The Lagos Plan of Action adopted in April 1980 was an integrated programme of African development covering all sectors of the economy - food and agriculture, industry, natural resources, human resources, science and technology, transport and communications, trade, finance, energy and the environment. The underlying spirit of the Lagos Plan of Action was the vision of African self-reliance and self-sustainment. An important element in the approach was the commitment to regional and subregional co-operation.

10. The first IDDA (1981-1990) was a creation of the Lagos Plan of Action and an integral part of it. Its aim was to translate the Lagos Plan of Action goals into the arena of industrialisation with the following objectives and strategic approaches:

(a) To use industrialisation as a means of attaining self-reliance and self-sustainment;

(b) To reduce traditional dependence on forces and factors outside the continent;

(c) To promote internal engines of growth;

(d) To increase the use of domestic factor inputs;

(e) To promote the establishment in Africa of core and strategic industries;

(f) To develop critical national capabilities, human, institutional and infrastructural, for project design, project execution, negotiating skills, mobilisation of financial resources, support services, entrepreneurship and business management;

(g) To promote regional and subregional co-operation as a practical means of enlarging markets, establishing multinational core projects and strengthening the interdependent physical and human infrastructure.

11. The brave dreams of the Lagos Plan of Action and the first IDDA remained, alas, unrealised. The decade of the eighties was a disaster for Africa and African leaders have themselves described it as the "lost decade". Per capita incomes declined, agricultural output could not keep pace with population growth leading to food deficits, the huge investment envisaged for the first IDDA did not in fact materialise, existing industrial assets performed poorly and Africa accumulated an enormous debt burden.

12. It would be duplicative to repeat the reasons why and how this happened. Earlier documentation has gone comprehensively into the question and indeed in designing the second IDDA programme, African leaders have taken into consideration the causes for the failures and shortcomings of the earlier approach. Second IDDA firmly reiterates its faith in the aims of the Lagos Plan of Action and of the first IDDA namely the attainment of African self-reliance and self-sustainment. However, there are appreciable differences in the strategies proposed to be adopted during the second IDDA to achieve the same goals.

13. It is important to recognise the basic elements of these strategies underlying the second IDDA as they have a direct bearing on the scope and direction of the programme, the thrust of investment, the scale of operations, the actors involved, all of which influence the issue of mobilisation and deployment of resources. The highlights of the strategic approach to the second IDDA include:

(a) The most striking difference between the first IDDA and second IDDA is the manner in which the two programmes were designed. First IDDA was conceptualised and articulated at a central level by the Economic Commission for Africa (ECA), Organisation of African Unity (OAU) and United Nations Industrial Development Organisation (UNIDO). It had of course the backing of the Conference of African Ministers of Industry but even so, it was more in the nature of a message to the Member States. For instance, estimates were made of the order of US$170 billion needed for investment in the so-called "core industries". These estimates were prepared by regional and sectoral groups of experts. They conveyed what needed to be done. There was no specific backing at the national level.

Second IDDA has been prepared at the grassroots level. Each Member State has designed its own ten-year national plan of industrial development based on its own economic, political and social circumstances, its own natural, human and financial resources and its own priorities. This has two significant implications. Firstly, the plans are based on the hard bedrock of realities and secondly the countries concerned are committed to the programme. In terms of financing the national programme, there is a sense of realism as each country has made an estimate of its own capability to mobilise funds and has already made a preliminary examination of ways and means of securing foreign assistance to meet the funding gap.

(b) Second IDDA has recognised courageously that it is not adequate to make heavy investments in creating industrial assets. Of equal importance is the responsibility of operating these assets at optimum level. The national programmes all recognise the poor performance of existing industries in Africa - low capacity utilisation and far from adequate input-output ratios. The programmes have consequently given a very high priority to rehabilitation and revival of existing industries. From a financial angle, this make good sense. For marginal investments in de-bottlenecking and rehabilitation, coupled of course with strong human and managerial effort, the returns can be most rewarding. Capital-output ratios will be more satisfactory than in the case of fresh investment. Donor support, it is expected, will be more likely to come for this effort.

(c) All the national programmes recognise that industrialisation should under no circumstances be at the expense of agriculture and food production. They also emphasise the interlinkage between agriculture and industry and the need to promote agro-industries. From the financial angle this approach will pay high dividends. Agricultural self-sufficiency will relieve the state of the heavy burden of food imports and increased rural prosperity will generate markets for industrial products.

(d) The leadership role was taken by the public sector in the first IDDA but unfortunately the performance of the state-owned enterprises was rather weak. A major shift in policy had taken place almost throughout Africa. Economic liberalisation is the order of the day and the private sector is now being called upon to advance the cause of industrialisation. This move has major financial implications. The strain on government budgets for investment funds will reduce. There will be greater dependence on private savings and foreign capital and the commercial and investment banks will have to play a more active role as providers of investment and working capital.

(e) A survey of the proposals for industrial expansion reveals a sense of modest pragmatism. There are no heroics about giant integrated steel plants, petro chemical complexes and other highly capital-intensive and technologically sophisticated industries. The choice of investments in the metallurgical, chemical, textile, leather, forest, fisheries and agro-based industries ranges from small to medium-scale. The chosen areas are less capital intensive and more labour intensive, the technologies are not too complicated and will be easier to absorb and adapt and the scale of investment will be relatively modest. In practical terms this range of investments will attract domestic private entrepreneurs as well as donor support.

(f) A major effort will be made during the second IDDA towards entrepreneurship development. The concentration will be on the small amd medium-scale entrepreneurs and the informal sector. Institutional support is foreseen for this drive.

(g) In keeping with the move towards the privatisation of industry, African countries will make a strong bid to attract foreign venture capital. Towards this end, Investment Codes are being liberalised and an atmosphere conducive to foreign investment is being created. Foreign capital is vital to the success of the second IDDA as it will not only help to bridge the resource gap but will also bring in technology, managerial know-how and access to export markets.

(h) Second IDDA will make a major effort to strengthen the physical infrastructure without which industrialisation will not be possible. The programme includes development of railways, roads, ports, transport and communications, telecommunications, water supply, energy and housing. The cost of production, competitiveness and cost-effectiveness of industrial production would certainly be conditioned by the quality of the physical infrastructure.

(i) Second IDDA places equal stress on the development of the institutional infrastructure. This includes critical industrial support services such as R & D agencies, industrial consultancy, testing and quality control services, engineering and process design capability, industrial information services, standardisation and metrology services. On a wider scale is the question of the strengthening the educational system from primary school to university, with special emphasis on technical education. Of equal consequence is the need to strengthen industrial financial institutions - development banks, commercial banks, export finance, leasing, insurance stock markets and commodity exchanges. Finally, the second IDDA recognises that the most critical part of the institutional infrastructure is the government itself. An attempt is being made to debureaucratise government agencies converting them from regulatory to promotional bodies and to design government policies relating to taxation, exchange rates, import-export regulations and investment codes to create what is now described as an "enabling environment".

(j) The spirit of the IDDA lies in the development of African capability. Hence human resource development forms a central core of IDDA. The aim is to upgrade skills in all areas critical to industrial development - entrepreneurial, managerial and technical. An important element is the integration of women in the industrial development process.

(k) Finally, IDDA reiterates the urgent need to convert the declarations of African solidarity and the oft repeated plea for regional and subregional co-operation into concrete reality during the second IDDA . The fragmentation of the continent has resulted in a situation where the majority of African countries are not large enough to go in for optimum-sized industries. This applies in equal measure to the development of the physical infrastructure particularly transport and communications. The importance given in the second IDDA to regional and subregional co-operation is evidenced by the fact that a seperate Part II of the second IDDA document has been exclusively devoted to this question.

14. Reviewing the panorama of projects and activities which constitute the second IDDA and seeing this programme in the cold light of the need to raise the requisite financial resources to sustain it, it is repeatedly urged to that it is imperative to prepare a shelf of "bankable projects". Such a shelf, it is argued, would be the only way to attract investors, lenders and technical assistance.

15. Prima facie, this advice appears sound, based as it is on a sense of economic pragmatism. The term "bankable project" presumably conveys an investment proposition which is backed by a feasibility study/project report which establishes its technical, managerial and commercial viability. Its products can be marketed at a profit and the venture will have a sound balance sheet. Certainly such a proposition would be attractive to lenders investors.

16. The projects included in the second IDDA under the head "industrial expansion" and, to a great extent those covered by rehabilitation should be subjected to this discipline. But one should not lose sight of the composite nature of the IDDA programme. There are many elements in the programme, as critical as direct industrial investment which cannot be evaluated by the "bankability" criteria, as earlier defined. These include development of the physical infrastructure, stengthening of the institutional infrastructure, capacity building and human resource development, promotion of small and medium enterprises, export promotion and revamping of public policies affecting industrialisation. It is not possible to prepare conventional profit and loss accounts for these activities and yet they are basic to industrial development. They require funding. They also require foreign aid. It goes without saying that these concepts should not remain at the level of generalities. Specific projects and programmes need to be prepared along with cost-benefit analysis.

III. FIRMING UP THE SECOND IDDA

17. We have already had occasion to note that one of the strong points of the second IDDA is the fact that it is based on national programmes, prepared nationally. This aasumption needs reverification and reconfirmation. A scrutiny of the 47 "national programmes" received will show that they do not at all have the same status. They fall within the following categories:

(a) National programmes which have been formally approved and adopted by the national government;

(b) Draft national programmes, cleared by civil servants and planning agencies, awaiting formal approval at the political level;

(c) Draft national programmes, prepared by local experts in consultation with local officials waiting formal approval at civil service and political levels;

(d) Draft national programmes prepared by foreign consultants, in the nature of recommendations made to the national authorities.

18. One can however reasonably assume that the "national programmes" received do in fact reflect the thinking of the governments concerned. This is reconfirmed by the fact that paragraph 20 of the second IDDA document "Self-Sustained Development Through Industrialisation", approved by CAMI.10 specifically states that 47 African countries had prepared national programmes and the names of these countries were specifically cited. The ministers of industry of the countries were present at Dakar when this programme for the second IDDA was approved.

19. Nevertheless, to set aside all ambiguity and doubt, it would be desirable for each Member state to review the draft "national programme", update the projections and accord formal approval to the document. It could then be used as an operational instrument for implementation and action-orientation.

20. As a second step, it is suggested that the ten-year period of the second IDDA should be divided into suitable operational phases/tranches. This would be a practical measure in the light of the difficulties outlined earlier and indeed recorded in the second IDDA document itself, regarding projections over too long a period. While it would no doubt be desirable to have uniformity in the period of phasing for all African countries, this may not be practicable. The most logical arrangement would be to make the phases co-terminus with the periods fixed for the national development plans.

21. An immediate exercise which African countries may be requested to undertake while reviewing their national programme is to categorise the proposed activities into the four elements classified in the second IDDA document:

(a) Programmes of rehabilitation;

(b) Programmes of industrial expansion;

(c) Promotion of small and medium-scale industries;

(d) Support services:

(i) physical infrastructure;
(ii) institutional infrastructure;
(iii) human resource development.

22. Along with this exercise and as a prelude to prioritisation and cost estimation, it is suggested that the proposed programmes should be classified according to their present operational status, thus:

(a) Existing investments needing rehabilitation;

(b) Completed projects awaiting commissioning;

(c) Projects under construction;

(d) Approved investment projects where finance has been tied up;

(e) Approved investment projects for which finance is being sought;

(f) Projects for which feasibility studies and project reports have been completed;

(g) Projects for which feasibility studies and project reports are currently under preparation;

(h) Project ideas.

23. It is expected that from year to year, projects will move up the scale as they mature.

24. Finally, there comes the most difficult task of establishing priorities. No doubt the total shelf of projects and programmes incorporated in the national programmes are all relevant to the industrialisation goal. However, the stark reality is that resources are limited and consequently hard choices will need to be made. To begin with funds required for industrial investments will have to come out of the general kitty of funds available for overall economic development. This will involve a wider national priority exercise, particularly to the extent that the funds come from the public exchequer. It would seem that while preparing the national programmes for the second IDDA, the claim of other sectors of the economy of equal importance has not been adequately examined.

25. Within the industrial sector, the highest priority must go to the rehabilitation and regeneration of existing industries. It has been clearly recognised in the second IDDA text that it is not advisable to go in for large-scale industrial expansion without

first setting the existing house in order. An urgent diagnostic exercise has to be undertaken to ascertain the causes for industrial sickness and to work out a remedial plan of action. The aim must be to raise capacity utilisation to at least 70 per cent.

26. In selecting new investments, no set rules can be imposed. However it would be desirable for each country to establish an appropriate set of investment criteria and a professional mechanism for scrutinising project proposals and taking investment decisions. The goals of the second IDDA would seem to indicate the following investment criteria:

- employment generation;
- lower capital intensity and higher capital-output ratios;
- export earnings;
- development of backward areas;
- use of domestic factor inputs;
- existing or potential adequacy of African professional and technical staff;
- adequacy of the local market or firm arrangements for creation of regional markets;
- international cost-competitiveness.

27. It is vital that the strictest discipline be imposed in filtering investment proposals through this set of investment criteria, so as to prevent unworkable and non-viable investments.

28. After the above exercises are completed, an assessment of the total costs involved would need to be prepared. Each national programme must be accompanied by a financial annexure.

IV. MOBILISING DOMESTIC RESOURCES

29. The first IDDA emphatically stated and the second IDDA has reiterated that the conception and execution of the programme of industrialisation is jointly and severally the responsibility of the African countries themselves. By the same token, it is implied that the main burden of raising the funds for industrial development must be that of Africa itself. It is of course by no means Africa's case that it can raise the required resources by itself. The injection of foreign capital, donor aid and technical assistance will be needed and will be asked for. But such external help will be forthcoming only if it is perceived that a genuine effort is being made by Africans to raise funds and to use funds prudently.

30. The problem of domestic financial resources for development is not divisible. The resources raised and available for investment are needed for a variety of economic sectors. The resources constitute a pool on which competing demands will be made. It is thus not practicable to undertake a totally independent exercise on raising domestic resources solely for industrial development.

31. Domestic financial resources can be raised from the following sources:

(a) Budgetary resources;

(b) Surpluses of public enterprise;

(c) Private savings;

(d) Surpluses of private enterprises;

(e) Funds of development banks;

(f) Funds of commercal banks;

(g) Funds of insurance companies, housing societies, unit trusts and other financial institutions;

(h) Export earnings

(a) Budgetary resources

32. A survey of the national programmes brings out the grim reality that the majority of African countries do not have any budgetary surpluses available for investment in industrial development. On the contrary, most countries are running unmanageable budgetary deficits which in turn are leading to inflationary spirals. It would require a great deal of optimism to believe that a substantial portion of the resources for second IDDA can come out of budgetary surpluses, unless there are major changes in policy and practice.

33. The turn around can come if public income can be raised and public current expenditure reduced. The raising of public revenues is possible only through raising taxes (or ensuring better

collection) or by raising public loans. The first option is hardly available because of low private incomes. Existing tax levels in most African countries have reached saturation level. There are two positive factors for the future. First, if the plans for the second IDDA do in fact mature, the additional production and income so generated will widen the tax base. Second, there is already in existence a substantial informal sector, whose activities are unaccounted for and who are currently not paying any taxes. The question is whether the African governments can create conditions to bring the informal sector within the national accounting system. A huge source of resource is today escaping the tax net.

34. The same considerations apply to the capability of raising loans. There is inadequate private suplus income to lend to the government and even where there is, the high inflation and continuing decline in the value and purchasing power of local currencies is a disincentive to savings. Interest rates are not keeping pace with inflation rates. Consequently there is a preference for investments in property and tangible assets or for activity in the informal sector.

35. It would therefore appear that the only plausible way of raising budgetary resources is by reducing expenditure. Obviously the axe should not fall on much needed development expenditure. A sharp review would need to be made of current expenditures to weed out wasteful and unproductive outlays. Amongst the areas which bear scrutiny are:

- subsidies;
- military expenditures;
- overstaffing;
- speed of decision-making;
- support to losing public enterprises;
- ceremonial expenditure;
- excessive participation in conferences and talk-shops;
- dismantling of excessive bureaucratic controls.

36. Many African countries have commenced diagnostic studies into public expenditures to eliminate waste. Some of these areas of examination are part of the conditionalities imposed by the World Bank/International Monetary Fund (IMF) as part of Structural Adjustment Programmes (SAP).

37. Finally, African countries must courageously face the fact, which is often swept under the carpet, that corruption is rampant in many countries and public funds find their way into private hands and move into the informal sector or into foreign bank accounts. It hardly seems right the countries should bemoan the lack of financial resources, when in fact substantial resources are illegally funnelled away.

(b) Public enterprise surpluses

38. Throughout Africa, there have been enormous investments in state-owned enterprises. Unfortunately, these investments have not

paid off. With some exceptions which give rise to hope, the general record of public enterprises in Africa has been very poor. Most of them are running into heavy losses and are a continous drain on the public exchequer. Studies conducted in several African countries, sometimes with technical assistance from UNIDO and the Word Bank, have revealed a variety of reasons for this dismal performance:

- underutilisation of installed capacity;
- low productivity;
- overstaffing;
- political and bureaucratic interference;
- lack of professionalism in management;
- underpricing of products;
- undertaking at the instance government social obligations to the detriment of the profit and loss account.

39. One of the important programmes included in the second IDDA is the revitalisation of the public enterprise sector. African governments are no longer in a position or in a mood to bear public enterprise mismanagement and losses.

40. The measures launched to improve performance include grant of managerial autonomy, insistence on accountability for performance, strenghtening professionalism, freedom of pricing and in some cases privatisation. The net result of these steps should be two fold:

- elimination of losses thus relieving the budget of the present drain;
- generation of surpluses which will augment the pool of domestic financial resources available for investment in the second IDDA.

(c) Private enterprise

41. It is expected that during the second IDDA, there will be a major growth in private entrepreneurship, particularly in the small and medium-scale sectors. To the extent that this actually occurs and on the reasonable assumption that private businesses will be run profitably, the growth of the private sector will automatically augment domestic resources through the generation of profits and payment of taxes. This trend will be even faster if steps can be taken to bring the informal sector into the accounted economy.

(d) Private savings

42. Earlier, mention has been made about the constraint on private savings because of generally low and oftimes subsistence incomes. Further, the incentive for individual and household to save does not exist because interest rates generally tend to be negative, lower than the rates of inflation. It is hoped that the second IDDA programmes will generate higher incomes and result in lowering the inflationary trend, thus setting in motion a savings drive.

(e) Domestic bank finance

43. In the industrialised world, the banking system plays a key role in funding industry, both in the shape of long-medium-term loans for capital investment and working capital to keep the wheels of industry moving. The commercial banks find themselves unable to raise deposits because of the earlier mentioned negative interest rates and low private incomes consequently they are in no position to provide cash credit to industrialists.

44. Some African countries such as Côte d'Ivoire, Mauritius, Zambia and Zimbabwe have established development banks. These institutions need to be strengthened to play a catalytic role in the industrialisation process by providing venture capital and long-term loans.

45. With the current trend towards privatisation, there is a clear need to revamp and strengthen the banking system in African countries.

Task Force

46. It is generally assumed in developing countries that the responsibility for mobilising resources is that of the Ministry of Finance. While no doubt the Ministry of Finance does play a vital role in the process, there are, as the earlier survey shows, a number of actors involved. A joint and co-ordinated effort is called for.

47. It is therefore proposed, for the consideration of the Member States, that a task force on resource mobilisation should be urgently set up in each country. The team should include representatives of the ministries of finance, planning and industry, the central bank, commercial banks and chambers of commerce.

V. MOBILISING FOREIGN RESOURCES

48. The raising of domestic financial resources for funding the second IDDA must of course be accepted as a governing principle, arising out of the self-reliance concept. Thus while adopting the programme for the second IDDA, the Council of African Ministers of Industry in Res.1(ix) specifically "appeals to African countries and to African intergovernmental organisations, particularly financial institutions, to take the necessary measures to ensure the successful implementation of the programme for the second IDDA and to give priority to the mobilisation of their own financial resources for the implementation and monitoring of the programme."

49. African leaders have, however, themselves recognised that the second IDDA and for that matter overall socio-economic development would be an impossible dream if it is to be based totally on domestic funding. The inflow of foreign capital in the shape of equity and loans as well as technical assistance would be absolutely necessary. In Res.1(ix) CAMI.10 makes the following appeals:

"Also appeals to the international community, particularly bilateral and multilateral funding intitutions, to increase significantly their contributions to the industrial sector in African countries, so as to ensure successful and sustained implementation of the programme."

"Specifically urges international financial institutions, particularly the World Bank, the International Monetary Fund and the African Development Bank, to ensure full support to the activities programme and effective implementation of the programme at the national and subregional levels."

"Further appeals to the United Nations Development Programme to allocate, under its fifth cycle regional programme for Africa (1992-1996), adequate resources for supporting the activities of the programme."

50. What will be the response of the international community to these appeals? There is reason for optimism, judging at least by the pronouncements and declared programmes of multilateral and bilateral agencies. The World Bank/IMF are deeply committed to African development and are closely associated with the majority of the member states through Structural Adjustment Programmes. United Nations Development Programme's (UNDP) fifth cycle programme and the programmes of several United Nations agencies, notably ILO, FAO, UNESCO and UNIDO have taken into consideration the directions provided by the second IDDA. The African Development Bank (ADB) and other international development bankers are viewing the second IDDA programme as a base for lending operations. Bilateral support from many friendly countries will also play a major role. It is in the area of private capital investment (FDI) that the question mark still remains.

51. The foreign support will come in the shape of loans, equity participation, grants and technical assistance. It is necessary to open a dialogue with each of the existing and potential foreign

partners to firm up their respective committments. The exercise will also help to bring about co-ordination and joint effort.

A. UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP)

52. UNDP is the largest single financial contributor towards technical assistance to developing countries. In the year 1990, UNDP outlays totalled US$1.4 billion. The expenditures covered direct field programmes, costs of UNDP administered trust funds, programme planning, management and co-ordination by 112 field offices and headquarters and support costs for 31 executing agencies. UNDP's 1990 annual report claims "one measure of UNDP's impact is the follow-up capital investment generated as a result of UNDP's pre-investment work. These commitments came to an estimated US$14 billion".

53. Out of the estimated programme expenditure of US$1042 million, more than one-third namely US$379.6 million was devoted to Africa. The break-up of the programme expenditures by sector indicates that industry received only US$121.3 million, less than 10 per cent. However, as the second IDDA has recognised, there are a host of inter-related and supporting activities which are relevant to industry. Aside from industry, UNDP programmes cover IDDA-related activities such as agriculture, forestry and fisheries, transport and communication, science and technology and human resource development.

54. During the fifth cycle (1992-1996), the IPFs for all developing countries are estimated at US$4162 million. Out of this, the IPFs for Sub-Saharan African countries amount to US$1580.7 million and for Arab African countries US$189.2 million.

55. Until recently, most of the UNDP financed projects were being executed by various UN agencies. There has now been a major change in UNDP policy. Under the Successor Arrangements, the execution of the bulk of UNDP projects will be directly by the governments of developing countries. This would mean that larger amounts will be available for being channelled directly to developing countries. It would also be in consonance with the objective of promoting self-reliance. The inevitable fall-out of this decision has been the adverse impact it has had on the financial position of UN agenies including UNIDO.

56. The governing council of UNDP, at its June 1990 meeting, directed that during the fifth cycle, UNDP could concentrate on building national capacity in six specific areas:

(1) Poverty eradication through grass roots participation in development;

(2) Environmental protection;

(3) Management development;

(4) Technical co-operation among developing countries;

(5) Technology transfer;

(6) Promotion of women in development.

57. These objectives are all related to the overall aim of building human capability, which is a principal goal of the second IDDA. Industrial development has not been specifically listed in the framework of objectives. However, projects coming under technology transfer, technical co-operation among developing countries, management development, environmental protection are, by their very nature, supportive of industrialisation.

B. THE WORLD BANK

58. There is little doubt that of all multilateral and bilateral involvement in the economic development of Africa, the intervention of the World Bank and its associate institutions, the IFC and IMF is the most significant. The Bank has already been involved in African development during the decade of the eighties and this involvement is likely to be intensified during the nineties. A review of the national programmes for the second IDDA reveals that the great majority of African countries are in receipt of Structural Adjustment Loans (SAL) and have adopted Structural Adjustment Programmes.

59. This situation has had a major conditioning effect on the scope and thrust of the second IDDA, and this is evident in the drafting of the national second IDDA programmes. The SAPs incorporate a package of World Bank inspired policy approaches which include:

(1) The belief that the market is a more efficient mechanism for promoting optimum resource allocation than state planning and "dirigisme";

(2) Realistic exchange rates reflecting the true value of a country's currency;

(3) Positive interest rates to encourage savings;

(4) Avoidance of large budgetary deficits;

(5) Trade liberalisation and removal of bureaucratic constraints;

(6) Avoidance of subsidies;

(7) Encouragement of the private sector and a lessening role of the parastatals.

60. This proposed package of policies reflects the traditional view of the Bank. Experience in many developing countries and particularly in Africa has resulted in a significant re-orientation of the Bank's approach. This is based on the realisation that is

not adequate just to get the "rules of the game" right. More positive institutional steps are called for including:

(1) While giving the highest priority to agriculture and food security, industrial development must simultaneously be encouraged;

(2) Growth by itself will not alleviate poverty. Income redistribution and poverty alleviation programmes must be part of the strategy of equitable growth;

(3) A realistic set of public policies needs to be accompanied by promotion of African entrepreneurship to capitalise on the open business environment. The development of small and medium business holds the key;

(4) The focus should be on improving productivity of existing capital assets to make them generate surpluses;

(5) There is a need to create an enabling environment including capability building at the planning, administration and managerial levels, development of the physical and institutional infrastructure and promotion of science and technology.

61. The programme for the second IDDA is fully in harmony with the policies and practices being advocated by the World Bank and this will hopefully attract the fullest support of the Bank towards the successful execution of the second IDDA. Confirming his support for the second IDDA, the representative of the World Bank addressing CAMI.10 emphasised the importance of industrial and enterprise development as an engines of growth and highlighted "the growing convergence of views" between the Bank, ECA and UNIDO, based on an understanding that actions in the industrial field rested on:

(1) A correct policy and regulatory framework to provide an environment for dynamic enterprise growth;

(2) An appropriate organisational and institutional context that enabled the factors of production and firms to interact and mediate amongst themselves;

(3) The development of market-driven business support by systems to help transfer knowledge and information and deliver finance, technology and market access.

62. While these sympathetic statements are being made by Bank officials and while there is a declared recognition of the importance of industrialisation, in actual practice the lending portfolio of the Bank in Africa only marginally covers industry. The 1990 World Bank Report makes no reference at all to the IDDA (hopefully this will be rectified in the 1991 Report as World Bank recognition of IDDA commenced effectively only last year).

63. The lending figures (IBRD and IDA combined) speak for themselves. The annual average lending during the period 1981-85 to Africa (the term covers only Sub-Saharan Africa) was US$1874.7 million of which the share of industry was only US$37.2 million. In the year 1990 overall lending rose sharply to US$3932.9 million of which the share of industry was US$105.1 million (about 2.8 per cent). However, it must be recorded that these figures do not fully reflect the Bank's contributions to the general IDDA programme. The 1990 porfolio includes several items which are IDDA-related:

Small-scale enterprises	US$130.0 million
Public sector management	US$ 45.6 million
Telecommunications	US$225.0 million
Transportation	US$543.6 million
Energy	US$230.0 million
Technical assistance	US$ 56.0 million
Development finance companies	US$127.6 million

64. This pattern indicates that the Bank's strategy is to strengthen the physical and institutional infrastructure, to create an enabling environment for industry to grow. To this extent, the Bank's policy and practice is clearly supportive of IDDA aims.

C. THE INTERNATIONAL MONETARY FUND (IMF)

65. The World Bank's sister organisation, the IMF, has also been actively engaged in Africa, in the analysis of macro-economic developments and design of policies conducive to external financial balance and sustained economic growth. This has been accompanied by direct financial assistance. Under United Nations Programme of Action for African Economic Recovery and Development (UNPAAERD), the IMF has disbursed substantial resources under its Structural Adjustment Facility (SAF) and enhanced Structural Adjustment Facility (ESAF). Globally IMF has made available SDR 8.7 billion to the eligible countries on highly concessional terms. The 62 eligible countries include 34 African countries. At the end of 1990 US$1.34 billion was commited under SAF and US$1.77 billion under ESAF. It is expected that the amount of IMF assistance will increase further, as more countries embark on sustained adjustment programmes.

66. In addition to SAF and EASF, the Fund will also allow access to stand-by arrangements and the Extended Fund Facility (EFF). IMF has also developed a "rights approach" under which a member with protracted overdue obligations would earn "rights" conditioned on satisfactory performance during the period of a programme. So far, 11 members have become eligible for "rights" including 5 from Africa.

67. In June 1990, the Fund's Board of Governors approved the Ninth General Review of Quotas which provides for 50 per cent increase in quotas, from SDR 90.1 billion to SDR 135.2 billion. This substantial quota increase will ensure resources to enable the Fund to fulfill its global responsibilities. African countries can confidently look forward to enhanced resources from the IMF during the period of the second IDDA.

D. THE INTERNATIONAL FINANCE CORPORATION (IFC)

68. The IFC has so far been the largest source of direct investment in the private sector in developing countries. In Africa, IFC's main focus has been on Sub-Saharan Africa. IFC has open two subregional offices in Eastern and Western Africa to increase its promotional role. More than 75 per cent of its African investments have been in the area of industry. So far IFC investment in Africa amount to the not insignificant amount of US$164 million, constituting 14 per cent of its global portfolio.

69. It is encouraging to note that IFC has taken a number of promotional initiatives, which are supportive of the IDDA programme. They include:

- the setting up of the African Projects Development Facility (APDF) in co-operation with ADB and UNDP. APDF provides advisory services to African private entrepreneurs in the much needed area of preparation of viable projects;

- the setting up of the Africa Enterprise Fund (AEF) to assist small and medium entrepreneur;

- the establishment of the African Management Services Company (AMSCO) to provide high-level management and technical assistance to local managers to enable them to sustain high levels of performance.

70. The 1990 World Bank Report records "net investment approvals in Africa rose 50 per cent in 1990 to a record level. Several sizeable investments were approved, particularly benefited from private sector-oriented economic reforms. The corporation continued its efforts to assist small and medium-sized businesses in Sub-Saharan Africa. Thirteen investments in such businesses were made through the Africa Enterprise Fund. With staff in place, this program is expected to expand considerably. Demand for the services of the APDF, which was given a five-year renewal, continued to be strong."

71. These positive initiatives and the high investments made so far by IFC in Africa indicates IFC's confidence in Africa's capability of promoting industrial development. It is hoped that during the period of the second IDDA, IFC's activities will be intensified. Indeed keeping in mind the trend in most African countries to encourage the growth of the private sector in industry as well as IFC's mandate to promote private entrepreneurship in developing countries, the corporation will certainly have a major role and responsibility during the decade. Hopefully the quantum of its investments will increase substantially.

E. THE AFRICAN DEVELOPMENT BANK (ADB)

72. For the financing and execution of the second IDDA and indeed for the industrialisation of Africa, the key African institution is undoubtedly the ADB. It must be recollected that the ADB's

responsibilities cover overall socio-economic development. Industry has been receiving a relatively small but growing percentage of the Bank's lending. In 1986, the Bank's assessment of its lending programmes in the industrial sector "have not been consistently satisfactory". Following this assessment, the ADB adopted in 1986 "Industrial Sector Policy Guidelines" aimed at:

(1) Helping to create a proper framework for industrial development;

(2) Supporting productive enterprises that help to generate value-added and foreign exchange;

(3) Supporting development finance corporations and other financial institutions in resource mobilisation;

(4) Encouraging the private sector to play a more dynamic role in industrial development;

(5) Ensuring respect for commercial principles in the management of enterprises and institutions.

The strategies for achieving the objectives include:

- appropriate project selection;
- emphasis on productive investments;
- emphasis on resource-based industries;
- expansion of the private sector;
- development of new institutional mechanisms (joint sponsorhip by ADB, IFC and UNDP of the African Project Development Facility (APDF));
- focus on rehabilitation;
- greater emphasis on small and medium enterprises;
- emphasis on management development;
- effective equity participation.

73. These very sound aims and strategies still underpin the ADB's lending policy for the industrial sector. They are fully in harmony with the design of the second IDDA and indeed the ADB can take credit for having influenced the shape and direction of the second IDDA. At the meeting of CAMI.10 which adopted the programme for the second IDDA, the representative of the ADB "emphasising the importance his group attaches to the second IDDA given the crucial role the decade is called upon to play in the industrialisation of Africa, stated that the industrial sector has been one of the main areas of assistance by the group of the ADB."

74. Out of the total of a total of US$3.3 billion lent by the ADB during the decade 1980-1990, approximately US$700 million (about 21 per cent) went to industry (including the mining sector). Keeping in view the past lending trend and the positive declarations of support to the second IDDA, it would be reasonable to assume that the ADB would earmark at least US$1 billion for loans/grants to industry. The issue is whether African countries can submit proposals in line with the strategic principles suggested by the Bank.

75. Another initiative relevant to the second IDDA is the establishment of the new Private Sector Development Unit (PDSU) within the ADB, with a seed capital of US$300 million. Loans are expected to range from US$100,000 to US$20 million. PDSU will seek co-sponsors for projects, providing only one third of project costs. Particularly in the context of IDDA's objective of promoting African enterpreneurship and developing the small and medium-scale sectors, this initiative of ADB should be of great assistance.

76. One of the major constraints, notes the recent report of the ADB, in promoting industrial ventures in Africa, is the inadequacy of capability in identification, preparation and managements of industrial projects. ADB is seeking to play a positive role in redressing this deficiency by participating in the APDF in co-operation with the World Bank and in the African Management Services Company (AMSCO).

F. ISLAMIC DEVELOPMENT BANK

77. The Islamic Development Bank with its headquarters at Jeddah, Saudi Arabia has a membership of 45 Islamic countries, of which 23 are African. The Bank is playing a significant role in the economic and social development of its members. The unit of account is the Islamic Dinar (ID) equivalent to the SDR of the IMF.

78. The value of projects approved during the period of 15 years (1976-1990) is of the order of ID 2359.65 million. Of this, ID 1061.53 million was channeled to African countries. Most of the loans, investments and technical assistance are for development of the institutional and physical infrastructure and for human resource development. They are clearly IDDA oriented. They include road building in Benin and Guinea-Bissau, a telephone cable project in Egypt, tomato concentrate plant in Cameroon, port handling equipment in Morocco and the Nile railway bridge project in Uganda.

G. ARAB BANK FOR ECONOMIC DEVELOPMENT IN AFRICA (BADEA)

79. During a period of 15 years, BADEA had advanced loans to the extent of US$946 million for economic development of African countries. These loans are IDDA related. The major portion has gone to infrastructure development and direct lending to industry was a little over 10 per cent of the advances.

80. BADEA will be an important source of funds during the decade of the nineties. During the five-year period (1989-1994), the Bank has commited approximately US$400 million to African countries at the annual average of US$80 million. One could reasonably expect a flow of US$800 million through the decade.

H. UNIDO

81. UNIDO, by its very mandate, is the lead institution for the execution of the second IDDA. Along with ECA and OAU, it has been co-sponsor of the first and second IDDA. It is the only international agency which has established a special IDDA Co-ordination Unit. Essentially its responsibility for the successful implementation of the second IDDA arises from its constitution which defines its primary objective as "the promotion and acceleration of industrial development in the developing countries".

82. UNIDO is providing a wide range of technical services to developing countries in pursuance of this mandate. In financial terms, delivery of technical assistance has risen from US$97.7 million in 1987 to US$159.6 million in 1990. Table 1 gives the breakdown of technical services by the substantive organisational units responsible for implementation.

Table 1: Technical co-operation delivery by departments/branches (1990)

Departments/branches	TC Delivery US$ '000	TC Delivery Per cent
Department for Industrial Operations	130,029	81.5
Industrial Operations Technology	80,173	50.3
- Chemical Industries	33,744	21.2
- Engineering Industries	20,208	12.7
- Agro-based Industries	16,903	10.6
- Metallurgical Industries	9,318	5.8
Industrial Institutions/Services	37,812	23.7
- Institutional Infrastructure	19,360	12.1
- Industrial Planning	10,611	6.7
- Industrial Management/Rehabilitation	7,841	4.9
Industrial Operations Support	12,016	7.5
- Industrial Human Resource Development	6,142	3.8
- Feasibility Studies	5,874	3.7
Department for Industrial Promotion, Consultations and Technology	21,066	13.2
Industrial Technology Development	11,149	7.0
Industrial Investment	8,427	5.3
Industrial Technology Promotion	1,244	0.8
Sytem of Consultations	246	0.2
Department for Programme and Project Development	5,646	3.5
Other	2,817	1.8
TOTAL	159,558	100.0

83. The importance which is given to Africa is clearly revealed by the regional breakdown provided in Table 2. More than one-third of the technical assistance provided by UNIDO is delivered to the continent.

Table 2: Technical co-operation delivery by recipient regions (1990)

Recipient/region	TC Delivery US$ '000	TC Delivery Per cent
Africa a/	55,681	34.9
Latin America/Caribbean	11,203	7.0
Arab States b/	21,598	13.5
	(14,824)	(9.3)
Asia/Pacific	49,384	31.0
Europe	5,236	3.3
Global/Interregional	31,280	19.6
TOTAL	159,558	100

84. While the figures of technical assistance are given regionally, it should be noted that by far the largest portion is of a country-specific character. It is however significant that overall regional and subregional projects account for 10 per cent but in Africa the share of regional and subregions projects is 14 per cent of project expenditure.

Table 3 indicates the project approvals for Africa.

85. In the programme and budgets for the biennium 1990-1991, the following programme elements have been planned for Africa (Sub-Saharan Africa):

(1) Technical co-operation: Annual programme review will take place in respect of 44 countries and the regional programme;

(2) Technical co-operation: Further processing of about 490 pipeline projects in progress at the start of the biennium for all sources of finance;

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a/ Includes African Arab States.

b/ Includes African Arab States which are separately shown in the figures in parenthesis and deducted from TOTAL as included already under Africa.

Table 3: New project approvals, by country and source of funds
(in US$ dollars)

Region/country	Regular budget XP/XA	UNDP/IPF	SIS	UNDP/special measures	IDF	Other sources	Total
Africa							
Benin	23,100	39,000	0	0	0	124,700	186,800
Botswana	88,000	0	33,000	0	335,900	0	456,900
Burkina Faso	71,850	51,350	0	0	0	0	123,200
Burundi	62,604	143,950	0	0	0	8,850	215,404
Cape Verde	151,795	0	0	0	61,900	0	213,695
Central Africa Rep.	0	0	0	0	0	0	0
Chad	80,000	0	0	0	0	76,786	156,786
Comoros	85,400	0	0	0	0	0	85,400
Equatorial Guinea	0	0	0	0	0	0	0
Ethiopia	333,755	689,100	84,000	0	0	0	1,106,855
Gambia	0	0	0	0	0	0	0
Guinea	236,620	0	0	0	0	3,500	240,120
Guinea-Bissau	0	0	0	0	0	40,000	40,000
Lesotho	8,544	0	43,000	0	0	0	51,544
Malawi	26,500	565,000	0	0	0	62,000	653,500
Mali	397,818	0	0	0	147,500	70,800	616,118
Mauritania	0	0	0	0	147,500	0	147,000
Mozambique	0	0	64,000	0	0	83,021	147,000
Niger	93,662	659,200	192,200	0	9,950	0	955,012
Rwanda	0	0	0	0	50,000	0	50,000
Sao Tomé and Principe	116,522	0	0	0	0	0	116,522
Sierra Leone	115,900	0	0	0	0	0	115,900
Togo	128,468	3,063,830	79,100	0	0	0	3,271,398
Uganda	5,444	1,607,200	0	0	0	0	1,612,644
United Republic of Tanzania	128,733	109,100	0	0	0	43,300	281,133
Subtotal	2,154,715	6,927,730	495,300	0	752,250	512,957	10,842,952
America							
Haiti	6,336	56,000	0	0	30,000	0	92,336

(3) Technical co-operation: Identification, formulation and appraisal of some 530 new programme proposals. Some 80 new regional and subregional projects are expected to be developed;

(4) Technical co-operation: Some 50 projects will be developed and approved under IPF and about 210 projects under other sources of finance;

(5) Technical co-operation: Reports to governments and UNDP on conclusions and recommendations of UNIDO Secretariat programme review and/or project formulation missions and subsequent follow-up to facilitate implementation of the recommendation;

(6) Contributions will be made (in co-operation with programme element E.2.6.01) to the project of the United Nations Secretary-General to the forty-fifth session of the General Assembly on monitoring the process of implementation of the UNPAAERD 1986-1990.

86. The above activities of UNIDO are primarily in the shape of technical assistance. No doubt, valuable and relevant technical assistance focussed on the industrial development of Africa, provided free of cost, constitutes a flow of resources to the continent. A question could however be legitimately asked whether, in addition, UNIDO has been able to raise resources for IDDA or help the member countries to do so. The answer must be given in the affirmative.

87. To begin with the technical co-operation programme has as an end result improved performance which in turn must bring in improved returns from industry and thus additional resources. Particular mention needs to be made of:

- the programme for strategic management of the restructuring and development of the industrial sector;
- development of the institutional infrastructure;
- industrial management and rehabilitation;
- feasibility studies;
- industrial human resource development;
- integrated industrial projects.

88. A clear source of the flow of funds to Africa for industrialisation is the acceleration of foreign direct investment. UNIDO is making a useful contribution in this direction through its Industrial Investment Programme (IIP). This being done through the Industrial Promotion Services (IPS) offices in 9 countries, the delegates programme and the regional fora for promotion of industrial investment projects. The total value of projects promoted in all developing countries is claimed to be US$699 million.

89. While the greater part of this achievement seems to be in the Latin American and Arab States/Europe regions, it is claimed that 62 projects of the value of US$138 million have been catalysed in Africa in 1990. A regional investment forum was organised in 1990 for 16 members of the Preferential Trade Area (PTA). Seventy-nine investment projects are said to have been identified and promoted for bilateral discussions. The forum was attended by 600 delegates. A similar forum was organised at Dakar in December 1990.

90. A major break through was made in 1986 with the establishment of UNIDO's Programme of Direct Support to Industry under Trust Fund Arrangements. The funds come either from the developing country beneficiary or from a third party donor. In 1990 the total value of project agreements was US$43.4 million, US$25.7 of project approvals were under implementation. In 1991 (up to November) the corresponding figures were US$37.8 million and US$26.6 million.

91. The activities cover plant performance improvement, pre-investment studies and services, project financing advice, special training services, diagnostic studies, procurement of equipment and spares and services to development finance institutions.

92. With the reduction in the flow of UNDP funded projects with UNIDO execution, the growth of trust fund activity assumes considerable importance. Even now, these activities account for almost 15 per cent of all UNIDO's technical co-operation projects.

93. The General Conference of UNIDO allocated US$8.6 million for the biennium (1990-91) for special activities relating to the promotion of IDDA, US$3.85 million for technical co-operation projects and US$4.75 million for supplementary activities.

94. The technical co-operation activities component of the programme (US$3.85 million) will focus on the priorities indicated by countries and subregions in the programmes they have drawn up for the second Decade. Special emphasis will be placed on inter-country projects and national projects with potential for subregional or multinational co-operation. Priority will be accorded to agro-industries, agro-industrial linkages, agro-related industries (agricultural machinery, fertiliser, pesticides); small-scale industries and entrepreneurship development; promotion of the participation of the private sector in industrial development; human resource development for industrialisation; technological development; industrial policies and strategies; integration of women in industrial development; energy and environment. To the extent possible, the resources under this component will be used as seed money to secure further extrabudgetary resources.

95. The supplementary activities component of the programme (US$4.75 million) constitutes those policy and programme activities supporting the technical co-operation activities aimed at assisting African countries to attain the goals of the second Decade. They focus on supporting African countries and organisations in the implementation of national and subregional programmes, particularly in the areas of strategies and policies, and the mobilisation of

financial and technical resources. Resource mobilisation will be sought through the organisation of industrial investment promotion forums and donor meetings and the related preparation of project profiles, pre-investment studies and bankable investment proposals (with special focus on inter-country projects), as well as through consultations with international finance and development institutions.

96. The Industrial Development Fund (IDF) is an important source of funds, secured on a voluntary basis from Member States. IDF resources had reached an all-time high in 1989 of US$39.3 million. There has since been a decline. The announced pledges for 1990 amounted to US$29.8 million. Of this, only US$1.4 million fell within the general purpose convertible segment. The allocation of the IDF resources is largely tied and controlled by the donors. However, it is reported that in 1990, 10.1 per cent of the IDF resources were allocated to Africa.

97. The issue of mobilising resources for industrial development has always been a major concern with UNIDO. Apart from the steps narrrated above, UNIDO has, in its Global Report (1990-91) made some proposals for innovative forms of resource mobilisation. In view of the importance of this question to the theme of financing the second IDDA, it is dealt with seperately in Chapter VI of this paper.

I. OTHER AGENCIES

98. While it is true that UNIDO is specifically designated as the United Nations agency for promoting industrial development, it is by no means the only agency involved in the process of industrialisation. Indeed the jurisdictional limitations of UNIDO confine it to the manufacturing sector of industry. It does not cover substantive sectors of industry such as the mining and extractive industries, the petroleum industry, the telecommunications industry, the transport industry, segments of agro and forest-based industries and service industries like travel and hotels. Furthermore, the IDDA activities concept covers wider dimensions such as the development of the physical and institutional infrastructure and human resource development. Thus a large member of United Nations agencies are concerned with IDDA activities including FAO, UNESCO, ILO, ITC, ITU and the UN itself and of course the major financing agency, UNDP.

99. The concept of IDDA-related activities, it must be recognised, is much wider than the area of manufacturing which is UNIDO's beat. It certainly covers the extractive industries, the service industries, infrastructural development and human resource development. Consequently the implementation of the second IDDA necessarily involves a wider spectrum of UN agencies.

100. It is a complex task to disaggregate the budgets of other UN agencies to ascertain what percentage of these budgets are devoted to the industrial development of developing countries and further what percentage of this is beamed towards Africa. Some indications of the trends do emerge from the draft report of the Secretary

General (April 1992) to the Committee for Programme and Co-ordination of ECOSOC (thiry-second session) on the System-wide Plan of Action for African Economic Recovery and Development. The following tentative table appears in the draft report.

Table 4: Past and Planned expenditures by organisations for activities relating to Africa (millions of dollars)

Organisation	1990-91	1992-93	1994-95	Additional resources required
ECA	85.39			
ILO	34.40	26.90	15.00	
IFAD	1,599.50	240	240	
UNICEF	216.40			3,500.00
UNFPA	158.80	88.20	96.80	50.00
UNIDO	201.30	86.00		38.15
WORLD BANK	7,326.60	8,000.00	8,000.00	
SPA	24,666.60	13,333.34		
WHO	250.00	276.00		
WMO				80.00
U.N. Drug Control	6.40	15.25	8.85	
U.N.	85.00	85.00	85.00	
WFP	409.30	1,133.30		
UNCHS		37.00		
UNCTAD		12.70	8.00	14.28
TOTAL	35,039.09	23,333.69	8,453.65	3,682.43

101. The above figures are tentative and perhaps not quite accurate. For instance, the 1990-91 figure for UNIDO of US$201.30 million is overstated. The figure is approximately US$108.2 million. Similarly the 1992-93 figure should be US$86 million and nor US$100 million.

102. The figures for other UN agencies cover all their activities in Africa and no ready data is available about the funded activities directly related to IDDA; But it must be recognised that although UNIDO is the specialised agency dealing with industry, many other UN agencies are involved e.g. FAO in respect of forestry and fisheries, UN for extractive industries, ILO for human resource development and management, UNCTAD for trade promotion. What is very evident is the pre-eminent position of the World Bank.

103. For purposes of co-ordinating and monitoring of the second IDDA, it would be desirable to identify more specifically the activities of the World Bank and the other UN agencies which are IDDA related and the funds which are proposed to be deployed thereon.

J. FOREIGN DIRECT INVESTMENT

104. The big question mark, indeed one of the greatest uncertainties in the decade of the nineties, is whether foreign direct investment will be attracted to Africa and if so, to what extent. However, valuable technical assistance may be it does not by itself create industrial assets. Foreign loans are of course needed but, however concessional the terms, they increase Africa's debt burden. What is therefore urgently needed is the flow of funds in the shape of equity.

105. As things stand today, the prospects of any large scale flow of foreign capital into Africa are not bright. The IDDA document approved by CAMI.10 recognises the disturbing fact the FDI flows to developing countries constituted only 9 per cent of total FDI flows and even these are concentrated in the more advanced developing countries of Latin America and Asia. Africa's share of FDI flows to developing countries was as low as 5.6 per cent in 1987. The document significantly adds "It is a chastening thought that in 1987, the whole of Africa received substantially less FDI inflows than the island country of Singapore".

106. The situation is likely to become even more diffucult in the nineties, as the competition for these resources grows. The abandonment of inward-looking economic strategies and the adoption of more out-ward looking approaches is being pursued with great vigour by more and more developing countries. The gradual incorporation of the CMEA countries into the European economy and the dramatic changes in the former Soviet Union will also put great pressure on the demand for FDI flows.

107. It is therefore abundantly clear that if Africa wants foreign investment, African countries will have to shed the old complex that foreign investment is a new form of economic exploitation and that foreign interests were waiting to penetrate African economies. In point of fact if FDI flows are needed, they would have to be wooed and attracted and the right environment created.

108. The creation of such a conducive environment is in fact one of the goals of the second IDDA. Action needs to be taken:

- to review and simplify investment codes;
- to reduce unnecessary bureaucratic controls;
- to guarantee repatriation of profits;
- to improve the supporting infrastructure;
- to prepare bankable projects which will attract foreign investment;
- to set up "single window" clearing agencies to approve foreign investment projects.

109. In addition to the individual efforts of African countries to secure FDI, international agencies should play a role. Among the important institutions involved are UNIDO, through its Investment Promotion Services and Trust Fund activities, the International Finance Corporation and the ADB. Their existing and potential programmes in this regard have been earlier narrated.

VI. INNOVATIVE APPROACHES TO RESOURCE MOBILISATION

110. The search for foreign financial resources for the industrialisation of Africa has till now tapped traditional avenues such as bank loans, commercial loans, foreign equity participation, donor grants and technical assistance from multilateral and bilateral agencies. It is becoming increasingly clear that it is becoming more and more difficult to secure funds from these sources. If one takes into account the effects of inflation, the flow of foreign funds to Africa is actually declining.

111. The most serious threat facing Africa is the increase in competition for foreign resources. The opening up of Eastern Europe, the new situation in the former Soviet Union, the attractions of investment in the Asian NICs, the recent dramatic policy changes in India and the enormous market of China are competing for a limited pool of investible funds. African planners need to recognise that funds will tend to flow to countries which have conditions of political and economic stability, reasonably well developed physical and institutional infrastructure, higher levels of human capability and the overall "enabling environment". In this context, one must frankly recognise that Africa is at a disadvantage. Hence, also, the justification for the second IDDA.

112. It is in this context that the need to identify new and innovative sources of foreign finance arises. A significant effort in this direction has been made by UNIDO at the request of its Member States. The 1990-91 Global Report contains a special Chapter IV on "Financial Innovations for Industrial Development" which proposes the following new avenues:

(a) Debt equity swaps (DES);
(b) Country funds;
(c) Venture capital;
(d) Lease financing;
(e) Build-operate-transfer (BOT).

113. UNIDO cites a number of examples of the successful initiation of these financial mechanisms in developing countries, but the instances are mainly from Latin America and the ASEAN countries. The question is whether the conditions prevailing in African countries would be conducive to the application of these approaches. This needs detailed consideration.

(a) Debt-equity swaps (DES)

114. The enormous debt burden of developing countries makes this particular mechanism of great interest. There are many forms of debt conversion but DES is the most widely applied. In effect it is the purchase by a foreign investor of a banks's outstanding ecommercial loan and the investment of the financial asset so acquired in local currency as equity in the developing country concerned. There are three interested parties to the transaction; the commercial bank, the prospective foreign investor and the indebted developing country. The bank is happy to unburden itself

of a debt difficult to recover, the investor in effect obtains local currency at a very low rate and the developing country reduces its debt servicing liability and secures an accretion of foreign capital. In practice, DES seems to have caught on in Latin America, accounting in 1985-87 for nearly 50 per cent of all debt conversion schemes.

115. Prima facie, the scheme should be of interest to African countries considering the enormity of the foreign debt burden (over US$250 billion). So far no successful case of DES has been reported from Africa. This is perhaps because commercial debt is a small percentage of the total debt burden. It would be worthwhile attempting the venture in some selected African countries. To begin with a basic understanding would need to be arrived at between borrowers and lenders before bringing potential investors in.

(b) Country funds

116. Whether described as mutual funds or unit trusts, country funds are collective investment holdings focussed on the stock market of a particular country or group of countries. The funds often operate in the international market channelling money from foreign investors to the domestic stock market. Successful examples as the India Fund, the India Magnum Fund, the India Growth Fund, the Indonesia Equity Fund, the Indonesia Capital Fund, the Mexico Fund and about eight country funds of the Republic of Korea.

117. The importance of these country funds lies in the fact that very large sums of international finance flow through these channels. It is estimated that in 1989 foreign portfolio investment flows into developing countries, mainly through country funds, amounted to more than US$2.5 billion.

118. The establishment of country funds is predicated on the existence of well established capital markets and stock exchanges in which the funds can operate. Unfortunately this is not the situation in African countries, barring some rare exceptions. It would therefore seem that as things stand today, the setting up country funds is not a practical proposition. Indeed it will be a measure of the success of the second IDDA, if during the course of the decade, the situation changes and capital markets come into existence.

(c) Venture capital

119. The venture capital industry has been eminently successful in the industrialised world. It was only in the eighties that this instrument of financing investment appeared in the developing world, in the NICs of Asia and in India. IFC has played an important role in catalysing the growth of venture capital companies in developing countries. With its assistance, two such companies have been established in Africa in Côte d'Ivoire and Kenya.

120. The promotion of venture capital companies is particularly relevant to Africa. The second IDDA contemplates a large scale growth of private entrepreneurship mainly in the small and medium-scale sectors. Many potential entrepreneurs may have the skills and techno-managerial experience to start new ventures but not adequate capital. Loans (even if they are available) put a high debt servicing burden on new companies. What is needed is risk-sharing partners and this is where venture capital companies can play a most useful role.

121. A major effort needs to be made during the second IDDA to set up such venture capital companies with government support and the backing of the ADB, IFC and domestic development and commercial banks.

(d) Leasing

122. Leasing of capital assets (plant and machinery) has become an attractive financial mechanism globally. Although the cost of leasing is in practice found to be higher than securing financial loans, the speed and flexibility of the system attracts the small and medium-scale sector and new entrepreneurs. It is estimated that in 1989 the global volume of leasing business exceeded US$300 billion of which the USA accounted for US$122.4 billion.

123. Leasing is a relatively new phenomenon in developing countries but is fast catching on in the aggressive market economies of Asia. The 1989 figure indicate the volume of leasing business in Asia at US$10.96 billion, in Latin America US$2.50 billion and in Africa US$0.29 billion. Leasing companies have been functioning in Botswana, Malawi and Zimbabwe.

124. This form of financing is well suited to Africa and the entrepreneurial promotion of small and medium businesses. Building on the experience of some African countries which have already successfully launched leasing operations, a major drive should be launched during the period of the second IDDA to establish a chain of leasing companies throughout the continent. The ADB should take a lead role in this effort and foreign leasing companies (preferably from other developing countries) should be brought in.

(e) Build-up-operate-transfer (BOT)

125. This is perhaps the model which is of greatest relevance to Africa. The mechanism implies grant of a concession to a foreign corporation of the right to construct and operate an industrial or service activity for an agreed period of years with the option of the host country to demand the transfer of the assets and operation after the concession period is over. The model is of particular applicability to large infrastructural activities and public utilities such as ports, railways, highways, bridges and power stations. A number of such BOT projects are being executed in the developing countries in the fields of energy generation (China, India, Pakistan, Philippines and Turkey) mass transit and road

transport (Hong Kong, Malaysia, Mexico, Thailand, Turkey and Yugoslavia), telecommunications (Thailand and Vietnam), air terminal and business centre construction (Turkey).

126. A survey of existing BOT projects indicates that they cover very substantial projects costing between US$1 billion to US$2 billion. Currently they seem to have taken on in the more advanced and less indebted developing countries.

127. The mechanism of BOT opens up welcome opportunities for Africa. One of the major programmes of the second IDDA is the development of Africa's physical infrastructure, the inadequacy of which has been a constraint on industrialisation and on competitiveness. The construction and modernisation of ports, railways, highways, energy projects and telecommunications involve very high outlays which Africa can hardly afford. BOT provides a way out, not only bringing in funds but also technology and management. The BOT concessionnaires have a vested interest in making the projects operate successfully. In the process, African capabilities can be built up. Being public utilities generally of a monopolistic nature, African countries would need to negotiate the arrangements with great care, particularly in respect of pricing.

OPERATIONALISING THE NEW APPROACHES

128. It is of course for each African to consider these new options and to decide on their adoption. No doubt UNIDO will be willing to provide consultancy assistance based on the experience of other developing countries.

129. However, to sensitise African decision makers on these new models and their implications and to examine carefully the practical possibilities of adopting them in the African environment, it suggested that UNIDO (IDDA Co-ordination Unit) may organise a high-level workshop of economists and financial experts from Africa to draw out an Action Plan to tap these new sources.

VII. CONCLUSIONS AND RECOMMENDATIONS - ACTION PLAN

130. This approach paper is an open-ended note. It seeks to raise questions and issues and makes no pretensions to prescribing answers. It attempts to bring together a range of options open to African countries in the complex business of raising the finances necessary to make the second IDDA a reality.

131. The specific answers to the question of funding will have to be found on a national basis and co-operatively on a subregional basis, or else there is little meaning in the term "self-reliance". Having said this however, it must be added that the international community is fully commited to the development of Africa and inter-alia, of the second IDDA. This commitment must express itself not only by way of moral support and technical guidance, but in more concrete terms through the flow of funds to the continent.

132. What is of particular significance is a factor which will play a positive role in resource mobilisation viz the convergence of views on how the problems of African economic development should be tackled in a practical manner. In the decade of the eigthies, while there was agreement on the goal of self-reliance, there were major controversies on the strategies to achieve this goal. The empirical experience of African countries during the last decade and the dramatic changes in the world economic scene have brought about a consensus on African development strategy - an approach which most of the African countries have accepted and which donors support. This approach seeks to promote market orientation, lessening of the public sector role in industrial investment, development of private entrepreneurship particularly through small and medium enterprises, optimum use of local natural resources, an emphasis on productivity, capacity utilisation and profitability of investments and international cost competitiveness. Further, there is a recognition of the need to build up African capabilities and to strengthen the physical and institutional infrastructure and to create an enabling environment if an industrial culture is to be promoted in Africa.

133. The programme for the second IDDA is a pragmatic approach based on the above-stated principles. It has already received the endorsement of the CAMI and the enthusiastic support of multilateral and bilateral agencies. With this favourable atmosphere, the likelihood of the success of the second IDDA is high, provided - and this proviso is of the utmost importance - a plan of action is set in motion without any delay and the exercise of resource mobilisation commenced urgently.

A. The first task of the action plan must be the firming up of the national programmes for the second IDDA. This should include:

(1) Each Member State should review the draft national programme, update the projections and accord formal government approval to the document, which will then be ready to be used as an operational instrument for implementation;

(2) To bring about uniformity of approach and to more effectively monitor the implementation of the second IDDA on a regional basis, it is suggested that while reviewing the national programmes, the proposed activities should be classified into four elements:

- programmes of rehabilitation;
- programmes of industrial expansion;
- promotion of small and medium industries;
- support services:

  (i) physical infrastructure;
  (ii) institutional infrastructure;
  (iii) human resource development.

(3) There is then the need to classify the proposed programmes according to their operational status thus:

(i) existing investments needing rehabilitation;
(ii) completed projects awaiting commissioning;
(iii) projects under construction;
(iv) approved projects where finances have been arranged;
(v) approved investments seeking finance;
(vi) projects for which feasibility studies have been completed;
(vii) projects for which feasibility studies are under preparation;
(viii) project ideas.

(4) Since the resources may not be adequate for the full range of activities contemplated, a priority exercise is called for. This needs to be preceeded by the setting of investment criteria;

(5) Given the long-term span of ten years covering IDDA, the programme should be split into suitable tranches, perhaps co-terminus with the duration of national plans;

(6) On the basis of the firmed-up national programme, cost estimates should be prepared of the amounts required in each tranche. The estimates should give the break-up of costs between local currency and foreign exchange.

B. The second major exercise is an estimation of the availability of domestic financial resources and a planned effort at resource mobilisation. The exercise would need to include:

(1) A close scrutiny of governmental expenditures to eliminate waste, reduce subsidies and improve tax collections;

(2) A drive to improve the profitability of state-owned enterprises through improved professional management and appropriate pricing policy;

(3) A review of interest rates to encourage private savings;

(4) A review of the efficacy of the banking sector;

(5) A concerted effort to bring the informal sector within the system of national accounts.

134. Since the resource mobilisation exercise is a national and multi-disciplinary matter, it is proposed that an inter-ministerial Task Force be appointed with the authority to co-opt representatives of the banking system and private enterprise.

C. MOBILISING FOREIGN RESOURCES

135. While individual African countries are negotiating with various multilateral and bilateral agencies for a flow of funds and while the response has been postive, it is necessary to do some stock taking and to make arrangements for the harmonisation of donor support in pursuance of IDDA goals.

136. To provide the linkage and to fully involve all these agencies in the IDDA programme co-sponsored by ECA, OAU and UNIDO, consultations were initiated by UNIDO two years ago with development assistance institutions, the ADB, UNDP, the World Bank and other UN agencies and copies of the "Framework and Guidelines" for preparation of the national programmes were sent to them for comments. Copies of the draft national programme were sent to the World Bank and its detailed comments were received. High level representatives of the ADB, UN, UNDP, World Bank, and other agencies were invited to and they attended CAMI.10 at Dakar and gave positive evidence of their support. It is these efforts which have given rise to a convergence of views on the strategic approach to the second IDDA.

137. This convergence of approach is a vast improvement over an earlier situation where donors were beaming different and often conflicting messages to African countries. However, the policy and practice of individual and separate programmes of aid by each multilateral and bilateral agency still persists. There are some notable exceptions such as the FAO-UNIDO joint project on the leather industry which is backed by several bilateral agencies and the joint efforts of the World Bank and UNIDO in some countries in the field of rehabilitation. These exceptional cases establish the effectiveness of joint planning and joint action.

138. UNIDO has programmed a High-level Consultative Meeting on Resource Mobilisation for the Second IDDA. The meeting to which the ADB, World Bank, other international financial institutions and UN agencies had been invited was originally scheduled for January 1992 but has been postponed. This meeting is of the utmost importance to

the successful execution of the second IDDA and should be convened as early as possible.

139. The objectives of the meeting should be:

(1) To sensitise the participating institutions on the objectives, strategies and contents of the second IDDA programme;

(2) To record comments, additions and amendments in the light of the experience and programmes of the donor agencies;

(3) To receive a thorough briefing from each institution about its own strategic approach to African development and in particular to African industrialisation, the priorities it has fixed in its aid programme and an indication of the finances which will be deployed overall and specifically for IDDA-related activities.

(4) To explore concrete possibilities of joint design of programme activities and joint implementation;

(5) To examine the possibility of periodical exchange of information on progress made in IDDA-related programmes.

140. It would be useful if, before the proposed meeting, each institution could prepare and circulate a position paper on its project programmes and funding of IDDA-related activities.

D. INNOVATIVE APPROACHES TO RESOURCE MOBILISATION

141. UNIDO's proposals for innovative approaches to resource mobilisation needs to be operationalised in Africa. It would seem that these new ideas have caught on in Latin America and Asia but are yet to be tried out in Africa.

142. It is suggested that a workshop should be organised by the IDDA Co-ordination Unit in collaboration with PPD/AREA and PPD/IPP to examine concrete possibilities of introducing some of these mechanisms in Africa. The participants should be high-level financial and industrial representatives of a selected group of African countries which have the basic infrastructure and economic environment needed for the successful launching of these new ideas. The workshop will serve as an occasion to brief the participants on the news openings and explore possibilities of commencing some schemes on a pilot basis in a few countries.

143. It is understood that PPD has proposed to organise a workshop on similar lines on Debt-conversion Schemes by NGOs for Industrial Development. This Workshop to be held in Washington is mainly for Latin American countries.

VIII. SOME CONCLUDING OBSERVATIONS

144. The conversion of the programme for the second IDDA into a concrete reality would require the concerted efforts of African countries singly and collectively. It would also call for positive and practical help from supporting multilateral and bilateral agencies. At the heart of the matter lies the fundamental issue of mobilising financial resources for promotion of industrial development and increasing the flow of foreign resources towards the same end.

145. It is a welcome circumstance that many international agencies have expressed agreement with the approach of the second IDDA. They have all expressed their willingness to extend support. It would be worth repeating that the convergence of views on the strategy of industrial development is a major plus factor and will facilitate co-ordinated effort. However, all these expressions of support will have real meaning only if they actually result in an increased flow of capital, of resources, of technology and of technical co-operation to Africa.

146. A survey of the existing pattern of assistance of the leading international institutions involved seems to indicate that the bulk of the effort is concentrated on capability building and infrastructural development and there is only marginal direct support for industrial growth.

147. While it is true that the second IDDA is a composite plan which includes human resource development, promotion of entrepreneurship and development of the physical and institutional infrastructures, it should never be forgotten that these activities are aimed at creating the necessary enabling atmosphere for industrialisation. Ultimately, the goal is industrial development and the success of the second IDDA will be measured by the extent of increase in industrial assets and industrial output during the decade.

148. The operationalisation of the second IDDA calls for a joint effort of national governments, regional institutions and bilateral and multilateral agencies. The flow of foreign assistance will be in the shape of foreign equity capital, loans and grants and technical co-operation. It would not be desirable to place these components in separate water-tight compartments. They are all inputs designed to produce a given result namely the industrialisation of Africa.

149. If this result is to be achieved in terms of the strategy envisaged in the second IDDA, international and bilateral agencies would need to address themselves to several specific issues, such as:

(a) Rehabilitation of existing industries is a central theme of the second IDDA. How is this to be achieved? Which agencies will be involved? Who will provide support for diagnostic analysis? Will support be forthcoming and from whom for injection of improved management, technical and marketing skills? If rehabilitation requires injection of capital equipment and spares, which agency would be ready to help? Is there a possibility of co-ordinated projects in specific countries involving several agencies?

(b) IDDA proposes the improvement of public enterprise performance. But how? What will be done specifically and by whom? Which international agencies will be involved and in what manner? What are the resources being earmarked for this purpose?

(c) There is talk of privatisation. But to whom? Will international agencies lend support to domestic entrepreneurs willing to take over sick public enterprises? Which agencies would help in providing technical and management know-how to the new entrepreneurs? Which agencies will arrange loans and working capital? Can a joint inter-agency effort be launched?

(d) A universal demand is that Africa should present "bankable projects" for the consideration of international financial institutions and potential foreign partners. Which agencies will play a lead role in helping African countries in preparing feasibility studies and project reports and in conducting market studies? What resources will be available for developing local capabilities and who will provide them? Even more important, if such bankable projects are available, will the necessary finance be available? Will the agencies help Africa to find business partners? Will be the agencies collaborate in this effort?

(e) There is a great emphasis in the second IDDA on promoting small- and medium-scale business. Which of the agencies will provide active assistance in this area? What will be the nature and content of the help? What will be the quantum of resources devoted to this goal?

(f) There is complete agreement that human resource development and capability building are crucial aspects of the second IDDA. Who will provide the support? How will the agencies co-ordinate their efforts? What will be the volume of the funds deployed? Even more important, how will the newly trained persons be employed? Will there be a counter part programme of creating industrial jobs? How will the agencies help in this balancing process?

(g) Second IDDA places a great emphasis on infrastructural development. Which of the agencies will be involved? What are the resources commited? How will inter-agency co-ordination be arranged?

150. The proposed international meeting of agencies concerned with the second IDDA is most timely. The meeting, as suggested earlier, would no doubt clarify the role which each agency proposes to play,

the resources it proposes to deploy and its own priorities. The meeting would also be of great help in achieving a co-ordinated effort.

151. Hopefully the issues raised in this concluding chapter will be debated and suitable answers found.