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PRIVATE SECTOR INVOLVEMENT  
IN  
SAHELIAN DEVELOPMENT

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Raymond W. Baker  
March, 1979

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March 27, 1979

Agency for International Development  
Bureau for Africa  
Director, Sahel and Francophone West Africa Affairs  
(AFR/SFWA)  
Washington, D.C. 20523

Dear Sirs:

I am pleased to submit herewith my report entitled "Private Sector Involvement in Sahelian Development."

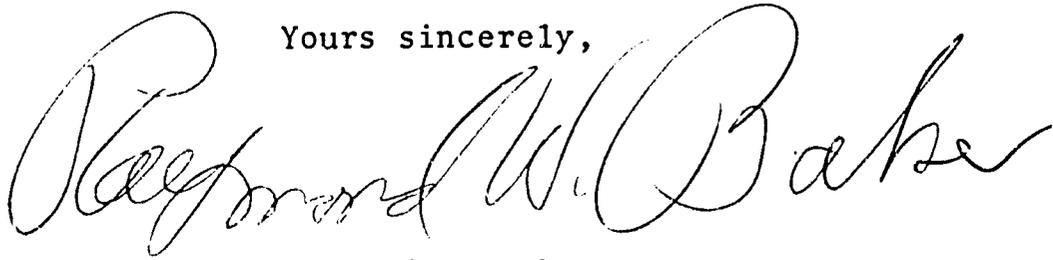
This report is based on extensive interviews with U.S. and African government officials, both in Washington and in selected Sahelian countries; reference to published and government materials; observations derived during my trip through the Sahel with Ms. Lillian Carter in July and August, 1978; and my 18 years of investment experience in black Africa. The views expressed and conclusions drawn are my own.

It is recommended that an investment promotion program to stimulate private American investment in the Sahel be initiated. A multi-year AID contract with a firm of industrial development consultants for establishment of investment promotion offices in the Sahel and for provision of industrial advisory services to Sahelian governments will effectively complement the extensive economic assistance efforts currently in progress.

It is further recommended that a needs analysis be conducted in the Sahel to determine the feasibility of a middle management transfer program to bring American technical and administrative capabilities to bear on problems of Sahelian development.

Underlying the potential investment promotion and management transfer efforts is a major uncertainty; U.S. commitment to private sector involvement in Africa, or more precisely, the interrelationship or compatibility of U.S. economic and political goals. What is called for is a reevaluation of U.S. economic policy toward Africa, with a view toward developing a balanced policy that will accord with the desires of black African states for American capital, technology, and skills as well as serve the broad spectrum of U.S. interests in the Third World.

Yours sincerely,

A large, fluid handwritten signature in black ink that reads "Raymond W. Baker". The signature is written in a cursive style with a large initial 'R' and 'B'.

Raymond W. Baker

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## TABLE OF CONTENTS

I. Summary: Memorandum, September 8, 1978	
II. Assignment	II-1
III. Situation Overview	III-1
IV. Stimulation of Private Investment	IV-1
1. Opportunities and Limitations	IV-1
2. Alternative Approaches	IV-8
3. Recommendations	IV-19
V. Middle Management Transfer Program	V-1
VI. The Political Context	VI-1



September 8, 1978

MEMORANDUM

TO : Richard M. Harden  
FROM : Raymond W. Baker  
SUBJECT: Private Sector Involvement in Sahelian  
Development

The trip of Miss Lillian Carter to Africa has served to underline U.S. concern for African economic development in general and Sahelian drought relief and economic progress in particular. I accompanied Miss Lillian, yourself, and others on the trip to consider the feasibility of stimulating American private sector involvement in Sahelian development. This memorandum presents my preliminary views, while a more detailed report will follow in November.

The Sahel is unique in its vastness, its poverty, and generally speaking the commonality of its problems. For the first time in history, major industrialized countries have joined together in a long term, coordinated effort to bring about food sufficiency and self-sustaining economic growth to a contiguous group of struggling nations. Approximately \$1 billion a year is being spent, with the U.S. contributing roughly \$50 million through AID, in what has been called, "the most innovative example of international cooperation in the developing world." Little effort has been made at this stage to involve the broad fabric of American commerce and industry in the problems and opportunities presented by the eight Sahelian countries. Two approaches are being considered: A) stimulation of American private investment in the Sahel, and B) a middle management transfer program of Americans to Sahelian ministerial and parastatal organizations.

A. Stimulation of Private Investment

There is considerable interest among Sahelian officials in attracting U.S. investment and a willingness to make special efforts toward this end. Investment opportunities in the Sahel are generally of small and medium size with straightforward managerial and technological requirements. Operations or markets usually cover several countries in the region. The types of investments for which opportunities appear to exist include the following:

Agri-business--e.g., ranching, poultry, fisheries, vegetable oil crushing, and manufacture of leather goods, animal feeds, fertilizer, pesticides, farm tools, and irrigation pipe.

Consumer goods--e.g., textiles, shoes, radios, batteries, pharmaceuticals, beer, soft drinks, and utensils.

Construction--e.g., of roads and buildings, and manufacture of construction materials including cement, concrete products, bricks and tiles, roofing, paints, and fencing.

Transportation--e.g., trucking and bus lines, and manufacture of motor bikes, bicycles, tires, and tubes.

Service industries--e.g., banking, hotels, tourism, and consulting.

Mineral Extraction--e.g., manganese, iron ore, uranium, phosphates, coal, and oil.

To be successful, an investment stimulation effort must address itself both to large multinational corporations--the Fortune 1,000--and to medium-size American businesses in the \$20 million to \$200 million range.

Broadly speaking, two types or two levels of investment stimulation efforts can be exerted--those aimed at broadening perceptions of potential opportunities in the Sahel and those aimed at identifying and promoting investments in particular projects. Perceptual efforts would include seminars, trade missions, and distribution of economic data and market surveys. Promotional efforts would include preparing pre-feasibility studies, attracting a range of U.S. companies to examine particular opportunities, and coordinating the interests of U.S. companies with the Overseas Private Investment Corporation, Export-Import Bank of the United States, International Finance Corporation, and U.S. embassies and government ministries in Sahelian countries.

A perceptual effort alone can probably be organized and carried out within the existing capabilities of the Departments of Commerce and State, AID, and OPIC. A promotional effort would almost certainly require a tailored organization and separate funding, with both U.S. and Sahel offices.

Even an aggressive perceptual effort is, in my view, unlikely to lead to serious interest and investment in the Sahel. The truth is that private enterprise does not perceive of the Sahara Desert as offering investment opportunities, and speeches, seminars, written materials, and occasional trade missions will

1

not change this view. All of these efforts are useful and important provided a structure exists for project identification, promotion, and nurturing. Thus, the question becomes not what level of effort to exert, but whether or not it is feasible and worthwhile to exert a thorough investment promotion effort.

A properly organized and funded program to stimulate American investment in the Sahel would encompass the following:

- a) a multi-year AID contract with a U.S. industrial consulting organization, with African experience and French language capabilities.
- b) one or two two-man offices in the Sahel for project identification, preparation of prefeasibility studies, guidance of potential investors, and coordination with local ministries.
- c) a U.S. office to promote identified projects with potential investors and to coordinate promotional and perceptual efforts with Commerce, State, OPIC, Ex-Im, IFC, chambers of commerce, and industry and management organizations.

Such a program could be funded for roughly \$1 million per year. Success must be judged in terms of the number of American firms making applications to establish ventures in the Sahel, not in terms of the number of startup situations accomplished, which is beyond the control of the promotional program.

The problems of successfully promoting U.S. investment in the Sahel should not be minimized:

- limited opportunities
- language differences
- French hegemony and resistance
- lengthy negotiating requirements
- ill-defined investment codes
- political risks

All eight Sahel countries have signed OPIC investment guarantee agreements, and OPIC's new program of paying up to \$5,000 for travel and subsistence expenses to businessmen for reconnaissance studies of identified projects will be extremely useful.

I believe the gains from initiating an American private sector presence in the Sahel are worth the risks and the costs, and I will draft a work plan for consideration by you and other concerned officials.

#### B) Middle Management Transfer Program

Considerable concern exists among officials of donor nations as to the efficiency with which \$1 billion per year is being spent in the Sahel. Sahelian officials themselves are perhaps somewhat less concerned about waste in aid programs, but are concerned in general terms about the poor performance of government and parastatal operations. Hence, the concept of a middle management transfer program which would bring the resources of American management with appropriate technical and administrative skills to the Sahel is being considered.

The Peace Corps superbly serves urban and rural organizational and training needs. Retired managers, through the International Executive Service Corps and other organizations, are available for specific short term assignments. However, no U.S. program, similar to that encompassed under the French Assistance Technique, exists for making available experienced personnel to positions of authority and responsibility for overseas assignments of generally two years.

A few examples of the kinds of areas in which middle management expertise is needed are as follows:

Maintenance of road building equipment--\$10's of millions annually are being wasted on replacement of improperly maintained equipment.

Service of water wells and irrigation systems--Poor management of preventive maintenance and service operations causes innumerable system failures.

Writing of investment codes--Absence of or poorly drawn incentives and laws often deter investments.

Operation of government-owned road haulage fleets--Inadequate controls on fleet movements and shop procedures lead to unnecessarily high ton/mile costs.

Administration of government purchasing operations--Inexperience in international transactions and inventory and allocation controls brings about high costs of purchases and storage and heavy losses in a wide range of supplies.

Management transfer programs between industry and government have existed domestically for years, and there is no inherent reason why such a program to Africa cannot also operate

satisfactorily. Ex Peace Corps volunteers, now 70,000 in number, constitute one group that can be drawn upon for such assignments, and multi-national corporations can be expected to participate as they have between industry and Washington. Recruiting and administration of the program could be handled by AID or by VISTA.

Proper incentives will have to be designed in order to attract career managers to overseas duties, including free language training, adequate salaries with tax-free provisions, incentives to employers for salary, benefits, and position maintenance for seconded personnel, and provision for school fees and travel for children.

The problems of successfully operating a middle management transfer program include:

- national sensitivity and receptivity
- language and cultural differences
- again, French hegemony and potential resistance
- high recruiting and operational costs

Ministerial officials with whom I discussed this concept had some difficulty suggesting specific needs that could be fulfilled by American middle management transfers. Accordingly, I believe the next step should be a needs analysis, conducted in the Sahel with government officials by a two to four man U.S. team.

Preparatory work for this study should include the following:

- a) Designation of the needs analysis team.
- b) Preparation of briefing papers, forwarded to each U.S. embassy in the Sahel.
- c) Embassy selection of appropriate government officials to be interviewed by the needs analysis team, and delivery of briefing papers and explanations to these officials outlining the purpose of the study approximately a month before the team's arrival.
- d) Arrangement of appointments with these officials and visits to representative projects, departments, and corporations where middle management transfers would be appropriate for consideration.

It should be noted that a middle management transfer program appropriate to the Sahel might be the forerunner of or developed concurrently with a larger effort offered to developing countries worldwide.

Underlying both of these potential efforts is a major question: State Department's commitment to private sector involvement in Africa, or more exactly, State Department's willingness to promote and defend private sector interest as part and parcel of U.S. political policy in Africa.

. . . . .

I will continue to discuss both of these programs with appropriate people in government and in the private sector and will offer further elaboration and recommendations in my final report.

*Raymond W. Baker*

## II. ASSIGNMENT

In early 1978 this writer was approached by officers of the Agency for International Development concerning the interest of the Agency in studying the potential relationships of American commerce and industry to Sahelian development. Ensuing discussions outlined a project to examine:

- 1) The feasibility of taking concrete steps to increase perceptions within the American business community of opportunities in the Sahel;
- 2) The feasibility of identifying specific contract and investment opportunities for American participation; and
- 3) If feasible, the approaches likely to succeed, phasing of perception and participation efforts, time and cost of alternative programs, and criteria for evaluating progress and program contraction or expansion decisions.

In May and June of 1978, Ms. Lillian Carter and White House aides planned a trip to the Sahel to underline U.S. concern for economic development in this drought-stricken area. Specifically, the trip objectives were set forth as follows:

- 1) To draw attention to the problem of hunger in the world, to its causes and to the ways in which one extremely poor area is working to achieve food self-sufficiency;
- 2) To underline that a sustained, international, cooperative effort is required to assist poor countries to reach this goal;
- 3) To highlight the progress these countries have made by working together towards a common strategy to achieve food self-sufficiency;
- 4) To emphasize the important role of women in the development process.

This writer was invited to accompany Ms. Lillian in order to initiate the study of American private sector involvement in the Sahel as outlined above. At the request of Mr. Richard Harden, Special Assistant to the President for Information Management, the study was enlarged to include consideration of an American middle management transfer program, aimed at bringing American technical and administrative capabilities to bear on problems of Sahelian development. Officials of donor nations have expressed concern as to the efficiency with which \$1 billion per year is being spent in the Sahel, and Sahelian officials themselves are concerned in general terms with the poor performance of government

and parastatal operations. Improved management is likely to be a necessary concomitant to sustained public support for substantial contributions to Sahelian development.

The Sahel is unique in its vastness, its poverty, its untapped potential, generally speaking its commonality, and unquestionably its disinterest to most Americans. It superbly encapsulates the difficulties of leading the broad commercial and industrial sectors of American society to be more aware of and participatory in the opportunities and problems presented by the poorest of the developing nations. Whether or not such leadership can be reasonably and effectively exerted is an underlying concern of this study.

### III. SITUATION OVERVIEW

Sahel is an Arabic word which means "border." Geographically, Sahel refers to the southern portion of the Sahara Desert from Senegal to Chad. The northern line of this zone represents the limit of rain fed agriculture, while the southern line represents the beginning of severely restrictive factors working against agricultural output, such as river blindness and sleeping sickness. Within the Sahel subsistence level farming and herding produce per capita incomes of less than \$100 per year, making the area one of the poorest in the world.

The severe drought from 1968 to 1974 resulted in an estimated 100,000 human deaths, decimation of livestock heads, and abandonment of farm lands. The international relief effort mounted in 1973 and 1974 brought some \$1 billion in emergency aid into the area, including \$250 million from the U.S. Rainfall returned to normal in 1974, but the experience of the drought and the high costs of the relief effort underscored the need for a longer-term Sahelian strategy. During the drought and immediately thereafter, Senegal, Mauritania, Mali, Upper Volta, Niger, Chad, The Gambia, and Cape Verde established the Permanent Interstate Committee for Drought Control in the Sahel (CILSS). Subsequently, donor nations

15

and organizations inaugurated the Club du Sahel to coordinate donor activities with CILLS in a long-term, comprehensive Sahel development program. Major sectors of the program include dry land agriculture, irrigated agriculture, livestock, fisheries, ecology and forestry, technology transfer, human resources and health, transportation and infrastructure, and price policy, marketing, and storage.

Concern has been expressed by AID and White House officials that U.S. relationships with the Sahelian countries are almost wholly on a government-to-government basis -- that there is little private sector involvement and no plan for increasing private sector involvement in the opportunities and problems of Sahelian development.

Broadly speaking, there are three kinds of American businessmen, whether entrepreneurs or employees of large corporations, that proceed early into developing country situations:

- a) The trader, dealing with imports and exports;
- b) The natural resource exploiter, looking for petroleum and mining opportunities; and
- c) The construction worker, bringing a trade skill or supervisory responsibility to a large scale infrastructure project.

Typically, none of these types of businessmen effectively promote deeper interest in developing countries. The trader is preoccupied with maintaining himself as the link between his source of supply and his market outlets, not with bringing his source and his market into a closer relationship. The engineer or the geologist looking for exploitable resources guards closely his findings and not uncommonly limits his relationships to his professional peers. The construction worker or supervisor is on site to do a job and seldom gets further involved in the culture, opportunities, or problems beyond.

What this means is that American private sector relationships with developing areas do not take off until the beginnings of a permanent American presence in the form of investment and management are developed.

The Sahel is perhaps the largest expanse in the free world where a permanent American private sector presence is almost totally absent. Trading relationships and mineral exploration have been proceeding on a small scale for years, while construction work has been minimal. But these activities will not evolve naturally into a more permanent business presence. To accomplish this will require positive actions taken with a view toward the long range benefits of broadened U.S. relations with the Sahel beyond government-to-government programs.

#### IV. STIMULATION OF PRIVATE INVESTMENT

##### 1. Opportunities and Limitations

It is widely believed that the Sahel does not offer attractive investment opportunities for American business. This is true if the statement refers to manifest opportunities waiting to be tapped. It is not true if the statement refers to latent opportunities which can be developed into viable projects. The difference is largely in the time and expense required to examine the feasibility of potential opportunities and to negotiate the establishment of workable ventures.

Most opportunities in the Sahel are of a small and medium-size nature, with straightforward managerial and technological requirements. Labor intensive methods are generally preferable. Capital commitments will be modest, and opportunities for significant leveraging with locally borrowed funds will be limited.

Broadly speaking, these requirements are opposite to the capabilities of the FORTUNE 1000 large American multinational corporations, whose experience and expertise is in large scale,

technologically advanced undertakings. Yet, smaller American firms whose interest and scale might be more suited to the requirements of the Sahel, lack international experience.

It should be noted that the same cannot be said of British, French, and other European interests. To the contrary, most medium-sized European firms are experienced internationally, and most large European multinational corporations have been involved in small scale investments in developing areas.

Thus it is both the size and the inexperience of American business that place limitations on the identification of viable investment opportunities in the Sahel. The viable opportunity becomes as much a matter of who is considering the potential as of objective consumption data and production cost.

It appears very likely, based on many sources of data, that reasonable investment opportunities for American business in the Sahel include the following:

a) Agri-business

- 1) ranching - cattle for fresh meat, corned beef, hides, horns, and hoofs.

- 2) poultry - chicken, guinea fowl, and eggs.
- 3) large scale farming - fruits, sugar cane, cotton, maize, etc.
- 4) fisheries - cultivation, catching, processing, and distribution.
- 5) vegetable oil crushing - groundnuts, cotton seed, and maize.
- 6) animal feed manufacture - particularly utilizing the offal and cake from other food processing operations.
- 7) fertilizer manufacture - primarily from mineral resources.
- 8) manufacture of pesticides - formulating and packaging from largely imported ingredients.
- 9) leather goods - tanning
- 10) manufacture of farm tools - machetes, hoes, shovels, drawn plow, scythes, etc.
- 11) pipe manufacture - from extruded plastic, for irrigation and water wells.

b) Consumer Goods

- 1) textile manufacture - primarily from local cotton.
- 2) shoe manufacture - from local leather and imported plastic.
- 3) radios - assembly from imported components.

- 4) battery manufacturing - both dry cell and automotive.
- 5) pharmaceuticals - for human and livestock consumption, primarily formulation and packaging from imported ingredients.
- 6) beer - local brewing with imported ingredients and bottles.
- 7) soft drinks - local formulation with imported ingredients and bottles.
- 8) utensils - manufacture of cook stoves, pots, pans, etc., from enamelware and aluminium.

c) Construction

- 1) contracts - for roads, buildings, and infra-structure projects.
- 2) cement manufacture - from local limestone by the dry process.
- 3) manufacture of concrete products - blocks, posts, poles, pipes, cross ties, etc.
- 4) manufacture of bricks and tiles - from local clays and imported glazes.
- 5) manufacture of roofing materials - clay, asbestos, and galvanized.
- 6) paints manufacturing - local formulation and packaging, primarily water based.
- 7) fencing - weld mesh, chain link, and wire, including poles.

21

## d) Transportation

- 1) trucking services - particularly long hauls from the coast inland.
- 2) bicycles and motor bikes - assembly from imported components.
- 3) tires and tubes - manufacture from West African rubber.

## e) Service Industries

- 1) banking - particularly as subsidiaries of U.S. bank operations in Paris.
- 2) hotels - particularly on management contracts with local property owners in The Gambia, Senegal, and Cape Verde.
- 3) tourism - particularly with historical emphasis for black Americans.
- 4) consulting - a basis in civil engineering, with related capabilities.

## f) Extraction

- 1) oil - coastal and inland prospecting.
- 2) mining - prospecting for and development of magnesium, iron ore, uranium, phosphates, and coal.

Even with a wide range of potential investment opportunities in mind, the problems of successfully promoting U.S. investments in the Sahel should not be minimized.

- i) A major problem is the language barrier. Very few American businessmen speak French, the official language of seven of the eight Sahelian countries. Lengthy language training is time consuming. Negotiating and working through interpreters is hardly satisfactory. Employment of bilingual managers is possible, particularly to the extent that they can be drawn from American multinational operations in France and other French-speaking areas.
  
- ii) French hegemony and resistance is another major hurdle. Government ministers in French-speaking West Africa readily admit that U.S. investment proposals made in their countries one day will be in Paris two days later and that French advisors may indeed contribute to truncating local interest in such proposals. While French hegemony can be seen to have declined in government-to-government economic assistance, it is by no means certain that such hegemony has declined in commercial and industrial matters.

- iii) American investors are also unfamiliar with and generally unwilling to accept negotiating periods of one to three years that are standard in Sahelian countries for the establishment of new ventures. This time frame is generally accepted by government ministers with apologies for processing delays, defused decision-making, dependency on advisors, etc. Investment opportunities of modest scope will not maintain the attention of American businessmen for such long negotiating periods, particularly as the investor must contend with continuously changing economic and political conditions.
- iv) Investment codes in several Sahelian countries are not attractive to American interests. The complexity and bureaucratic tangle of customs duties, custom duties relief, taxes, tax relief, imports licensing for raw materials and/or competing products, labor laws, payment procedures, expatriate permits, repatriation of funds, exchange control regulations, etc., are often bewildering and contradictory -- and subject to considerable change during lengthy project negotiations. In some of the countries, the investment laws and regulations are so ill-defined as to make the investor uncertain of his position even if negotiations are concluded.

29

v) Political risks in Africa are also very much in the forefront of the thinking of potential American investors. While all eight Sahelian countries have signed OPIC investment guaranty agreements, the eligibility of individual projects which come under this agreement is still contingent upon specific acceptance by host countries. No investor goes into business with the view that an insurance policy is his ultimate take out. In a sense, investment guaranty agreements are essential, but not conducive.

Yet with these and many more problems, the Sahel can still be approached intelligently as an opportunity for American business.

## 2. Alternative Approaches

Broadly speaking, two types or two levels of investment stimulation efforts can be exerted -- those aimed at broadening general perceptions of potential business opportunities in the Sahel and those aimed at identifying and promoting specific investments in particular projects. Perceptual efforts would include seminars, trade missions, and distribution of economic data and market surveys. Promotional efforts would include preparing prefeasibility studies, attracting a range of U.S. companies to examine particular opportunities, and coordinating the interests of U.S. companies with the Overseas Private Investment Corporation, Export-Import Bank of the United States, International Finance

25

Corporation, and U.S. embassys and government ministries in Sahelian countries.

a) Perceptional Efforts

The U.S. business community is generally unaware of the expenditure of approximately \$1 billion a year in the Sahel and is similarly unaware of any business potential in this part of the world. One of the ways to stimulate investment interest is to broaden perceptions of Sahelian opportunities.

Inter-agency siminars, drawing upon the expertise of the Departments of Commerce and State and OPIC, with both invited and open participation from agri-business, manufacturing, construction, etc., would be beneficial. A series of such seminars in Washington, D.C., and other cities should be contemplated.

Along with planning these seminars, a handbook should be prepared outlining expenditures currently being made in the Sahel, the types of investment opportunities that are apparent, and the investment laws of various Sahelian countries.

The development of an all-day presentation and an abbreviated 2 or 3 hour presentation, comprising speakers, visual materials,

and handouts could be offered to industry associations and investment groups throughout the country.

A key part of these perception-building efforts should be Department of Commerce-sponsored trade missions to the Sahel. Several such trade missions can be built around different types of private sector opportunities:

- ranching and farming
- agri-industries
- consumer goods manufacturing
- construction materials manufacturing
- export sales
- mining

These perceptual efforts can probably be organized and executed within the existing structures and capabilities of various branches of the U.S. Government. Such efforts will bring the Sahel and its opportunities to the attention of American business. However, it is unlikely that such efforts alone will generate investment. The hurdles between seeing what may be an attractive opportunity and accomplishing the establishment of a business in the Sahel are, at this stage, very great and almost certainly too great to be surmounted

by a few interested American investors. What is needed is a structure for project identification, promotion, and nurturing.

Thus, the stimulation of private sector involvement in the Sahel should not be confined to perceptual efforts alone, since such efforts are not likely to be sufficient to produce tangible results. These efforts would be most beneficial if accompanied by a thorough investment promotion program involving a direct Sahelian and U.S. presence.

b) Promotional Efforts

While many variations of investment promotion efforts can be contemplated, consideration is here devoted to essentially three, where some past experience exists:

- i) OPIC
- ii) U.S. Financial Institutions
- iii) Contractor Effort

i) OPIC

The Overseas Private Investment Corporation was created by the Foreign Assistance Act of 1969. Its stated purpose is "to mobilize and facilitate the participation of United States private capital and skills in the economic and social

development of less developed friendly countries and areas thereby complementing the development assistance objective's of the United States."

OPIC took over the AID investment guaranty program, whereby qualified projects in LDC's are insured against political risks including currency inconvertability, expropriation or nationalization, and losses due to war, revolution, or insurrection. OPIC also took over the AID-initiated feasibility study cost sharing program, whereby up to 50% of the total eligible costs of approved feasibility studies would be reimbursed to potentially interested investors. In addition, OPIC took over the expanded programs for project financing through loans from its Direct Investment Fund and loan guarantees issued to private U.S. financial institutions.

In recent years, OPIC has moved beyond responding to feasibility study cost sharing proposals into actively seeking and subsidizing travel and subsistence expenses of businessmen for reconnaissance studies of potential projects identified by OPIC. Also, feasibility study cost sharing has been enlarged to 75% in approved situations. In addition,

OPIC has initiated programs to pay part of the cost of legal and consulting fees connected with project establishment. OPIC has also initiated an Investor Mission Program to bring potentially interested investors to LDC's for a first hand look at opportunities.

Only recently has OPIC taken these sorts of tenuous steps into investment promotion. By far the greater part of the corporation's activities are still insurance and financing -- essentially reactive programs to projects presented, not creative programs designed to generate projects. With its strong government participation, it is somewhat difficult for OPIC to give particular assistance to one company, when other companies may be interested in a similar project. In board terms, OPIC's close identification with the U.S. government limits its ability to establish close identification with the private sector.

On the other hand, OPIC is experienced in LDC's and can readily draw upon economic and commercial staffs of U.S. embassys for assistance in identifying and considering investment opportunities. The corporation has an in-house project funding capability allowing it to put itself up front and on the line in discussions with potential investors.

## ii) U.S. Financial Institutions

A major effort was undertaken in the late 1960's to involve U.S. financial institutions in attracting private enterprise to African investment opportunities. Known as the Investment Promotion project, it was aimed at investment banks and the Edge Act subsidiaries of commercial banks which have entrees to the business community and incentives to put funds into attractive situations.

Under the Investment Promotion Program, AID contracted with four groups of financial institutions to place employees or consultants into African countries:

- 1) First Chicago International Finance Corporation; Glore Forgan, D.R. Staats, Inc.; and William Blair and Company
- 2) Crocker Citizens National Bank
- 3) Wachonia International Investment Corporation, and First Wisconsin Company.
- 4) Eastman Dillion, and New York Securities Company

AID provided initial funding to these groups with the hope that each would become self sustaining in due course.

It was AID's concept that the representatives of the financial institutions would not be expected to prepare investment analyses sufficiently detailed to lead directly to investment decisions. Rather, the perceived investment opportunity would be communicated in the form of a project description and perhaps a suggested financial package to a corporate investor, with a view to having the corporate investor perform the more detailed investment analysis from its own vantage point.

The heart of the Investment Promotion program was its premise that the best way for AID to engage American companies in African enterprises was to work through financial institutions which have the confidence of the business community, the technical skills to assist in bringing projects to a bankable stage, and the means to participate in the financing of the project. Original project plans envisioned an eventual self-sustaining, institutionalized investment promotion operation maintained by the U.S. private community in the form of a) continuation by financial institutions of field representation in Africa after AID support was withdrawn, and b) creation of an African Investment Corporation by interested financial institutions.



The results of AID's Investment Promotion project were not positive. The initiative for forming at least two of the four groups of financial institutions came more from the eventual consulting sub-contractors than from the institutions themselves. Project execution was pushed by the consultants more than by the institutions, with the Edge Act subsidiaries being particularly weak. Some projects materialized from the Investment Promotion program; however, none of the four groups of financial institutions become self-sustaining and the ultimate goal of creation of an African Investment Corporation was never reached.

iii) Contractor Effort

During the 1960's AID contracted with consulting firms for provision of project identification and investment promotion services in Africa. The largest of these efforts which will be reviewed here was handled by the Cambridge, Mass., firm of Arthur D. Little, Inc., (ADL), and directed to Nigeria. ADL provided a broad program of industrial development advisory services to the federal and regional governments of Nigeria over a 4½ year period from 1961-1966. More than 75 man-years of service were provided under the contract, at a total cost of \$3.5 million.

37

ADL's terms of reference provided for a) an investment opportunity identification and promotion program and b) an industrial advisory service and institutional development and training program.

Between 1962 and 1966, some 60 studies were submitted by ADL to federal and regional ministries identifying and evaluating investment opportunities in new and sometimes existing industries. An organized endeavor to reach prospective investors in the United States and Europe was begun in 1963 by mailing a brochure entitled "One Hundred Industrial Possibilities in Nigeria" to a list of firms identified as possible potential investors in Nigeria. This effort was supplemented by a seminar program, with presentations made in Boston, Chicago, Minneapolis, San Francisco, New York, Amsterdam, Brussels, Cologne, Copenhagen, Hamburg, Rotterdam, and West Berlin. Specific projects identified as immediately attractive for establishment were promoted by means of direct contacts to likely investors and mailings to other potentially interested firms. An important part of ADL's investment promotion effort was investor servicing -- preparing the prospective investor for effective investigation in Nigeria through such assistance as provision of technical information, liaison with ministries and financial institutions, and planning of travel and

accommodations. The ADL office in Lagos became, in effect, the national investment development center.

Industrial advisory services were provided by ADL to federal and regional ministries at the highest levels. ADL advisors participated both orally and in writing in the day-to-day policy making and implementation of Nigerian industrial development. Training activities were carried out in Nigeria and more importantly in Cambridge where ADL operated a comprehensive industrial development training program for Nigerians responsible for the management of industrial development programs in their country.

During the last three years of ADL's work in Nigeria, industrial investment on the order of \$300 million to \$400 million was made. While it is impossible to attribute accurately a portion of this directly to the contractor's efforts, there is no doubt that ADL's work had a significant impact on project promotion and realization. Nigeria was identified in the eyes of the world industrial community as a key developing country, and the Nigerian government developed a higher appreciation for the value of private enterprise.

35

### 3. Recommendations

Adequate opportunity exists in the Sahel for the beginnings of an American private sector presence. It is within the capability of USG to simulate private investment in the Sahel. It is recommended that the necessary effort be exerted through contracting with a U.S. industrial consulting organization.

A properly funded and organized program would encompass the following:

- a) A multi-year AID contract with a firm of industrial development consultants having African experience and French language capabilities.
- b) One or two 2-man offices in the Sahel for project identification, preparation of pre-feasibility studies, guidance of potential investors, and coordination with local ministries.
- c) A U.S. office to promote identified projects with potential investors and to coordinate promotional and perceptual efforts with the Departments of Commerce and State, OPIC, Ex-Im, IFC, chambers of commerce and industry, and management organizations.

The Arthur D. Little activity in Nigeria in the sixty's can serve as a guide for a similar program in the Sahel in the eighty's. Consideration should be given to offering the eight Sahelian governments a regional industrial advisory service, with personnel attached to appropriate ministries. A strong industrial development training element should likewise be included. Promotion of private investment in the Sahel to countries other than the U.S. should be encouraged.

Funding for a program of this type involving investment promotion and industrial advisory assistance would cost in the range of \$1,000,000 to \$1,500,000 annually, with host country participation in provision of local accommodations. Extensive utilization should be made of OPIC reconnaissance and feasibility study financing programs to contribute toward the cost of investor field trips.

All investment promotion programs in Africa exhibit high costs to identifiable benefits. Benefits in such programs cannot be narrowly conceived in terms of dollars invested stemming directly from program efforts. Benefits must be viewed in much broader terms, including the working relationships of industrial development advisors with local colleagues, the encouragement of private sector development, the training imparted to a cadre

of economic leaders, and the encouragement of regional commercial and industrial projects, links, laws, etc.

In considering the recommendations of this chapter, attention is called to Chapter VI of this report.

### V. Middle Management Transfer Program

The emergency Sahel Drought Relief Program mounted in 1973 and 1974 experienced great inefficiencies in transport, storage, and distribution. Long-term development programs mounted since the drought have likewise experienced enormous problems of waste, losses, and delays. Some AID and UNDP officials believe that as much as \$1 out of every \$2 or \$3 being contributed to Sahelian development is lost due to lack of adequate management and administrative controls. Concern is growing that program inefficiencies must be brought under control if international support is to be sustained for permanent change in the Sahel.

Government officials in the Sahelian countries likewise express concern about poor performance in their own statutory corporations, departments, medical facilities, educational systems, etc. A lack of effective leadership, or an inadequacy of trained managers and administrators, is recognized as a fundamental problem. Those officials with the skills and training for effective management are invariably overtaxed with multiple responsibilities.

Some expatriate assistance is available from several sources:

Assistance Technique - The French government makes available engineers and technicians for assignments of generally two

years to French-speaking countries in Africa. However, such assignments are not usually for management or administrative positions.

AID - AID provides project managers for development programs in which AID money is important. AID officials are themselves frequently critical of the performance of some managers, while recognizing the compounding of problems brought on by Sahelian conditions. It has been suggested by AID country directors that greater utilization of employed managers from outside the government bureaucracy would be beneficial.

Peace Corps - The majority of Peace Corps volunteers work in education and rural development. A small number perform administrative jobs in cooperatives, farming projects, hospitals, etc.

International Executive Service Corp. - Senior executives are supplied by IESC for short-term assignments, usually of two to six months duration. Emphasis has been placed recently on providing managers to indigenous small businesses with satisfactory results. A 1977 evaluation of IESC programs by Robert R. Nathan Associates, Inc., stated that the organization;

9/10

- Clearly generates management and technical assistance lacking in less developed countries.
- Increases the contributions of the private sector to GNP since client firms generally experience an expansion of production.
- Creates a positive image of American business among its clients.

No external organization , however, is providing middle level management on extended contracts to positions of authority and responsibility in a broad variety of government and para-statal operations. It is the lack of availability through any organized channel of such experienced and skilled management that is of concern to many people working in Sahelian development.

A few examples of the kinds of areas in which middle management expertise is needed are as follows:

Maintenance of road building equipment--Tens of millions of dollars annually are being wasted on replacement of improperly maintained equipment.

Service of water wells and irrigation systems--Poor management of preventive maintenance and service operations causes innumerable system failures.

Writing of investment codes--Absence of or poorly drawn incentives and laws often deter investments.

Operation of government-owned road haulage fleets--

Inadequate controls on fleet movements and shop procedures lead to unnecessarily high ton/mile costs.

Administration of government purchasing operations--

Inexperience in international transactions and inventory and allocation controls brings about high costs of purchases and storage and heavy losses in a wide range of supplies.

A U.S. program which would address this need must be built on clear planning and understanding in four subject areas:

i) Assignment Generation - The assignments of middle management personnel must be developed in full cooperation with the organization receiving the manager and the controlling ministry or parastatal body. Responsibility and concomitant authority must be clearly spelled out in each case. Roles which are to be completely or largely advisory must be identified as such. The structure for implementing the middle management transfer program should provide amply for presenting to potentially interested officials the benefits of the program. Local participation in expenses through supply of housing should normally be required.

ii) Personnel Sourcing - Probably the most difficult aspect of the middle management transfer program will be the task of finding qualified Americans willing to be shifted out of mid-career positions into complex assignments in developing countries. Ex Peace Corps volunteers, now 70,000 in number, constitute one group that can be drawn upon for such assignments. Multinational corporations, particularly those with operations in French-speaking countries, can be expected to participate. Three to five months language training must be given to personnel not fluent in the language of the country to which their assignments will take them.

iii) Incentives - To obtain middle management for two year assignments overseas the cooperation of employers must be sought and nurtured. Almost certainly, employers will have to agree to reinstate seconded employees into positions comparable to or above the ones vacated and maintain benefits tied to time in grade while employees are on assignment. If necessary, some recognition or financial incentive to such employers should be offered. The seconded managers themselves will expect salaries of 75% to 100% of that last received from employers. In addition, transport, housing, medical

facilities, life insurance, and schooling for children where none is adequate locally must be provided.

iv) Training - Every assignment for a middle management transferee should be structured with training of associated local personnel in mind. Day-to-day associations should be buttressed with monthly or quarterly seminars or progress reviews. A program for academic training should be coupled with the assignment, preferably bringing local personnel to the U.S. for courses of several weeks to a year focusing on particular work content and broad principles of leadership, management, administration, and control.

The appropriate body to administer a middle management transfer program would appear to be the International Executive Service Corp. Already under contract to AID, IESC has extensive experience in Africa, an impressive list of assignments completed, and established relationships with American business organizations and social services. While IESC has dealt essentially with retired executives, the transition into middle management should not be difficult and certainly a great deal less problematic than, say, the Peace Corps handling middle management assignments.

It is not certain at this stage that an American middle management transfer program would be well received by Sahel governments. There

exists considerable sensitivity to suggestions that local management is not up to the assigned tasks and that an aggressive American can somehow perform better. French hegemony will again be evident--a latent or manifest displeasure at the prospect of numbers of Americans taking over local positions of authority and responsibility. Language and cultural differences and conflicting concepts of effective management and administration will be discouraging to some seconded personnel.

Ministerial officials with whom the concept of a middle management transfer program was discussed had difficulty suggesting specific needs that could be fulfilled by American middle management transferees. Further development of the concept with Sahel governments would therefore appear to be the next step in examining the feasibility of the proposed project.

A needs analysis should be conducted in the Sahel by a U.S. team comprised of two to four members. Preparatory work for the field investigations by the needs analysis team should include the following:

- 1) Preparation of briefing papers, forwarded to each U.S. embassy in the Sahel.
- 2) Embassy selection of appropriate government officials to be interviewed by the needs analysis team, and delivery of briefing papers and explanations to these officials outlining the purpose of the study approximately a month before the team's arrival.
- 3) Arrangement of appointments with these officials and visits to representative projects, departments, and corporations where middle management transfers would be appropriate for consideration.

## VI. THE POLITICAL CONTEXT

Underlying the potential investment promotion and management transfer efforts is a major uncertainty: the U.S. State Department's commitment to private sector involvement in Africa, or more precisely, the department's willingness to promote and defend private sector interests as part and parcel of U.S. political policy in Africa.

Under the present Administration, U.S. relations with most key black African states are forged around a single issue--southern Africa. Unquestionably this is the predominate political issue of concern in Africa. The promotion of basic U.S. values supporting prompt and peaceful transitions to majority rule is receiving the whole-hearted attention of department officials in Washington and American ambassadors in Africa. But it is not the only issue on the continent. Economic, industrial, and commercial development is of continuous concern to African governments, and it is in this area that our policy has been woefully neglected. The Africa Bureau of the State Department has effectively relegated economic issues to the Agency for International Development, which means that official U.S. concern is limited to foreign aid programs and disbursements, while the broad fabric of private sector interest go unattended.

47

It was understood years ago that U.S. business must establish a presence in black Africa in the decade of the seventy's or risk being shut out of the continent for the rest of the twentieth century. Some U.S. corporations saw the potential in black Africa and made significant investments--Union Carbide, Pfizer, Chase Manhattan, CitiCorp, Phillip Morris, and others. However, besides oil exploration and extraction investments in Nigeria, the U.S. private sector presence in black Africa is negligible and perhaps even declining, with notable recent withdrawals from some countries or regions by Exxon, IBM, Colgate-Palmolive, and others.

American industry and commerce have much to contribute to Africa--much more than foreign aid alone can provide. That contribution, of obvious mutual benefit, is not being made, partly due to the business community's timidity, but with a fair measure of responsibility also resting with Washington. On balance, it is fair to say that the lack of rapport between U.S. business and U.S. government in Africa is not conducive to investment and trade development at this time.

It is abundantly apparent that the Africa Bureau does not place a high priority on private sector participation in the continent. The Africa Bureau itself is aware of many situations in which

4/8

industrial and commercial issues have been assigned to last place on agenda for discussion with African leaders or not included at all. In contrast to British, French, and German diplomacy, American political relationships with African states over the past two years have been promoted at the neglect or exclusion of achieving worthwhile economic or commercial benefits.

The conclusion drawn by many African governments is that the U.S. downgrades economic relationships and does not place significant emphasis on private sector interests. It is correctly perceived that the U.S. has not tried to develop a broad base of economic and trade relationships. With this lack of diversity in its relationships, the U.S. is all the more vulnerable to swings in the political climate. For example, U.S. relations with Africa were set back with the demise of the Anglo-American plan for Rhodesia. Similar disturbances can be expected from future failures, as long as the U.S. continues to rest its policy on successes in the most intractable part of the continent.

It is against this background of neglect in State Department and scepticism in black Africa about American economic interest that any investment promotion or management transfer program for

Africa must be considered. What is called for is a wholesale reevaluation of U.S. economic policy toward Africa, specifically, the inter-relationship or compatibility of economic and political goals. A more balanced policy toward Africa would accord with the desires of black African states for American capital, technology, and skills as well as better serve the broad spectrum of U.S. interests in the Third World.