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OBSTACLES TO PRIVATE SECTOR ACTIVITIES IN AFRICA

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EXECUTIVE SUMMARY

This report identifies and analyzes the fundamental constraints, both visible and perceived, which inhibit the development of private sector activities in Sub-Sahara Africa. The findings are based on research conducted over a ten-month period in which the principal data were obtained through in-depth interviews with approximately 150 respondents in Africa, France and the US.

Four African countries were selected for concentrated analysis: the Ivory Coast, Kenya, Zimbabwe and the Sudan. The data were analyzed around specific issues, concentrating on those factors which are applicable to private sector activities in the African continent generally. Documentary research also was undertaken to integrate past research efforts and official government analyses with the current data.

The emphasis on private sector activities is not a new component of US policy toward Africa. However, it has been given unprecedented emphasis by the Reagan administration. Despite this fresh initiative, relatively little progress has been made in the course of the first two years, due to a number of reasons. First, under current circumstances, neither the present economic situation nor conditions in Africa are favorable for attracting major new ventures. Second, the private sector emphasis has received more rhetorical than material support owing to a lack of financial resources, the administration's preoccupation with political matters, and a lack of credibility. Critics view the private sector emphasis as a rationalization for declining foreign aid levels, a policy thrust which falls short of dealing with the complexity or magnitude of economic difficulties that the continent confronts today. Third, there has been little coordination or control of the policy; each agency or bureau has its own idea of what the policy means and what its particular role is in the overall initiative. Finally, there does not appear to be a deep understanding of the major impediments to implementation or the best goals on which to focus.

Stimulating private sector activities in the world's poorest continent is an enormous task that will require painstaking and tedious work. A realistic policy should include measures to build support among the principal beneficiaries as well as contain concrete proposals to cement our economic interdependence with Africa. This report recommends steps that are intended to be a foundation upon which those long-term policy objectives can be pursued. The real payoffs of this approach will come, not in the immediate future, but over the course of the years ahead when economic conditions improve, when there is a better understanding and willingness to work together, and when an explicit regional strategy is in place.

The principal recommendation of this study is that the State Department, through the Africa Bureau, should take the lead in developing a coherent, comprehensive and well coordinated regional strategy drawing the relevant institutions and resources together under an umbrella interagency working group to be known as the African Regional Coordinating Committee. Its membership would include representatives of the State Department, USAID, OPIC, Ex-Im Bank, the Commerce Department, the Treasury Department and other interested agencies relevant to this task.

The objectives of the African Regional Coordinating Committee would be to design and implement a regional strategy that would: (1) promote US global competitiveness, (2) encourage host country policies and practices conducive to economic productivity, (3) strengthen indigenous entrepreneurs, (4) assist the US business community, and (5) increase the efficiency and effectiveness of US government agencies involved in the promotion of commercial activities. An organizational plan should be developed for a rational division of labor among these institutions, with a view toward eliminating the bottlenecks, duplication, confusion and interagency rivalry that currently exists and toward promoting specific programs to meet the five overall committee objectives.

Each of these objectives or issue-areas is treated at length in a separate chapter of this report. Chapter I, the Introduction, discusses the private sector initiative in the context of wider issues, including North-South relations, the role of multinational corporations in the Third World and the general international economic and political climate. The utility of previous studies is also evaluated and historical investment trends are analyzed.

Chapter II discusses the US position in Africa with regard to European and Japanese competitors. Historical, cultural and economic factors combine to constrain Americans from competing in Africa, a continent which most Americans assume is a natural economic frontier of Europe. France presents the toughest competition for the United States and is therefore examined in detail.

France views international trade and investment as vital to its national interest. Simply put, the French prefer to subsidize exports and investments to generate business and create employment, rather than subsidize welfare. An aggressive mercantile outlook is buttressed by a high priority placed on Africa as a region of opportunity. Through a well established network of political, economic and institutional links, the French have carved a position of economic and political influence in Africa unmatched by any other outside power. The French import 20 percent of their oil and the bulk of its strategic minerals from Africa. French oil companies earn one-third of their annual turnover from African operations. Africa is France's principal market for manufactured goods and agricultural products, and approximately 350,000 French citizens reside in Africa at a relatively high standard of living. However, in oil, banking and construction, US firms are beginning to present a formidable challenge, particularly in the franc zone, once thought to be an exclusive preserve of the French. With more confidence, knowledge and support from Washington, the US commercial presence in Africa could well increase.

Chapter III focuses on decision making elites and host country policies and practices. There is a widespread belief in the American business community that Africa is the most difficult environment in the world in which to do business. The most frequently cited reason for this conclusion was not related to market forces or ideology, but to the complexity, unpredictability and volatility of host country policies. Although there are great variations from country to country, in general African elites are ambivalent about private sector activities. They frequently state that they want more foreign private investment and more indigenous entrepreneurs, but at the same time,

they castigate the role of foreign capital, criticize the acquisitive nature of local entrepreneurs, and promulgate laws which restrict both.

In addition to these conflicting attitudes, both local and foreign businessmen and women work in economies in which the role of the state is substantial. Whether market-oriented or socialist, African governments feel that the state has a necessary and legitimate role to play in asserting economic independence. The main measure of how active or competent the state is in pursuing this objective, however, is not ideology. Some socialist states offer relatively favorable business environments while market-oriented countries, intentionally or not, may create significant obstacles.

In recent years, more and more states in Africa have been calling for closer economic links with the West and more indigenous private sector activities. Unfortunately, African elites tend to be unaware of what is required, beyond a statement of intent, to attract foreign private investment or stimulate their local entrepreneurial sectors. Excessive, unpredictable or incompetent bureaucratic management is perhaps the single most inhibiting factor to commercial operations, creating a maze of difficulties at nearly all stages of operation. Indeed, as a rule, bureaucratic behavior appears to affect investor confidence more than official policy (which often is unclear, inconsistent or negotiable), ideology (which is often not translated into policy) or the political situation (which the private sector is learning to deal with). In this regard, Kenya and Zimbabwe are contrasted as two countries in which the international community tends to have a view of the investment climate that differs markedly from that of local business representatives.

The indigenous entrepreneurial sector is examined in Chapter IV. This is one area of the African economic environment about which very little is known. Indeed, few observers appreciate just how underdeveloped the entrepreneurial sector is. Zimbabwe, for example, with the second most developed economy in the continent, is a country whose productive capacity is 70 percent foreign-owned, with virtually no participation in modern industry by African entrepreneurs. In countries in which indigenous entrepreneurs have emerged, they constitute a small minority of the population and contribute little to their gross domestic product.

The validity of common assumptions about the indigenous entrepreneurial sector is also questioned. These include the notions that African governments consistently prefer to encourage indigenous entrepreneurship over foreign investment, that entrepreneurs will naturally flourish once government restrictions are removed, that a lack of capital or credit is a fundamental constraint on entrepreneurial development, and that indigenous entrepreneurs will invariably benefit from a dimunition in the role of foreign commerical interests. The question of measuring the success of programs designed to increase entrepreneurial talent is also addressed. Success cannot be determined simply by the number of projects started over a fixed period of time. Rather, the true measures of endeavors of this type are to be found in longer term developments, such as the evolution of an economic environment conducive to local enterprise, the development of a genuine entrepreneurial class, and a shift in public attitudes from viewing African entrepreneurs as exploiters to regarding them as partners in development.

Chapter V examines corporate characteristics of American firms that affect their performance in the African marketplace. A lack of colonial history and the geographical distance from Africa account, to a large extent, for the initial lack of interest by many potential investors. In addition, like most Americans, the business community receives incomplete or inaccurate information. For the average investor, Africa is viewed indiscriminately as a region of small, poor, debt-ridden countries, with few significant markets and seemingly insurmountable political and economic problems. Many US corporations also have inadequate procedures for risk evaluation, relying on reports in the mass media, personal contacts, or professional advice from experts with a poor knowledge base.

The goals, resources and operational practices of US corporations also differ greatly from those of their major competitors. The European and Japanese, for example, actively seek new markets, recognizing their different requirements. Americans tend to see The Third World as an extension of their existing domestic market. US corporations must strike out on their own while foreign competitors are supported by a range of government programs. US firms prefer majority equity ownership, are often uncomfortable with joint ventures, and sometimes find it difficult to adapt to the imperatives of indigenization. Corporate decision making tends to be more highly centralized in American firms, with the chief executive officer of a branch operation not ranking high on the global corporate power structure. US corporations measure their progress and design their corporate strategies over a shorter time frame, evaluating productivity through quarterly budget reviews, encouraging a high turnover of their personnel, and seeking quick repatriation of profits. When disputes arise, US corporations lean toward litigation rather than negotiation. American labor practices seem more harsh and their benefit programs less generous than those offered by Europeans. Finally, US corporations are inclined toward conservative investment policies in which risks have to be fully guaranteed. In short, US corporations do not approach Africa with the kind of entrepreneurial spirit for which they otherwise pride themselves.

The corporate strategy recommended by experienced practitioners is one of "nichemanship," a strategy which identifies a particular situation or activity especially suited to a firm's ability or character. Examples of American business successes and failures in Africa are provided in three case studies: Arkel International, Inc. in the Sudan, H.J. Heinz Company in Zimbabwe, and the Afra Sugar Corporation, a hypothetical company in the imaginary state of Afra.

Chapter VI examines the role of the US government in promoting private sector activities. While the US government has repeatedly articulated its official position, the public response has been skeptical. Resistance is evident from the host countries, the American business community, Congress, and some of the relevant agencies involved in the exercise. In a selected review of key agencies, some of these problems are examined. Leadership by the State Department is called for through a sharply focused regional strategy that will translate policy into effective actions.

Chapter VII summarizes the major conclusions and recommendations of this analysis. It emphasizes the need for a coordinated effort through an interagency African Regional Coordinating Committee. A number of specific proposals are presented as potential steps to take in formulating and implementing this new economic agenda.

OBSTACLES TO PRIVATE SECTOR ACTIVITIES IN AFRICA

I. INTRODUCTION

A. Purpose and Background

In March, 1982, the State Department and the United States Agency for International Development (USAID) contracted with the Battelle Memorial Institute to conduct a study of the obstacles to private sector activities in Africa. This report contains the major findings of that study. It analyzes the factors which have inhibited US investment and indigenous private sector development, and recommends general guidelines and practical steps which the US government might take to lend support, provide incentives, and remove impediments to private sector activities throughout Sub-Sahara Africa. Although selected countries (Ivory Coast, Zimbabwe, Kenya and the Sudan) have been examined in detail during the ten-month period of research, the study is mainly issue-oriented, concentrating on those factors which are applicable to private sector activities in Sub-Sahara Africa generally. Five main issues are examined: (1) global competition, (2) decision making elites and host country policies and practices, (3) the indigenous entrepreneurial sector, (4) US investor policies and practices, and (5) the role and policy tools of the US government.

The study was conducted at a time when a number of broader policy questions and economic trends concerning US economic relations with less developed countries (LDCs) were at issue. First, there is the burning question of the world recession and its impact on the LDCs and overseas investment. Declining productivity, unemployment, high interest rates and trade disputes among the OECD countries have had a devastating impact on the economies of the developing nations, depressing commodity prices, increasing the levels of debt, and reducing the amount of financial resources available for investment and development.

Not surprisingly, overall investment trends in the United States also have been changing as a result of the recession. In 1981, US investment abroad rose only 5.5 percent, "the weakest performance since World War II."[1] Reduced corporate liquidity constrained US business, which lacked the incentives and the resources to make major new investments abroad. In light of prevailing high interest rates, US firms with capital were often attracted more to domestic opportunities than to foreign operations.

Second, the slow pace of development in all but a dozen or so countries in the Third World has depressed investment prospects, especially in Africa. Traditionally, foreign private investment and commercial loans from the West have been limited to a select few, with approximately 70 percent of the capital being concentrated in ten countries in Latin America and Asia.[2] The demand for African commodities has plummeted, with prices for coffee, cocoa, copper and cobalt greatly depressed, a condition that is expected to continue for at least as long as the worldwide recession lasts. According to the World Bank, the 34 oil-importing nations of Sub-Sahara Africa can probably expect their per capita GDP to be negative for this decade, after declining from an average of 3.7 percent per year in the 1960s and 1.7 percent per year in the

1970s. Rapidly growing populations, reduced agricultural productivity, mounting foreign debt (which, in Africa, has increased nearly seven-fold in the last ten years), and a scarcity of foreign exchange prevent African countries from importing necessary industrial raw materials, capital equipment and spare parts. Balance of payment difficulties are forcing major development projects to be suspended and stiff import controls to be implemented, creating additional constraints to private sector expansion.

Third, the US, some major European donors and the primary international development agencies have shifted the emphasis in their development philosophies from "basic human needs," which focuses on service-oriented projects, to a "private sector approach," which stresses productivity. "Africa is shaping up to be a major battleground as 'supply-siders' in the US and international agencies press LDC governments to accept free-market remedies for their economic ills, commented Business International."[3] The International Monetary Fund (IMF) is expanding its lending facilities in Africa, but attaching strict conditionality to them; the World Bank is trying to restructure development priorities along the lines of the "Berg Report" (Accelerated Development in Sub-Saharan Africa: An Agenda for Action); and the International Finance Corporation (IFC), a World Bank affiliate, has declared its intention to step up its programs to assist the private sector in Africa. Many African countries have responded to the pressure by citing their dependency on factors beyond their control, such as high energy costs, imported inflation from the West, and declining export revenues from commodity price fluctuations. Donors have stood firm, however, tying their disbursements to strict policy reforms, including higher interest rates, price increases on basic foodstuffs, the ending of subsidies, currency devaluation, and reduced government expenditures. Whatever the long-term benefits of these measures, the immediate impact of the austerity programs will be to tighten, rather than expand, opportunities for both the foreign private sector and for local industry. Import restrictions, reduced public sector investment, aborted development projects, decaying or undeveloped infrastructure, and delayed growth will herald a period of belt-tightening and slowed economic activity for all concerned.

A final question against which this study is cast concerns the role of multinational corporations (MNCs) in the developing world. The image of the MNCs in the Third World has been shaped by two primary attitudes, one emanating from the US and the other from the LDCs. First, in the US, foreign private investment historically has been regarded as inimical to the well-being of the American economy, principally because it is viewed as exporting jobs. However, with the recession at home, and with increased commercial and trade competition with our allies, there are indications that this attitude is changing. For example, Business International (BI) has sponsored studies which have shown that, contrary to conventional wisdom, the effects of corporate investment abroad are beneficial to the American economy. "When compared with their more domestically oriented brethren,...those firms with the greatest propensity for overseas investment...have produced more US jobs and generated more US export growth, in addition to bringing substantial earnings back home."[4] Nevertheless, BI reports, "exponents of the job export theory remain numerous and influential."[5]

The second source of negativism toward MNCs emanates from the LDCs. It stems from recent historical experience and, in some instances, ideological perspectives. Due to the association of capitalism with colonialism and racism, there is widespread distrust of multinational corporations among many African elites, a feeling that has been somewhat reinforced with the emphasis on private sector activities by the Reagan administration. In some circles, this policy emphasis is seen not only as a revival of "neo-colonialism," but as an attempt to force supply-side Reaganomics down the throats of the poorer countries or to rationalize declining foreign aid levels.[6] In addition, an extensive academic literature concerned with dependency theory views the multinationals as exploiters of the poor. Foreign investment, according to this school of thought, does not promote real development but increases the dependency of developing countries on the industrial West.[7]

These traditional attitudes have left their mark on both the corporate executive, who is reluctant to accept a high risk investment in a hostile environment, and on the African government official who is reluctant to invite him in without close control and supervision. While many of these views are currently being challenged, fundamentally, the American investor must still overcome his suspicion that Africa will be inhospitable, and the African civil servant or politician must suppress his belief that foreign private enterprise necessarily will be exploitative.

These wider issues set the framework for the current study. They represent basic obstacles to private sector activities for which there are no quick or easy remedies. They are also questions which relate to North-South issues as a whole, and therefore go beyond the scope of this analysis. However, they provide the context within which more regionally-specific issues are examined and their impact on the development of the private sector in Africa should not be underestimated.

B. Approaches to the Study of Private Sector Activities

Previous studies which relate to private sector activities in Africa may be divided into five basic categories. Summarized briefly, they include, first, the voluminous academic literature that has concentrated on four types of analysis: (1) the debate on dependency theory (Biersteker: 1978), (2) quantitative analyses (Kobrin: 1976), (3) critiques of development policies (P.T. Bauer: 1981), and (4) in-depth country studies (Sklar: 1975). Arising out of the Latin American experience and extended to Africa by scholars who are concerned with postcolonial center-periphery concepts, the dependency debate focuses around the issue of the normative socio-economic role of multinational corporations. Quantitative studies emphasize empirical data, political risk methodologies, and the testing of hypotheses. Critiques of development policy concentrate on contrasting models of economic growth and their effect on productivity and equity. In-depth country analyses stress detailed field research in countries with a large multinational presence, an incipient entrepreneurial class, or aggressive indigenization policies.

A second category of analysis brings academic expertise to specific investment issues and is based largely on survey data obtained from executives of

multinational corporations and host country elites (La Palombara and Blank: 1977). A third category focuses on typologies and case studies, comparing various policy approaches toward investment (Robinson: 1980) or targeting particular sectors or industries (Kilby: 1965). A fourth type of issue-oriented or policy-related work is that produced by government and international agencies, such as the Congressional Research Service, the General Accounting Office, the World Bank, the International Monetary Fund, etc. Finally, there are numerous commentaries, newspaper articles, unpublished papers, and various other materials scattered in the professional and popular literature. Indeed, in the mass media, much greater attention is being focused on the private sector, as evidenced by the emergence of such publications as African Business, Africus and African Business and Economic Review as well as more concentration on Africa by such standbys as Business America, Business Week, Fortune, Forbes, the Economist, and Dunn's Review.

While this literature offers valuable data, analysis, and comment, much of it is fragmentary, incomplete or uneven in quality. Moreover, the literature does not easily lend itself to the range of issues and problems confronting the US policymaker, the foreign investor, the African decision maker or the indigenous entrepreneur seeking an understanding of fundamental problems and practical solutions. This report attempts to fill that gap with respect to Africa, by building upon previous works through analysis of new data collected in interviews with knowledgeable and experienced respondents.

C. The Private Sector in Africa: An Overview

In several policy statements issued by the Reagan administration, the private sector has featured prominently. As articulated by Assistant Secretary of State for African Affairs, Chester A. Crocker, in a presentation to the Council on Foreign Relations on November 19, 1981, the government view of the private sector includes both the highly capitalized, multinational sector and the more widespread phenomenon of small producers, encompassing "the artisan, the businessman, the trader, the road builder, the fisherman, the cooperative, and above all the farmer, whether he is producing food or export crops."[8] The fundamental premise of the administration's policy is that "it is only through the private sector, whether large or small, indigenous or foreign, that significant growth will occur."[9]

But what does the private sector in Africa actually look like? Looking first at the indigenous sector, the answer to this question depends upon how broad a definition one employs. If one means to include everything that is not government-owned, as Crocker did, then there is an extensive private sector, consisting chiefly of small-holder agricultural units. Agricultural development clearly should be the chief economic priority of the continent, whether the initiative is private or public-sector generated. But the encouragement of free enterprise in agriculture does not necessarily relate to private sector activities elsewhere, nor is it particularly helpful to lump all the categories together, from subsistence farmer to large-scale businessman. Indeed, when looking at private sector development in non-agricultural sectors, there is even less knowledge, understanding and experience to fall back upon. There are no reliable statistics on African entrepreneurs, other than a handful of studies on small-scale business

ventures in two or three countries. What is known is that African entrepreneurial development is somewhat more advanced in Anglophone countries, concentrated in trade and commerce (or real estate), and that the number of independent Africans who own or operate their own commerical ventures in the manufacturing sector are a very small fraction of the total population of their countries. It is this emerging group to which the indigenous private sector refers in this study.

Specifically, the term entrepreneur is defined as a person who organizes, operates, and assumes the primary risk for a business venture, a manager or producer. This definition excludes directors of foreign firms, salaried employees of large MNCs, civil servants running state-owned or foreign-owned enterprises, and real estate speculators who acquire property and accumulate wealth essentially as a rentier class. Although these actors may play significant economic roles, they are not entrepreneurs as such.

This distinction between an entrepreneur and other members of a monied class emerging in Africa is an important one. For example, observers often confuse an "entrepreneur" with a "capitalist". Although they may be one and the same, they need not be. A capitalist is an investor of capital in a business or a person who acquires wealth through collecting dividends or profits from private enterprise. He does not normally assume the risk for a business venture, manage an operation, or produce a service or product.[10] There are probably far more capitalists in Africa than there are entrepreneurs, many of them in the professions or in government service. An entrepreneur, by contrast, must devote his principle time and efforts to managing his operation.

In sum, then, this study will not treat agriculture, a subject best suited to development economists, although a revived agricultural sector will obviously have a buoyant effect on private sector development generally. Nor will this analysis focus on other private sector players who do not assume the primary management responsibility or financial risk for commercial undertakings. Rather, the principal concern of this study in examining the indigenous sector is to identify the constraints to the development of independent African entrepreneurs, whether they be small independent businessmen and women or the heads of relatively large locally-owned firms.

Turning to the foreign private sector, information relating to Africa is also deeply flawed. For example, one might consult a directory of US firms operating in Africa and conclude from a list of over 2,000 names that there is a large American business presence there.[11] That list would conceal the fact that the American presence frequently consists of simply one person or office operating as a manufacturer's representative or sales agent. In some cases, the local organization is a franchise with no direct US presence at all. Official government figures can also be misleading. Department of Commerce data on US direct investment abroad, disaggregated by recipient country, puts US investment in Nigeria in 1980 at only $27 million as compared to $205 million in the Cameroon. In fact, the Department of Commerce shows that there is more US investment in Niger ($42 million) and Namibia ($32 million) than in Nigeria, despite the well-known US oil interests in West Africa. These discrepancies are due to the Commerce Department's definitions and statistical procedures. A "direct investment position abroad" is defined

by Commerce as the net book value of US investors' equity in, and outstanding loans to, their foreign affiliates, where there is at least ten percent ownership of the voting securities or the equivalent.[12] This definition does not include a US firm's assets abroad. Moreover, if a firm's local affiliate borrows heavily in the Eurodollar market, then this is shown as a European holding. Thus, the distinction between assets and equity, and the transfer of Euroloans to other books, provide an inaccurate investment profile in any particular country. Nor do the Commerce Department's data make a distinction between tax havens, where paper companies can be set up, and actual investments. According to official data, for example, there is approximately 50 percent more American investment in the Bahamas alone than in all of Sub-Sahara Africa, excluding South Africa.

An overall picture of US investment in Africa can nevertheless be obtained, albeit with less precision than desired. Based on US government, UN, and World Bank studies, the available data confirm that US trade and direct investment in Africa is an exceedingly small proportion of overseas commercial activities as a whole. In 1982, of the $214 billion of US investment in all countries abroad, 73 percent was concentrated in the developed countries, and 24 percent in the developing countries, principally in Latin America. In fact, Latin America has attracted 72 percent of all US investment in the developing countries. Africa, by contrast, has attracted less than $6 billion, roughly three percent of US overseas investment worldwide. (More details on foreign investment trends are contained in Chapter II.)

The statistics on trade provide roughly the same story. US exports to Sub-Sahara Africa accounted for less than three percent of total US exports in 1981, although the pattern is changing slowly. US exports to Africa are growing while imports are declining, mainly of Nigerian oil. Our trade deficit with Africa narrowed in 1981 by 18 percent, to $10.2 billion. At the same time, US sales to Africa increased 30 percent in 1981, to a value of $6.4 billion. Two-thirds of these exports are accounted for, however, by exports to Nigeria and South Africa alone. What all these figures tell us, commented one government official, is how many markets the US is ignoring, how much untapped potential is available, and how far the US has yet to go in taking advantage of emerging opportunities.

II. GLOBAL COMPETITION

A. The United States, Europe and Japan

One of the principal questions facing American business representatives who look at emerging opportunities in the African market is: how do we compete? Traditionally, US firms willing to push into this new frontier have had to "go it alone," with little encouragement or assistance from their government. This is a peculiarly American characteristic in world commerce. Competitors in Europe and Japan have had a distinct advantage--a broad national consensus at home in favor of international competitiveness, manifested through a range of government incentives, protections and subsidies. In the United States, such policy tools are only beginning to be discussed as possible aids to international commerce and investment and they have stirred considerable controversy.

While the debate over policy tools continues, American perceptions are beginning to change regarding the economic importance of the Third World, not only with respect to how it can help the recovery of our own economy but also how vital it is for worldwide financial stability. The recession is forcing the private sector and government agencies to explore new strategies for expansion beyond our domestic market and for sharper competition globally. The ability of US firms to function in Third World areas, it is realized, can have a direct impact on American balance of payments, the employment situation, and industrial output. It can likewise influence attitudes toward the free enterprise system; LDCs are becoming more and more aware of the importance of developing a local enterprise base, attracting capital and technology, and improving management techniques.

Nevertheless, although Europeans do not feel constrained to operate throughout the Third World, most American businessmen are still hesitant to become involved in Africa, in no small part because of the perception that Africa is a natural economic frontier for Europe. History and distance predispose Americans - especially those in the business community - to feel less comfortable in Africa than their European counterparts. They are disinclined to evaluate the opportunities in the region in recognition that Europeans have an edge Americans find difficult to match. Europe has had five centuries of contact with Africa, having bequeathed their languages, educational systems, political institutions, religion, and economic links as part of their colonial legacy. African leaders once sat in Europe's parliaments, attended Europe's schools, and were trained in Europe's military academies. Communications are better, more frequent, and closer in nearly every respect.

However, though of vital importance, these ties are not the only factors explaining relative competitive abilities. Such advantages have not precluded the Japanese from launching successful marketing strategies in the Third World, including Africa. Japan's culture, language, geographical remoteness, and lack of historical association with Africa should put Tokyo at an even greater disadvantage than the United States, but that has not happened. Aiming for long-term market penetration rather than short term profits, Japan has developed a sophisticated approach, buttressed by exchange control mechanisms, monetary and fiscal policies, and private investment insurance.

As a measure of their success, one can cite Japanese automobile sales in the Ivory Coast. In 1970, Japanese cars claimed only 2.4 percent of the Ivorian automobile market; by 1980, they had captured 60 percent of the market, most of the inroads having been made in the space of three years. "Their strategy was to accept lower prices in the beginning and swallow the losses to establish themselves. Then, after Datsun and Toyoto became known and liked, prices were allowed to rise to better reflect costs. US auto companies are not really interested in the market of only 200,000 cars. They could target one or two states at home and have the same business volume,"[13] observed an agent of a competitive American manufacturer.

Beyond identifying sharp market shifts, it is difficult to assess precisely how the United States stands in respect to Europe and Japan on the question of investment. Comparative private investment statistics are incomplete and are based on differing concepts of equity interest which cannot always be uniformly translated into comparable figures. Private direct foreign investment often occurs as an internal transaction among subsidiaries of a large multinational corporation, or as reinvested profit, transactions which some countries (France and Germany) do not record as investments. Other investment statistics take into account a range of private sector activities by foreign corporations, what is commonly referred to as "nonequity investments," such as management contracts, commercial loans, suppliers' credits, and coproduction agreements. There is no single quantitative criterion for foreign ownership accepted internationally. Even when assessing direct equity, ownership statistics vary from five percent to 50 percent participation.[14]

In light of these circumstances, only broad patterns can be discussed with any degree of reliability. Utilizing World Bank figures, which are based on OECD data and national sources, and keeping in mind the differences in the various sets of data, a limited number of conclusions can be made.

First, the US has been the dominant source of private investment in developing countries as a whole, accounting for just over 50 percent of total flows from 1960 to 1976 (see Table 1). The UK and France, both with a history of overseas investment activities, accounted for ten percent and eight percent, respectively, of total flows during those years. Germany and Japan, both relatively late arrivals on the scene, have accelerated their overseas investment activities significantly since the beginning of the 1970s, accounting for nine percent and eight percent of total flows, respectively.

Only a small percentage of these investment flows to developing countries ever reaches Africa. As shown in Table 2, the bulk of the capital goes to Latin America and Asia, with Brazil, Mexico, Korea, Taiwan, Singapore and Hong Kong consuming the largest portions. Southeast and East Asia are next in importance (although the regional figures are distorted by the large share taken by Indonesia), followed by Africa and the Middle East. Focusing on Africa, Table 3 shows the US, Japan and the three major European powers comparative investment presence in the continent. As a percentage of the total flow of foreign private investment to developing countries, Africa claims the smallest proportion (6.3 percent) of resources, but France (45.9 percent) and the UK (33.9 percent) channel the bulk of their private investment capital that goes to the developing countries to Africa.

TABLE 1

SHARE OF PRIVATE INVESTMENT FLOWS TO DEVELOPING COUNTRIES BY COUNTRY OF ORIGIN, 1960-76

	US $ billion	Percent of Total	
	1960-76	1960-76	1976
France	4.9	7.7	3.2
Germany	5.7	8.8	10.1
Japan	4.8	7.5	14.3
United Kingdom	6.1	9.5	9.5
United States	32.7	50.7	40.1

Source: Private Direct Foreign Investment in Developing Countries, The World Bank, Staff Working Paper, No. 348, July 1979, p. 5.

French investment in Africa is concentrated in what is known as the franc zone, a group of six French-speaking countries which are members of the Union Monétaire Ouest-Africaine (UMOA) or the West African Monetary Union. The members of the Union include Benin, Ivory Coast, Niger, Senegal, Togo and Upper Volta; Mali declined to join the UMOA and Mauritania withdrew in 1972.

Each of the major competitors of the US in Africa have their own set of specialized policy tools. One of the most unique is the foreign currency loan system, established by Japan in 1972. Under this system, the government of Japan provides funds for private investment to Japanese investors in foreign currencies, including US dollars, through authorized foreign exchange banks and four public corporations: the Export-Import Bank of Japan, the Overseas Economic Cooperation Fund, the Japan Petroleum Development Corporation and the Metal Mining Agency of Japan. These institutions can lend individually or in cooperation with other authorized institutions, in yen or other foreign currencies, using funds obtained by selling yen on the Tokyo foreign exchange market. Thus, foreign exchange risks are shifted from investors to government institutions.

Of all the major Western industrial powers, however, France presents the biggest competition by far to US investors. This study focuses on the French role in Africa, as an example of the kind of obstacles the American business community encounters.

History, language and culture obviously give the French an enormous advantage. However, a large measure of French commercial success in Africa may also be attributed to the official attitude toward international commercial activities generally. Overseas trade and investment are considered to be of direct national interest to France. As a Commerce Department official put it, "the French do a cost/benefit analysis on every single project. They balance it against unemployment. France sees a Third World

TABLE 2

PRIVATE INVESTMENT FLOWS TO DEVELOPING COUNTRIES
BY COUNTRY OF DESTINATION: 1969-1976

	US $ billion[a]	Percent of Total
Europe	3.8	8.8
Africa	5.0	11.5
Latin America & Caribbean	16.0	36.7
(Mexico)	(1.6)	(3.6)
(Brazil)	(6.9)	(15.8)
Middle East	3.9	8.9
Asia & Oceania	11.8	26.9
(Indonesia)	(2.9)	(6.6)
Other	3.1	7.2
TOTAL	43.6	100.0

[a]Excluding tax havens.

Source: Private Direct Foreign Investment in Developing Countries, The World Bank, Staff Working Paper, No. 348, July 1979, p. 6.

TABLE 3

US, EUROPEAN AND JAPANESE DIRECT PRIVATE INVESTMENT
FLOWS TO AFRICA, 1970-76*

	$ million	% of Total Flows to Developing Countries
Japan	658 (1972-76)	6.9
Germany	447 (1971-76)	15.5
U.K.	1,001 (1970-75)	33.9
France	774 (1970-76)	45.9
US	375 (1971-76)	6.3

*Reinvested earnings are not included in the German figures. Japanese figures are based on approvals which do not necessarily conform to disbursements.

Source: From Private Direct Foreign Investment in Developing Countries, The World Bank, Staff Working Paper No. 348, July 1979, Tables SI 11, SI 17, SI 22, SI 25 and SI 28.

commercial presence as being in its own domestic interest. It helps out their export-dependent industries. It creates jobs. Without Third World markets, they would have to pay more unemployment insurance. They would rather subsidize industry than subsidize welfare."[15] This frame of mind contrasts sharply with the job export theory widely held in the United States. Here, opponents of overseas investment argue in favor of exports but against investment, in the belief that it will result in the transfer of productive capacity from the US to countries with low labor costs, and that this, in turn, will mean fewer American jobs and more foreign imports. Hence, labor unions, government officials, and members of Congress have opposed measures to encourage overseas investment, in spite of authoritative studies by Business International (BI), cited earlier, which have concluded, to the contrary, "that most, if not all, of the claims associated with the job export-theory lack substance."[16]

In addition to a fundamentally different attitude toward international commercial activities generally, France also holds a vastly different view of the importance of Africa as a region. "What has distinguished French policy over the past 20 years is its rejection of the supposed unimportance of Africa," commented the Sunday Times.[17] The importance France attaches to the continent is reflected in its aid policies, which are invariably used to promote commercial interests. Indeed, as Africa Confidential commented:

> ...a recent report prepared for the [French] Ministry [of Cooperation and Development]...shows that aid generates excellent business opportunities for the hard-pressed French economy....as much as two-thirds of public aid and grants are used to purchase goods or services "made in France." Africa is one of the few regions in the world with whom (sic) Paris can boast a positive trade balance, and much of it is financed by the rue Monsieur [the aid Ministry]. In many ways, therefore, France's "progressive" approach to North-South relations, and especially its African relations, is a form of disguised mercantilism. The comparative backwardness of French industrial infrastructure means that over a quarter of its manufactured goods are exported to the underdeveloped world, a higher percentage than any other major industrial nation.[18]

The French colonial policy of Direct Rule planted the seeds of Franco-African cooperation which thrives today. Whatever disagreements exist between Paris and its former colonies are treated as family disputes, absent of the bitterness that sometimes characterize African relationships with other European countries and the United States. Only the French, for example, still maintain military bases in Africa. No other former colonial ruler or major power today is permitted such access across the continent or is allowed to intervene in local political and economic affairs with impunity. Indeed, for some African countries, French influence is seen as a guarantee of stability and economic growth and is actively encouraged.

B. French Policy Tools

Any discussion of policy tools used by France to promote its commercial interests in Africa must begin with the political hierarchy in Paris itself. French presidents from General Charles de Gaulle onward have had close personal ties with Africa and the French-speaking African elites. President François Mitterrand is no exception to this pattern; he has been associated with African issues for three decades. France's Africa policy is made by the President, the foreign minister, the presidential African affairs specialist, (currently Guy Penne), and the Ministry of Cooperation and Development. Penne reports directly to the President and, consistent with tradition, is assisted by a member of the president's family, at the present time, Mitterrand's son, Jean-Christophe. A former Agence France Presse correspondent in Africa, Jean-Christophe Mitterand uses his family ties to exercise influence with African leaders who are accorded access to the top levels of government in the Elysée Palace. This privilege is extended almost exclusively to Francophone countries. Indeed, the distinction made by Paris between Francophone countries and other states in the continent was vividly illustrated during a conversation with a French official in Paris who described, not entirely tongue in cheek, Francophone states as "good African countries" as opposed to "all the others."

The coming to power of a socialist government has enhanced France's image in Africa, although there was some consternation in the early days of the new government among some African leaders that their favored positions would erode. Initially, the Parti Socialiste espoused idealistic policies and radical rhetoric in regard to Africa, leading many to conclude that the ground rules of Franco-African relations were about to change. However, Mitterand's 1982 summit meeting in Kinshasha, the reorganization of the Ministry of Cooperation and Development, and continuing military and commercial policies have demonstrated that such expectations were mistaken. Rather than "attempt to decolonize France's cooperation effort," as former Cooperation Minister Jean-Pierre Cot had stated, France seems to have come to the conclusion that it is preferable to carry on as before, even with questionable leaders, rather than open up opportunities for others to make inroads into Paris' special sphere of influence.

Underlining the French attitude toward Africa is a hardheaded concern for the pursuit of mercantile goals and the maintenance of France's political goals in the Third World. In this respect, even with a socialist government, French policy has remained largely unchanged, except for new initiatives in Anglophone countries. In Zimbabwe, for example, government leaders have high expectations of dealing with socialist France, despite its continuing trade with South Africa; Harare officials and private sector spokesmen expect Paris will be more sympathetic with planned social goals than Britain or the US, both of which are now pressing for more private sector policies.

In addition to the special place accorded to Africa in the political hierarchy in Paris and the access African leaders have historically had to the highest circles, Franco-African links are bonded by an established network of regional economic institutions. True to colonial traditions, France treats the countries in which she has had a long-standing interest as a single economic

unit. The six members of the West African Monetary Union (UMOA) share a common central bank, the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO). They also form the heart of a regional customs union, the Communauté Economique de l'Afrique de l'Ouest (CEAO), an institution created in 1973 as a counter-measure to Nigeria's attempts to form a larger West Africa community bridging Francophone and Anglophone countries. The members of the CEAO are Ivory Coast, Mali, Mauritania, Niger, Senegal and Upper Volta, with Benin and Togo participating as observers. These West African regional institutions are "among the few successful experiments in monetary and economic integration among independent states anywhere in the world."[19]

The UMOA and the BCEAO together provide a unique and efficient financial system that offers external financing, French-style banking practices, and guarantees of currency convertability. Among the benefits enjoyed by the African members is availability of hard currency. Paris allows the BCEAO countries unlimited access to an operations account at the French treasury, expanding resources available to the local banking system, with far less concern about reserve levels and external balances that typically worry other African states. Paris, in turn, exercises direct line management of member economies and shares in the benefits of the association. For example, the West African members cannot print their own money, cannot expand domestic credit unilaterally, and are subject to ceilings on credit expansion as determined by all members and France. Sixty percent of the collective deposits of the African members of the BCEAO are held in the French treasury, representing, in effect, an unlimited line of credit to France for domestic financing. The French government guarantees the convertibility of the unified currency, known as the CFA (Communauté Financière Africaine de l'Ouest) franc, at the official rate of 50 CFA francs to one French franc, a rate which has been maintained for the last 20 years. Due to declining economic conditions, however, the BCEAO has shown a deficit in the past few years, principally from mounting balance of payments problems in Senegal and the Ivory Coast. "The deficit is...an overdraft or loan from the French treasury to the UMOA. The size of this deficit was estimated to have reached at least $700 million in 1980."[20]

The advantages which these ties afford to French businessmen are numerous. Those operating in Francophone African countries do not have to contend with a number of risks they would face in other African states, including foreign exchange controls, non-convertibility of currency, and the threat of a government going bankrupt. In addition, the customs union insures free movement of labor and reduced tariffs on selected CEAO products.

France also makes its commercial influence felt in other African regional institutions in which franc zone countries play a role. For example, a confidential USAID study of the procurement policies of the African Development Bank (ADB) and the African Development Fund (ADF) disbursements and procurements from donor nations showed that the US, the second largest donor to the ADF (the US contributed approximately 14 percent of the Fund's subscriptions through 1980) was the last on the procurement list (receiving only .77 percent of the dollar value of total contracts awarded). France was next to last in contributions (providing less than three percent of the total subscriptions) but was second on the procurement list (claiming nearly 20 percent of the ADF's awards).[21]

Another regional economic association binding Franco-African relations is the LOME II Convention, a French-inspired organization linking ten EEC countries and 61 African, Caribbean and Pacific (ACP) members. In reality, over 90 percent of the transactions of this convention are between Europe and Africa alone, affording another outlet for French influence in the continent. The purpose of the convention is to promote trade and development by giving the ACP states free access to EEC markets and development assistance. Nearly all ACP products can enter the EEC market on a duty free basis without reciprocity. In addition, the convention deals with price stabilization: STABEX, an export earning stabilization plan, provides compensatory funds for a drop in agricultural prices; MINEX is a compensatory fund to promote mineral and export stabilization for countries experiencing a fall in the productive capacity or export earnings of minerals. LOME II has the advantage of bringing under one umbrella conventional aid, compensatory financing, private investment, access to export markets, and export price stabilization. As such, it allows European - and especially French - commercial interests better access to the raw materials and expanding consumer markets in the ACP states.

Foreign assistance, insurance, and credit--key resources for promoting French commercial interests--are dispersed through four primary institutions. The agency with the strongest commercial orientation is COFACE, the French counterpart to both the US Export-Import Bank and the Overseas Private Investment Corporation (OPIC). Operating under Treasury, COFACE offers political risk insurance to investors, export financing, and funds for "prospecting" or exploring commercial opportunities. Although conventional wisdom holds that the largest French commercial activities are in the franc zone, COFACE's biggest exposure is actually outside that area, in Algeria, Nigeria, Egypt, and South Africa. COFACE does not offer direct loans, but it does provide credit insurance and loan guarantees for borrowings from state banks that can put together extremely attractive financial packages below world market rates. It is in this terrain that US competitors find themselves so disadvantaged. French terms are easier and more flexible, offering on the average a ten year credit and ten percent interest. With the use of "mixed credits," a combination of commercial loans and aid funds, the French can offer unbeatable financing to clinch their commercial deals. A project financed through mixed credits might provide 40 percent of a loan at three percent interest (concessional terms) and 60 percent of the loan at 15 percent interest (commercial rate), which would bring a unified interest rate of roughly eight percent.

The second major institution for promoting French interests is the Caisse Centrale, an organ of the Ministry of Cooperation and Development which offers development loans at concessional rates. These loans are primarily used to finance long-term government projects, and are linked wherever possible to the purchase of French goods. Unlike US foreign aid, Caisse Centrale activities are not subject to public or congressional review; it receives its funds through direct payments from the French Treasury, requiring no special legislative authorization.

The third institutional device for extending French influence is the French Treasury which provides grant assistance or loans, often matched with commercial funds. By custom, Treasury does not operate in the countries where

the Caisse Centrale is active. Treasury tends to confine itself to the more developed countries or those which are targeted as new commercial frontiers beyond France's traditional zone of influence, such as Zimbabwe and Sudan. However, there are deviations from this unwritten rule. For example, Caisse Centrale operates in the Ivory Coast, one of the most highly developed economies in Africa, while both the Caisse Centrale and the Treasury operate in Somalia, one of the poorest. The criteria for judging which institution may operate in each country is shrouded in mystery and can often only be explained by political expediency.

Finally, there is the Ministry of Cooperation and Development, a department whose influence has been widely expanded with Mitterrand's new reorganization. Previously, the ministry's jurisdiction covered all the former French colonial territories in Africa, with the exception of Guinea. Under the new 1982 reorganization, the Ministry's jurisdiction will now extend to more than a hundred states. As one commentator put it, it will be a "virtual Third World Ministry for France."[22] Although theoretically aid-oriented, the ministry is a key mechanism for promoting French commercial interests. The Fonds d'Aide et de Cooperation (FAC), the ministry's soft loan agency, for example, has been saddled with the burden of paying the difference between the world market price for Algerian natural gas and the higher price prescribed in the recently-concluded Franco-Algerian agreement, a tab of approximately $250 million. This diversion of resources, together with additional earmarking of funds for Chad, "means that a severe retrenchment of French assistance to most of Francophone Africa is actually taking place."[23] Furthermore, the recent removal of Jean-Pierre Cot as Minister for Cooperation and Development was widely interpreted as a victory for the "realists" in the French government who put France's economic priorities above political or human rights considerations.

There is considerable flexibility in the operation of these institutions, especially as compared to their US counterparts. For example, COFACE may guarantee an investment without a bilateral agreement, as opposed to OPIC which must go through the exercise of getting host country bilateral agreement as well as host country approval of each individual project. In addition, COFACE's coverage is broader (including guarantees against loss of assets), the interest rate is lower, and there is no ceiling on the level of guarantees it may offer. To provide investment incentives, French law allows a corporation to deduct from its taxes the amount of investment it makes abroad for a period of five years. One hundred percent of its investment is tax deductible if it exports at least three and one-half times the value of its equity; if it fails to meet that criterion, 50% of its equity investment is tax deductible. The French government also extends aid in the form of direct grants or subsidies, financing French technical advisors who work in African ministries and underwriting the budgets of Francophone states by making direct deposits to their current accounts for payment of civil service salaries. Obviously, this allows a considerable degree of influence over receipt countries' policies.

C. The Pay-off: French Benefits from the African Connection

The French political, military and financial investment in Africa has not gone unrewarded. Indeed, a mutual interdependency has evolved. An energy dependent country, France imports 20 percent of its oil from West Africa and French oil equipment and service companies earn as much as one-third of their annual turnover in Sub-Sahara Africa, mostly in the franc zone countries. France obtains the bulk of its strategic minerals, including cobalt and uranium for its nuclear power program, from Africa. Approximately 350,000 French citizens live in Africa, at a relatively high standard of living, while unemployment is growing at home. Then there is the business generated from French overseas aid which, in 1980, totaled $2.4 billion, two-thirds of which went to Sub-Sahara Africa. This figure is somewhat misleading, however, because France includes commercial credits in its Official Development Assistance (ODA) statistics, so long as 25 percent of the financial package is a grant in aid. Much of the official ODA is rechanneled back to Paris, inasmuch as French assistance is tied to the purchase of French goods or to the salary payments of French technical experts and advisors.

Africa ranks second, after the European Common Market, as France's principal market for manufactured goods and agricultural products, purchasing 13.7 percent of France's total exports in 1981. It is estimated that France provides between 35 to 60 percent of the imports of its former colonial territories, a "captive market" which France fiercely protects. Contrary to popular impressions, however, only four former franc zone states are among the top ten French trading partners in the continent today (see Table 4). The reorganization of the Ministry of Cooperation and Development is intended to expand France's international network and strengthen French competition in Third World markets as a means of helping the country recover from its current economic crisis.

The expansion of French aid, then, is not so much an attempt to address basic human needs, but a program to increase Third World economic purchasing power which can benefit French industry through increased sales of goods and services. A recent study concluded that the cost of French bilateral assistance to Francophone Africa was more than offset by the recycling of sales, profits and remittances to Paris, eased by the franc zone monetary arrangement. "Unrestricted transferability of the CFA franc among the member states and France greatly assists French commercial interests, particularly in small and medium-sized transactions, which tend to dominate commerce in this part of the world."[24]

The Ivory Coast provides one of the most vivid examples of French economic gains in Africa. The net outflow of private capital [to Paris] in the form of profits, repatriation of capital, and private transfers in 1975 was estimated to represent roughly 15 percent of the country's GNP. One authoritative report estimated that some 65,000 French citizens - roughly 4 times as many as resided in the Ivory Coast 20 years ago at the time of independence - send over $200 million a year home in this way.[25]

TABLE 4

MAJOR AFRICAN EXPORTERS TO FRANCE

	Sales (million FF)	% growth since 1977	% of Total French Imports
Algeria	13.0	336	1.99
Nigeria	8.3	180	1.28
South Africa	5.4	220	.83
Morocco	3.4	161	.53
Ivory Coast	2.9	-21	.45
Libya	2.7	180	.42
Tunisia	2.3	249	.36
Gabon	2.2	125	.35
Cameroon	2.2	210	.34
Niger	1.3	310	.20

MAJOR AFRICAN IMPORTERS FROM FRANCE

	Purchases (million FF)	% growth since 1977	% of Total French Exports
Algeria	12.8	146	2.34
Nigeria	9.2	251	1.68
Morocco	6.5	137	1.18
Egypt	6.2	316	1.13
South Africa	5.8	241	1.06
Tunisia	5.2	199	.95
Libya	4.9	253	.90
Ivory Coast	3.8	119	.70
Cameroon	3.6	231	.66
Congo	2.1	346	.40

Source: African Business, July 1982, p. 16.

The total number of French technical advisors or "coopérants" in the Ivorian government and its parastatal organizations is estimated to be approximately 10,000. US firms often find themselves dealing directly with French technicians working for the government or with French managers of French-owned manufacturing, construction, service or trading firms. There are no longer formal or legally binding trading preferences between France and the Ivory Coast. Since 1975, the Ivory Coast has complied with the LOME I Convention and dismantled special trade arrangements with Paris. However, in practice, the French still maintain an advantage in doing business through an established network of business contacts, generous aid, institutional ties and an entrenched French entrepreneurial class. "In effect, what the Ivory Coast has done...is to retain its former colonial patron on a long-term economic management contract," observed an American diplomat.[26]

So successful has this "contract" been that the Ivory Coast has been known as the "success story" of Africa while the French have found a home away from home. "Sometimes we feel here as though we are actually in France," a French official based in Abidjan commented. "Everything is transposed. The laws and the life are not much different from what we know in France."[27]

Obviously, the business environment for an American firm is very different in Francophone Africa than in the rest of the continent. Language is the first problem. Few American managers or salesmen are able to speak French fluently, an impediment which not only denies them access to the French establishment in the country but, more importantly, to the Ivorians themselves. US products are usually not labeled in French, making it difficult for the Ivorian consumer to appreciate its value. Americans have had bad experiences in marketing, sometimes making hopelessly wrong judgments due to a lack of knowledge of the culture. In a continent where personal contact is essential, the inability to speak French is a handicap which Americans take too lightly.

The inability to speak the language, and therefore to understand the business environment, manifests itself in other ways. Americans tend to underestimate the importance of standardized technical specifications that favor French suppliers. When disputes arise between Americans and Ivorians, Americans have a tendency to litigate. An American lawyer working in Abidjan counseled against this; the French have a tremendous advantage in the courts which are based upon French jurisprudence. Though the Ivorian investment climate is a liberal one and there are a few restrictions on investment, administrative procedures are cumbersome and local taxes are high. As one American put it, the complex system of corporate, business turnover, real estate, and registration taxes plus various other levies "can nickel and dime you to death." One US business representative reported his experience of paying a call on the director-general of the tax office and finding himself in a meeting with four French technical advisors sitting with the Ivorian official. "Sometimes, when we submit data to the ministries", he reported, "we get handwritten notes back from the French advisors telling us what to do."[28]

The lack of ability to comprehend the French system presents a host of ethical and practical problems for the American investor. Suspecting French influence aimed against other competitors, one respondent complained of the legal

requirement to declare corporate assets as equity ownership. In the eyes of US law, he contended, that would be considered a declaration of false ownership and, even if accepted, would incur higher taxation. "Ivorians wouldn't have thought that one up," he asserted. "That requirement directly affects US firms. The administration of the law here is tight, compared to many other countries in Africa, where it is slack. If you don't follow the law, there are heavy penalties and this one directly discriminates against Americans."[29] The accounting system is also unfamiliar to American corporations. "Books are rubber-stamped," one auditor observed and "there is a good deal of misrepresentation." Generally, it is said, firms have three sets of books: one for the shareholders, one for the tax people, and one for their own company records.

American respondents also complained of unfair competition. One businessman reported that a feasibility study submitted to an Ivorian ministry surfaced in Paris, after having circulated, he suspects, to his French competitors. Business inquiries are regularly referred back to Paris for response. Langdon Palmer of the Chase Manhattan Bank recounted an experience he had during a tour of a bank project for financing construction of the Buyo Dam in the Ivory Coast. Seeing a number of cartons at the site labelled with the name of a French bank, he asked about their origin. "What do they have to do with this? They were not even in the deal," he asked. The projects manager responded, "it always amazes me that you American banks put up the bulk of the money, but the French make all the money." As it happened, the French bank handled the letters of credit and documentation for the project's equipment and materials.[30]

Of all the difficulties facing US businessmen in competition with their French counterparts, the question of financial packaging featured prominently. Mixed financing and liberal supplier credits, combined with unrestricted transferability of currency, simpler banking procedures and cheaper freight rates provide French exporters and investors with a considerable edge. A French official in Paris admitted the importance of these special arrangements: "No question about it, without mixed credits, we would not be competitive with the US."[31]

Despite the formidable advantages maintained by the French, Francophone Africa is not closed to Americans. Continuing with the example of the Ivory Coast, Americans have already made substantial headway, especially in oil and banking. It is difficult to determine precisely how many American companies are implanted in the country, but the Department of Commerce's Foreign Economic Trends Report for the Ivory Coast issued in 1981 reports 100 US firms operating there, including those with regional offices. The US Embassy lists only 66 American firms, subsidiaries and affiliates, while African Business estimates that there are 80 American companies in addition to six US banks. There are only two US manufacturing operations: Union Carbide's dry cell plant and Blue Bell, a manufacturer of jeans. However, a number of service companies are now well in place. In addition to US banks, there are US law firms, insurance companies, accountants and auditors that can pave the way for additional American activities. Moreover, though French interests remain substantial, it is important to note that they are declining as a proportiion of total commercial activity. Official Ivorian statistics show that, in 1980,

French interests controlled 21 percent of all capital stock in the country, a ten percent reduction from the year before. The decline is due not so much to the disinvestment of French firms as to the diversification of ownership, particularly the increase in the Ivorian share. Between 1979 and 1980, Ivorian control of all capital stock increased from 46 percent to 63 percent, four-fifths owned by the state.[32]

France's share of Ivorian imports likewise dropped from 47 percent in 1979 to 34 percent in the first half of 1981. American firms have also been successful in competing against the French in a number of large contracts: Fluor Corporation beat out Technip for the expansion of the Abidjan oil refinery, Atlantic Richfield (ARCO) was awarded a contract over Photowatt for solar energy cells to power the Ivorian educational television system, and Santa Fe walked away with the underwater pipeline system for the Espoir Oil Field against Bouyques and ETM.

The French are deeply concerned about these trends. They have conducted a confidential study of US competition in Francophone Africa and have expressed their concerns publicly as well. A French diplomatic report, quoted in Africa Confidential (February 17, 1982) commented that "the US has just accomplished a master stroke by controlling through Phillips Petroleum sizeable oil reserves which France should have logically obtained due to the historical, cultural and economic ties France maintains with the Ivory Coast..." An article in Marchés tropicaux argues that "a veritable body of doctrine" has been created "to achieve in Africa a position corresponding to its [US] economic power;" Ironically, the article calls on Paris to lend "the sort of economic and political assistance comparable to that in which the government in Washington offers to its own nationals."[33]

Another significant factor undermining the French foothold in Francophone Africa is the changing perceptions of African decision makers. Ivorian attitudes toward Americans have changed significantly, especially over the past two to three years. It was "an eye opening experience" commented one Ivorian, "for us to see how the Americans operate."[34] Impressed by American management practices and technological skills, more Ivorians are going to the United States for education. While recent trade missions have not produced as many signed contracts as might have been expected, the political impact was favorable, with many Ivorians commenting favorably on improved US attitudes vis-a-vis Francophone Africa. Moreover, as the Ivorians are acutely aware, there has been relatively little new private investment from France since independence. Most French capital was invested during the 1960s, with the French community living off that base since then.

Essentially, observed one respondent, "the Ivory Coast is now looking for the best deal. The doors have been opened recently. They can see that the French are not always making them the best offer. The question is, who has the goods to sell, who gets in, and who can present the best package. That is where language and financing come in. Once you know the routine, you can set up a business and get all government permissions through in a month." Another respondent noted that "even with the French here, we shouldn't play dead. We have made some real inroads." A French official observed that in some sectors, for example, agribusiness, the United States has especially good

opportunities. He cautioned, however, that the Americans should make sure that they have French-speaking executives and be more "French-minded," not so "business-minded." He used the example of a recent American trade mission. "Instead of telling the Ivorians that the US wanted to 'sell more', you should have said you wanted to 'help and buy more'. Quite often the US doesn't accept the rules of the game, and the Ivorians feel you are too rude." Another American respondent noted that the issue came down to the essential point of self-assurance: "The US has a lot of opportunity here if the firms have confidence in themselves."[35]

III. DECISION MAKING ELITES AND HOST COUNTRY POLICIES AND PRACTICES

A. Elite Attitudes

On the whole, both foreign and local businessmen believe that Africa is the most difficult environment of all in which to do business. The reasons seem obvious. Markets are small, infrastructure is underdeveloped, skilled labor and managerial manpower is in short supply, population growth rates are staggering, and agricultural productivity is declining. Unfavorable terms of trade, mounting international debt, and political uncertainty are further disincentives. Then there are the sheer daily frustrations stemming from poor communications, power failures, harsh climatic conditions, and a differing cultural environment. However, of all the impediments mentioned, these were not the most troublesome to the private sector. They can cope with these problems in the sense that they can calculate their probable costs and risks, assess their financial and operational impact, and develop strategies to meet them. The problem they found most difficult to manage was the complexity, unpredictability and volatility of host country policies and decisions of the ruling elites.

La Palombara and Blank, in a study conducted for the Conference Board, determined that "the most significant host country actors are found in the upper reaches of the military and civilian bureaucracies. Key figures in these sectors seem to be (relatively) permanent; they generally manage to survive many changes of presidents, cabinets and governments. They also probably account for most of the policies directed toward the multinationals and their administration."[36] These "strategic elites," as the authors describe them, set the ground rules for the operation of the private sector as a whole.

A maze of laws, regulations and accepted practices has emerged in Africa, reflecting elite attitudes toward the private sector. One Western diplomat summarized these attitudes by citing the old story of two elderly ladies discussing the food in a Catskills Hotel: one complained that the food was terrible; the other agreed, adding that the portions were too small. African governments often state that they want more foreign investment and more indigenous entrepreneurs. At the same time, they castigate the role of foreign capital, criticize the acquisitive nature of local entrepreneurs, and promulgate laws which restrict both.

These conflicting attitudes are not surprising, given Africa's history and current situation. No colonial power explicitly encouraged the private sector, except in trade for supply of raw materials to the metropole. African governments inherited state-dominated economies and, at independence, were burdened with the job of making them work, albeit with fewer resources and less manpower. In arguing for a strong government role in the economy, therefore, most African nations are following the only model they have known. Ideology is a motivating factor in only a handful of instances. In fact, ideology is a very poor indicator to gauge the extent of government intervention in the continent. Whether market-oriented or socialist, governments in Africa have played a strong role in economic affairs, some more competently than others. In the Ivory Coast, a model of free enterprise, the

state sets wages and prices, strong-arms the private sector on employment policies, controls labor unions, and until recently ran some 36 parastatal organizations. Even the stock exchange is government-owned, a mechanism which the government uses to privatize its public corporations. By the same token, Kenya, another free enterprise country, is estimated to have an equity interest in some 176 companies, only six of which paid dividends in 1981.[37]

Guinean president, Ahmed Sekou Touré, a recent convert to the group of leaders now actively courting foreign private investment, explained African attitudes, and the contradictions inherent in ideology, this way:

> I have never said that we are doing away with capitalism. [My philosophy]...is that people should start to be honest with one another and should not be monetized through opportunistic and mendacious practices...I specifically talked about the false struggle between capitalism and socialism. Is there a socialist country that doesn't collect profits? Can anyone show me such a socialist country? Once the cost of coffee and palm oil and raw materials are set, whether in New York, London, Paris, Bonn or elsewhere, is there a socialist country that will say, "that's too low; we will give you an extra dollar"? Let's face reality...we have not talked about socialist development in our country, but rather non-capitalist development...
>
> At the outset, we had nothing; there were small merchants in Guinea, but no genuine capitalists capable of contributing to the economy. Now we have a small and medium-sized business administration to gather and organize all of Guinea's small businesses and the [World Bank's assistance] will enable them to really go into business in a serious way...but before there was nothing. The State itself had to go into external debt to market the country's commodities, and with the foreign exchange thus gained, it imported what the country needed in the way of food, clothing or capital goods. There were no private companies, because France had suppressed all previous such entities. So what would you have done in our place? Suppose your country had no corporate entities and no financial groups. Suppose there was nothing and no one had money. What would you do? Would you say, "well, let's sit idly by. The State should do nothing until luck creates the national capital we need"? Look at the Guinean reality, and do not confuse it with the context of your own experience, which is different from ours.[38]

Current advocacy of a strong government role in the economy cannot simply be attributed to colonialism, however. African elites have strong feelings about asserting government control over free enterprise as a means of maintaining economic independence. Specifically, there are five major areas of concern: (1) capital flows (foreign exchange transactions in or out of the country), (2) impact on local production and competition (displacement of indigenous producers or domination of the market), (3) technology transfer (appropriateness of technology, transfer of skills to local operators, local content in manufacturing), (4) inequality (income and job generation, impact

on rural/urban gap), and (5) political control (equity and managerial participation, revenue generation through taxes and fees). All of these issues harken back to the fundamental thrust of African economic development: to lesson dependency on the West and to assert African self-sufficiency and pride. "Our detractors always want to see us living in huts," commented President Felix Houphouët-Boigny of the Ivory Coast. "May God help us to have our share of oil before I leave you. I will give the Ivory Coast a palace which she will be proud of, a palace which our grandchildren will be proud of."[39]

The role of the state as protector and provider is reinforced in a context of widespread distrust of multinational corporations. This, too, is, in part, a legacy of colonialism, since the West's first penetration of Africa was through trading companies from the metropole, many of which exercised the powers and duties of the state, including law enforcement and tax collection. Capitalism is thus linked, in the eyes of many African leaders, with colonial domination and racism, a view reinforced by the extreme disparities in wealth in those countries which have had white settler communities.

However beneficent or enlightened the management, the mere presence of foreign enterprise in the world's poorest continent sharpens the reality of Africa's underprivileged position. Foreign corporations underscore the technological inferiority, the poverty, the scarcity of resources, and the political impotence of Africa in the global community. The weakness of the indigenous private sector tends to reinforce these attitudes. While the civil service is largely Africanized, commerce and industry and, in some instances, agriculture are still largely foreign-owned or foreign-operated. Key positions in the economy are held either by expatriates from former colonial countries or by ethnic minorities, chiefly Lebanese, Syrian, Asian or Greek residents. This triggers, in the words of one local businessman, a "defensive nationalism," expressed either in the form of a radical ideology or strong indigenization policies.

Compounding the historical and socio-cultural foundations of an anti-multinational attitude is the debate over the role of multinationals in Third World countries. As exemplified by dependency theorists and their critics, mentioned earlier, this intellectual debate has reinforced local suspicions that the multinationals are exploitative. It is important to stress that these attitudes vary considerably and are not necessarily associated only with Marxist-Leninist states; nor are they motivated by a slavish acceptance of foreign propoganda. Businessmen report, for example, that they have done business in Angola "merely on the basis of a handshake," despite its strong socialist orientation. In Zimbabwe, radical rhetoric has been combined with pragmatic policies. The government has attacked multinationals, for example, for the practice of transfer pricing (adjusting the prices paid between different subsidiaries of the same multinational to avoid a high tax burden), only to publicly retract the accusation each time it was made. A capitalist state such as Nigeria, on the other hand, regularly expresses mistrust of multinationals. Dr. Alex Ekwume, Nigeria's Vice-President, recently called for a more intensive monitoring of multinational corporations in Africa, maintaining that their financial reports often do not present a "true and fair view."[40]

Broadly speaking, on the basis of their policies toward foreign private investment, African states can be classified into three major types. First, there are the "opponents," who view multinational corporations as an unnecessary evil. Nationalization and expropriation are considered legitimate policy instruments to control foreign influence. Ethiopia and Ghana exemplify this group. Second, there are "the pragmatists," those who view multinationals with mixed feelings. Essentially, they see the private sector as a qualified benefit, an attitude which translates into a policy of negotiated entry. The bulk of African countries may be said to be grouped under this classification, although there are wide variations within the category, such as Zimbabwe and Nigeria. Finally, the third category consists of "the advocates," those who view multinationals as a positive benefit, a partner in development. These countries more or less adopt an open-door policy with regard to foreign private sector activities, although it is important to stress that there is no country in Africa which provides a virtually unrestricted entry. This group would include Malawi and most of the Francophone countries, except for Benin, Mali, Guinea, and Congo (Brazzaville). Though there are strong adherents to all these schools, Africa as a whole may be said to be shifting from the "opponents" to the "pragmatists."

Changing attitudes among Third World elites with regard to their attitude toward foreign private investment was likewise confirmed by La Palombara and Blank in their interviews in Nigeria, Malayasia and Brazil. Though there are many who still hold hostile views, they represent the minority. By and large, the "strategic elites" know that they have the last word when there is a conflict with multinationals, hold views that were described as "well-balanced" and "realistic," and are "self-confident" in their dealings with foreign corporations. In Africa, an ambivalence is still present. In public, foreign enterprise and capitalism is often viewed in a critical light; in private, African officials frequently criticize foreign corporations for not getting even more involved. The chairman of the board of a prominent African bank complained of the insensitivity of American corporations to local conditions, but at the same time lamented their conservatism, commenting that "the US business philosophy is primitive. Americans want protection from any risks before they will invest."[41]

Given the historical background, the attitudinal legacy regarding multinationals, the drive for economic independence, and the relative newness of the indigenous entrepreneurial sector, it is not surprising that host country elites have little understanding or knowledge of the imperatives of private sector activities. They often expect firms to operate with unwritten assurances, to deal simply on "good faith," to accept high risk with equanimity, to ride out the difficulties of abrupt policy changes, and to absorb profit losses in the short-term for the promise of gains in the future. Only a relatively small percentage of leaders understand the give and take necessary for a compatible relationship between the public and private sectors, the painstaking work involved, and the basic elements that attract and promote responsible corporate behavior.

But times are changing. Not a single African official interviewed in this study was unreservedly hostile to foreign private investment. Rather, what African decision makers expressed was a desire for a stronger bargaining position vis-a-vis the corporate community and assurances that foreign private investment would have a positive development impact on their country.

B. Host Country Policies

While African attitudes toward the role of multinationals are undergoing change, attitudes toward the role of the state in the economy do not seem to be shifting as rapidly. The one exception is government attitudes toward the role of parastatals or public corporations. In three out of the four countries covered in this study, African governments had made the decision to reorganize or reduce the number of its parastatal institutions. The Ivory Coast was privatizing its parastatals by selling shares on the stock exchange. Kenya and the Sudan have announced a policy shift, but have not yet adopted a plan of action. Zimbabwe is still committed to carrying on the tradition established under white minority rule of large state participation in the economy, and is doing so with relative success, mainly because it has retained existing management. In most countries in Africa, however, the parastatals have been losing money as a result of subsidies, inflated payrolls, and politically-based investment decisions which have been economically unsound. That some governments have decided to shift direction is a positive sign of the beginning of basic rethinking of the issue.

Aside from the parastatal sector, there continues to be a strong feeling that the state must exercise a pivotal role in the economy. Indeed, excessive, unpredictable, or incompetent bureaucratic management was identified by business respondents (foreign and indigenous) as the single most inhibiting factor, placing obstacles in the way of entry and efficient management. The countries which offer the greatest opportunity and which, theoretically, adhere to a stimulative private sector policy are often the worst offenders. Capitalist Nigeria, with an estimated population of 100 million people, offers the largest market in Africa; yet its reputation for "red tape" is legendary. Richard J. Faletti, a member of the US-Nigerian Joint Agricultural Consultative Committee (JACC), discussed the confusing and chaotic set of investment guidelines in a paper presented to the committee, noting that there are many stated requirements that are not actually covered in law, while many legal obligations set forth in statutory regulations have no institutional mechanism for their enforcement.[42]

Nigeria is certainly not alone in this respect. Staking out a strong role in the economy and lacking sufficient manpower resources to implement decisions efficiently, most African countries have unwittingly created a commercial environment that is frustrating and costly for the country as a whole. A range of problems exist at all stages of business transactions, including visas, import licenses, foreign exchange transactions, expatriate quotas, dividend remission, contract payments, tax clearances, shipping documentation, etc. Wage and price controls represent another set of constraints. The Zimbabwe government, for example, in fulfillment of its social objectives following independence, set a minimum wage representing a 66 percent raise for

low income workers. This was combined with a Z$20,000 ceiling on managerial salaries. While politically popular, these steps--taken quickly and without consultation with the private sector--had a depressing impact on productivity and the cash flow situation of many firms.

The uncertain and unpredictable nature of government decisions is probably the most unsettling aspect of bureaucratic mismanagement. Nigeria issued the so-called Udoji awards for civil service pay several years ago. In some cases, these salary increases represented as much as a 100 percent increase in wages, made nine months retroactive. Private sector firms were expected to follow suit. The burden of suddenly skyrocketing labor costs put many small and medium-size firms out of business. Similarly, following the oil glut and diminishing foreign reserves, Nigeria placed a moratorium on all new import commitments in March 1982, lifting that moratorium a month later in place of a number of fiscal, monetary and foreign exchange measures designed to cut Nigeria's imports by a third.

The best illustration of the impact of these policy shifts on the flow of foreign private investment can be seen through the case of an American mining firm which recently considered an investment in Zimbabwe. After careful consideration, the company explored the possibility of a $9 million acquisition of a gold mine owned by white settlers who felt they could no longer keep up operations. "We did not just barrel in; we were encouraged when we looked at the whole picture," commented the company representative who shepherded the application through channels. "We realized it was somewhat dangerous, but we also recognized that the country has tremendous potential, especially in our sector. We were never active in the country before, but we had assessed that the situation had stabilized, that the government was actively seeking foreign investment, and that the drift, if it materializes, toward a one-party state and the socialist rhetoric would not affect us."[43]

The firm formed a local company in Zimbabwe in the summer of 1981. It obtained an option to purchase and received official approval for the investment, even though more than half the equity capital would be foreign-owned. Approximately $200,000 was spent investigating the commercial viability of the mine. Through underground sampling techniques, it had been established that the mines were commercially viable. The investors were then rocked by a number of unexpected government decisions.

First, the government of Zimbabwe revoked the 100 percent capital redemption and depletion allowances which new businesses may recover as pre-investment costs before paying taxes. The new law allowed only 30 percent capitalization of pre-investment costs to be recovered in the first year, with the rest to be deducted over the balance of the life of the mine. That meant that the firm was to pay a tax on 70 percent of its income, at a time when the gold price had begun to drop. After protests from the mining industry, the government recanted, agreeing to delay the implementation of the new law for one year for a select group of firms. Though many operating firms were not on the government list to qualify for this delay, this potential US investor was included.

A second problem arose when the government issued its new minimum wage law. The gold price was still dropping and the headquarters of the American mining corporation had laid off 4,000 people at home. The minimum wage was not considered unfair, but there were surplus laborers in the mining sector who could no longer be carried at that level. The mining industry plunged into a negative cash flow situation, forcing layoffs. The government then quickly enacted a law which prohibited any firm from dismissing, retrenching or laying off any worker without the written permission of the Minister of Labor. Together with the freeze on managerial salaries, this had the effect of removing incentives for work. Since employees now were guaranteed their jobs and top management would not be financially compensated beyond a fixed ceiling, productivity dropped by as much as 50 percent.

A third problem arose when the government of Zimbabwe refused to sign the Overseas Private Investment Corporation (OPIC) agreement, which would have given the firm protection against non-convertibility of dividends and nationalization. This delayed negotiations, forcing the firm to reconsider the security of its investment. By that time, the project had been lingering for two years, had cost the firm $300,000, and the option to purchase had expired (to be picked up by a South African company). Looking back, the American executive commented, "we could have lived with less than 50 percent equity and with limited dividend repatriation. Effectively, we would have been allowed to take out only about 40 percent of our dividends, but we still thought it was an attractive proposition because we wanted to plow back money into development of the mine. We were hopeful that quite a bit of our investment could go in as loans. But we definitely needed an OPIC guarantee and we needed a lifting of the labor restrictions. If the South African firm does not succeed in its negotiations, we might still be interested, under these conditions. But our concern is that, by then, the owners may rip the guts out of the mine just to keep things going and our intitial estimates would then be all wrong."[44]

Government intervention often inhibits day-to-day commercial operations, especially regarding labor. A US firm in the Ivory Coast which has been established for 11 years in the country and which has a labor force of over 500 workers recounted the early days of its operations in which it had extensive labor problems. Management was unaware of the extent to which the law governs benefits, overtime and workers' rights, using standards which are vastly different from American practice. All labor is suppose to be recruited through the Labor Office. Management must meet formally with labor representatives no less than three hours a month. Every laborer is entitled to 2.2 days of leave each month. In the words of the managing director, "you cannot even fire a shop steward unless the ministry agrees. And their agreement only comes after they send a committee of inquiry." In what must be one of the most liberal set of standards for women employees in the world, a pregnant woman is entitled to four months maternity leave. Adding on one month of annual leave, she can claim at least five months of paid leave after having a baby. In addition, she is entitled to one hour a day to feed the baby at full pay for a period of one year, in effect, giving her a seven-hour day. Ignorance of these entitlements pitted management against labor in the early days of operation, with the result that the head office had to make a

clean sweep of their top staff and put in a new set of officers. "We have overcome all our problems in this area, but not without cost," the manager reported. "Now we have one of the best reputations in the country, particularly in light of introducing new features such as our safety program. The government still gets involved unpredictably at various points in time. For example, last year we were all pressured to hire a fixed quota of unemployed university graduates, whether we needed them or not. We are getting along and those graduates worked out okay, but we never are free from the government breathing down our necks."[45]

C. Incentive Programs

Thus far, this study has focused on the disincentives of host country policies. However, it is significant to point out that a number of countries have also offered incentive programs to encourage industrial growth and attract foreign investment. Typically, these include a wide variety of financial benefits to promote domestic industry, regardless of the source of the investment, as well as special attractions for overseas capital. Opinions vary considerably as to the effectiveness of these measures.

Based on interviews with management officials of 90 multinationals in the United States, Japan, Australia, and Western Europe, Isaiah Frank concluded that "with the exception of service-sector firms, the multinationals reported that they have generally benefited from host-country investment incentives. Tax concessions appeared to be the most common; they are usually linked to new investments, rural locations, export targets, and expanded productivity." However, "only a handful of firms stated that special incentives have been major considerations in their investment considerations. At the margin, incentives can tip the balance, making a previously doubtful venture attractive."[46]

Another study, based on interviews with top operating personnel from over 400 transnational affiliates and representatives of the developing countries, concluded that "transnationals welcome such concessions, but few firms regard them as of more than marginal significance. Far more important are the fundamentals: market opportunities, labor costs and quality, and the economic policies and regulatory environment established by the host government. Developing countries would be well advised, therefore, to be extremely cautious in offering financial and other inducements to foreign investment beyond those specifically intended to compensate for the disincentives inherent in the early stages of development and for host-government policies that discourage inward flows of capital."[47]

Although there is no comprehensive data available on the effectiveness of such incentives in Africa, the data suggest three major conclusions. First, no country in Africa will permit virtually unrestricted entry of multinationals, on the model of Hong Kong, and only a few would consider a full basket of incentives including guarantees, credit and tax incentives, market protection, and subsidies.[48] Secondly, although there are great variations within the continent, by and large, there tend to be more policy disincentives than incentives in Africa. One foreign businessman commented that he was not at all interested in government incentives, only in removing existing government

barriers. Third, it appears that government incentives are helpful where favorable economic conditions already exist; they can be of critical importance to an investor in weighing technical economic criteria, as the example of the American mining firm considering an investment in Zimbabwe, recounted earlier in this chapter, indicated. In that case, depletion allowances were a vital consideration. Similarly, the decision of the H.J. Heinz Corporation to invest in Zimbabwe (discussed in more detail in Chapter V) turned, in the last stages of negotiations, on obtaining price relief from the government of Zimbabwe. However, where market conditions are unfavorable, or where the goverment does not implement the policy incentives in practice as they are designed to achieve in principle, such incentives tend to have little effect in compensating for what is fundamentally a poor investment climate.

D. Goverment Practices

The actual behavior of decision makers, as opposed to stated policy guidelines, is probably the area of the greatest misperception and misunderstanding. Often, we equate political images with economic expectations, failing to recognize that our relations in one sphere do not determine our relations in the other.

Angola, for example, a Marxist-Leninist State with whom we have no diplomatic ties, became our third largest trading partner in Sub-Sahara Africa in 1981, surpassed only by South Africa and Nigeria. Five US oil companies have negotiated oil exploration agreements with the Angolan government, the Ex-Im Bank has a total exposure in Angola of $114 million, and US exports in the first half of 1982 were 30 percent higher than the same period a year earlier. Through the course of these transactions, Angola has earned a reputation for prompt debt payments and scrupulous adherence to observing the terms of its contracts. Obviously, the rich economic potential of Angola will not be fully realized until larger economic and political issues are settled. However, Angola has taken the first step toward establishing a record as a creditworthy country with a pragmatic attitude toward business. Despite its political ties with the Soviet Union and Cuba, Angola's commercial behavior has sparked keen interest among a core group of American firms who do not hesitate to publicly praise the country's business practices.

The importance of the behaviorial, as opposed to the formal policy or ideological orientation of governing elites was expressed by one American executive who had 22 years working experience in Ghana, Liberia, Sierra Leone, Nigeria and Zimbabwe:

> I have no problems with socialism or a mixed economy anywhere in Africa. The main problem is discipline, lack of accountability, lack of respect for a certain code of behavior. In Ghana, Nigeria, and many other countries in West Africa, there is the hand-in-the-till mentality; smuggling is another major problem. Here [in Zimbabwe] there is a chance of a private sector existing, but the government has made it difficult for whites to stay in the government. I have no particular brief for whites, except that I fear that when they go this might lessen discipline, promote decay in the running of things. Look at

> Kenya for example. It had a well-balanced economy, good agriculture, some mineral reserves, and a sophisticated and advanced manufacturing infrastructure. Whether this will serve to promote a sustained pattern of private foreign investment in a prosperous economy in the future will depend upon the ability of the government to maintain some discipline. In all these countries, it is not so much the policies that the bureaucracy turns out, it is the way they implement them in practice.[49]

Asked what, in his opinion, were the best countries for investment in Africa, the respondent replied:

> The best countries to invest in are obviously those in which you can get the best return on investment. It varies from place to place, but generally 20 percent return on investment is what we look for because of the high risk factor in Africa. Unless it is a large project we look for a four year payout. We expect the government to participate; that means they have a commitment to the project. In spite of all the problems, I must say that, on this basis, Nigeria is one of the countries which we would not want to leave. But we are often very tempted and have come close to it. The problems there are mammoth. For example, we can't account for $32 million in our Nigerian company over a period of years. We had 28 people there trying to find out what was going on. Then our offices were set on fire and all the records were destroyed.[50]

E. Zimbabwe and Kenya: Contrasts in Perception

The lack of access to, and the unresponsiveness of the civil service is one of the most important factors affecting business climates in Africa. Yet perceptions do not always match reality. Angola is one case in point, as indicated earlier. But the thrust of the problem can be further illustrated by contrasting Kenya and Zimbabwe, two countries having commercial environments which are contrary to impressions widely held by the international community. Zimbabwe's external image is one of a socialist state hostile to private enterprise. "Mugabe Vows an End to Private Enterprise" blazed a headline in the Washington Post last year. Zimbabwe's decision to change the names of a number of public places on the second anniversary of its independence provoked erroneous reports, which surfaced initially in South Africa, that these included names of Russian communist leaders. Partly due to such accounts, the image of Zimbabwe as a country rigidly opposed to private enterprise prevails. It is a view which is reinforced by the refusal of the Zimbabwe government to sign an OPIC agreement and the decision to create a Minerals Marketing Authority. In addition, ideological statements give rise to doubts over how the government's socialist objectives and the reality of private enterprise will be reconciled.

Putting ideology aside, Zimbabwe's record in the years since independence has not been bad. For the first two years, real growth averaged more than ten percent annually, and exports were roughly 40 percent above 1979 levels. Industrial output increased 26 percent; farm production rose more than 50

percent in value.[51] Most importantly, while there is cause for continuing concern, the confidence of the local business community is not nearly as depressed as that of the international community. White emmigration is leveling off: over the past two years, only some 40,000 to 50,000 of the 220,000 whites at independence have left the country, and there are more commercial farmers now than at independence.

The local business community in Zimbabwe downplays the importance of the drift to a one-party state, the Minerals Marketing Authority, and socialism--the concerns highlighted by the western press. The Standard Bank Business Trends Report of March 1982 concluded, for example, that "foreign investors are unlikely to interpret the political changes that have taken place as evidence of any deterioration - or, for that matter, improvement - in the country's level of 'political risk exposure'. While it would be unwise to ignore the very close interrelationships between economics and politics in Zimbabwe, investment confidence is currently very much a function of technical and economic criteria." In interviews conducted with a range of Zimbabwe business representatives, a similar guarded optimism prevailed.

Two factors explain the attitude of the local business community in Zimbabwe: first, the policy of reconciliation implemented by Prime Minister Robert Mugabe; and second, the competence, integrity, and access to government officials. Local industrialists have a sense of the broad ideological range of the leadership and the intensity of the debate going on over political and economic policy. Not a single business representative interviewed in Zimbabwe reported any difficulty in being able to book an appointment with and have a responsive hearing from ministers or top civil servants concerned with their problems. Union Carbide officials casually dismiss the public tongue-lashing they received over transfer pricing, for example, citing the fact that the government quickly repudiated these statements when a protest was made. There is an awareness among many representatives in the business community of the continuing struggles in the cabinet over private sector activities. One respondent contended, for instance, that "there is a permanent role for the private sector in Zimbabwe. The government is not made up primarily of ideologues. When Mugabe talks of socialism, he is speaking to a different constituency. He is arguing for equality and an improved standard of living for blacks who have been denied basic material benefits for years. It would be a grotesque mistake to look at African socialism as dogmatic or inflexible."[52]

The undiscerning observer certainly has reason to be confused on the basis of government statements alone. In a speech delivered on the occasion of the country's second anniversary of independence, Mugabe said that "eventually we hope we can socialize the entire socio-economic system." He announced two months earlier, however, that "we cannot destroy the infrastructure we inherited at independence. That would be to destroy the basis for future progress. We want to develop on the viable basis we found at independence." Arguing essentially for equity and social responsibility, Mugabe continued: "many business concerns base their operations on the need to maximize profits. There is a lack of realization that those who work day-by-day to insure such profits are also human beings who must be treated as such. They deserve just wages...in other words, the government's hawk is not poised to

seize the chicken of private enterprise. We want to establish state participation and cooperation in the form of fresh concerns. We are not talking of nationalization...unless the force of circumstances oblige us to do so."[53]

An American banker based in Harare commented that "Mugabe is trying to create a change in climate and attitudes. Before, it was wild west capitalism and it was inextricably related to racism. He knows he is dealing with unsophisticated masses and former combatants who must be restrained. Over time, Zimbabwe will be a good place for an investment."[54]

Local business confidence is also bolstered by concrete actions, such as the appointment of respected individuals (including whites) to key posts, the maintenance of private sector managers to run public sector corporations, the willingness to review government decisions, and the readiness to take the private sector's views into account through meetings Mugabe has held at various times with the business sector. There will continue to be disgruntlement and doubt as the flush of enthusiasm following independence dies down, the realities of the world recession set in, the political tensions of the region mount, and the white community adjusts to black rule. But, as one local resident noted, the government is on a "learning curve. With time, the apparent policy contradictions will begin to fade and the likelihood is that the government will end up with a more explicit and favorable attitude toward the private sector than its current semantics imply. We must allow the debate to continue without being too pushy and recognize that they are doing the best they can in dealing with tough issues."[55]

While local business confidence within Zimbabwe seems to be higher than that of the international community, precisely the reverse is evident in Kenya. A free enterprise economy, a democratically elected government, and a multi-racial society are all hallmarks of Kenya's "success." However, the impact of the world recession, declining commodity prices, a staggering population growth rate of four percent, reduced productivity, and the abortive coup attepmt in August 1982, have all had their impact. Despite close ties with the US, Kenya has not attracted much American investment since the mid-1970s. Some 140 US firms are established in Kenya, the bulk of which are regional sales and distribution offices which are beginning to dwindle in number. Since 1976, there have been only two US equity investments in manufacturing operations, both under $250,000. A US embassy survey of US business in Kenya concluded that "the decline in regional sales offices and manufacturing facilities results primarily from the increased cost of maintaining expatriate personnel and adverse economic conditions in Kenya and surrounding countries. The high rate of personal income taxation for expatriate personnel is the single most important reason for regional offices leaving, and several remaining firms are seriously considering relocating." Declining business confidence was also attributed to "the loss of export markets (primarily due to the Tanzanian border closure), the depressed state of the economy, and the increasing difficulties in dealing with the bureaucracies on a host of matters, but particularly those related to foreign exchange and import restrictions...the firms which have decided not to expand their involvement increased from 21 percent in 1978 to 47 percent in 1981. This pessimism is reflected across the board but is most dramatic in the

manufacturing sector where the "no" response [to the question of planned expansion] rose from 13 percent [last year] to 50 percent [this year], and in the insurance-finance sector where it went from zero to 50 percent. Obviously, the US business community does not consider Kenya as attractive a place to do business as it did three years ago."[56]

In interviews with both local and foreign businessmen, bureaucratic procedures and the lack of responsiveness by the civil service and government elites, particularly regarding foreign exchange and other government bottlenecks, were singled out as major continuing problems. Commented an American banker, "Kenya is in deep trouble; investors should look very carefully. There is unpredictability and corruption; and it increasingly looks like the country won't be able to feed itself."[57] Businessmen in Nairobi complained of their inability to book appointments with top officials, of the labyrinth procedures necessary to meet government requirements, and of the lack of sensitivity to the real costs involved in these delays.[58]

Another source of contention is the freedom given to civil servants to operate private businesses in addition to holding down full-time jobs for the government. One Kenyan recounted the local joke that every civil servant had to bring two jackets to his office, one to hang on the back of his chair to make it appear that he is around, and the other to wear to his own business. Some attributed the decline in professional standards to the emergence of "power cliques" in the civil service, to increased ethnic tensions, and to the consequent politicization of the bureaucracy. In the wake of the August disturbances, conspiratorial theories were rife.

President Daniel arap Moi addressed some of these pressing business concerns in a speech delivered one month after the attempted coup, promising improvements in export incentives, more expeditious allocation of import licenses and foreign exchange, encouragement of joint ventures, reduced government participation in parastatal organizations, the creation of a new investment advisory center, and a review of the laws regarding repatriation of profits and capitals. "A good statement, but let's see how much it is implemented in practice," was the typical response. Cynicism and skepticism have crept into what was once a community that proudly boasted of being one of the best business environments in Africa.

As the examples of Zimbabwe and Kenya show, the behavior of host country elites is an extremely vital factor in shaping the confidence of the private sector--more important, in many cases, than official policy, ideology or political structure. But it is a difficult factor to assess from afar. Seemingly "hostile" governments may be relatively easy to deal with, while "friendly" regimes may be the most difficult to do business with in practice.

F. Cultural Factors

Host country policies and elite attitudes are also shaped by cultural determinants that vary from country to country. The Ivory Coast lacks a traditional trading tradition prevalent in West Africa as a whole. The Sudan is affected by Islamic custom, which frowns on the practice of charging interest on loans. Corruption thoroughly dominates business practices in some countries. In Nigeria, business standards are "so shady that most Western

embassies have started preparing lists of Nigerian firms to be avoided by foreign companies seeking to do business here. The US Embassy list includes 2,500 names and is growing steadily."[59]

Ethnic factors can also create problems; conflict could arise if a personnel manager from one ethnic group is placed in a factory where local labor is predominantly from a rival group. The casual concept of time, differing traditions of socializing, conflicting views on what is expected from "partnership" all are examples of cultural factors that affect commercial relationships. At times, the sheer prospect of dealing with such an array of different cultural conditions turns off Americans. As a UN official commented, "in the Third World today, one must sell the country first, before you can sell a project to an American." Putting these cultural factors into perspective will enable public and private sector interests to be better harmonized and the attitudes of African elites to be better understood. While this is a subject that goes far beyond the scope of this paper, the fundamental importance of cultural conditions in each region, country or district should not be overlooked in assessing host country conditions for private sector activities as a whole.

IV. THE INDIGENOUS ENTREPRENEURIAL SECTOR

A. Structure of the Indigenous Private Sector

The indigenous entrepreneurial class is probably the most neglected and least understood aspect of private sector development in Africa. Research on this subject has been limited, data is unreliable or non-existent, and a great many misperceptions continue to be held by donors and recipients alike. In its broadest sense, the indigenous private sector encompasses all non-foreign and non-government commercial activities, or as Secretary Crocker defined it a sector that "is overwhelmingly a realm of small operators - farmers, fishermen, artisans, cooperatives. The arch type is that dynamo of small scale capitalism, the woman market entrepreneur who dominants much indigenous retailing, the so-called 'informal sector' in West Africa."[60]

Setting aside the agricultural sector, however, a clear image of the size and structure of the African private sector is difficult to assess. In this study, the focus is on the "entrepreneur" - the person who organizes, operates and assumes the risk of a profit-making business venture, one who is a manager or a producer. Most observers do not realize just how underdeveloped the African indigenous entrepreneurial sector is. A report compiled by the Secretariats of the Organization of African Unity (OAU), the Economic Commission for Africa (ECA), and the African Development Bank (ADB) explained that:

> Historically, and especially during the post-war period, most developing countries have had the perception that rapid economic development could only come through very strong intervention and leadership of the public sector. The indigenous private sector was rarely ever in a position to play an active role in development, especially in the modern sector. Skilled manpower was concentrated in the public sector; resources (meager as they were) for projects were directly or indirectly dependent on government initiatives; information (on technology, on markets, on financing, etc.) was more accessible to government; and, finally, government was organized, but the indigenous private sector was not.
>
> Resulting from these historical facts, and because of the paternalistic perception of government and leaders which tradition encouraged, the ordinary person looked to government to take initiative and to lead the way. Therefore, the public sector was far ahead of the indigenous private sector in bringing about development - almost the reverse of the situation in many advanced market economies where the private sector set the pace for development.
>
> Although changes have taken place in Africa over the last two decades, the situation portrayed above has not altered substantially, and for some time to come the public sector would probably remain large. If this assessment is accepted, it follows that a more practical goal of policy would be to make

the public sector more efficient and more development-oriented, rather than to reduce its size.[61]

In a continent with the highest concentration of proverty in the world, entrepreneurship is very much a mincrity occupation, requiring a special set of attitudes and skills. By and large, educated Africans still tend to be attracted to the public sector, where security and (lately) affluence are to be had, or to the professions. The indigenous private sector predominates in trade and commerce, with only a fraction of the local population going into manufacturing, a sector still largely controlled by foreign or ethnic minority interests. Zimbabwe, the second most developed economy in the continent after South Africa, for example, is a country whose productive capacity is 70 percent owned by foreigners, chiefly British and South African interests. "There is virtually no penetration of the modern industrial sector by African entrepreneurs."[62] Some Nigerian entrepreneurs have gone into manufacturing, but they constitute a small elite which constitutes little to the country's gross domestic product. Manufacturing accounted for only six percent of Nigeria's GDP in 1979/80 and the strength and integrity of the indigenous entrepreneurial class has been called into question.[63]

Thus, the assumption of a thriving private sector across the continent of Africa is one of many misperceptions or half-truths associated with popular notions of the African private sector. There are a number of others. Conventional wisdom also holds that: (1) African governments invariably prefer to encourage indigenous entrepreneurs over foreign investors, (2) numerous indigenous entrepreneurs are waiting in the wings to go into business if only government restrictions are removed, (3) the major resource constraint for the development of indigenous private enterprise is a lack of credit or capital and, (4) indigenous entrepreneurs will invariably benefit from a dimunition of the role of foreigners. These beliefs must be examined with greater scrutiny. As the discussion below illustrates, the situation is far more complex, the country variations far more diverse, and the likely solutions far less obvious than is commonly imagined.

B. Attitudinal Ambivalence Toward Indigenous Entrepreneurs

Judging by the stated policies of most African governments, one would assume that African decision makers prefer to encourage indigenous entrepreneurs over foreign investors in almost all circumstances. In actuality, African governments are deeply divided on this question. Local entrepreneurs in every country included in this study felt that their governments leaned in favor of foreign investors over indigenous businessmen and were not as supportive as is commonly supposed. As a recent report on Zimbabwe commented, "the present climate in Zimbabwe is not particularly conducive to small entrepreneurs. This is much more the consequence of previous industrial and economic policy than it is the policy of the present government. [But] although the government has officially welcomed business development, especially in the rural areas, there remains an ambivalent attitude toward the private sector, and this affects small business as well. Government is not anxious to create a new African capitalist class to replace the white capitalist class."[64]

Even in countries which, in principle, have committed themselves to a mixed economy with an active indigenous entrepreneurial class, serious problems arise. Nigeria undertook what is probably the most ambitious program in Africa to strengthen its indigenous sector, but the public criticized implementation of laws which tended to favor the "Mr. Forty Percenters" - those who were seen to be amassing wealth and to be more concerned with collecting dividends than participating as responsible corporate decision makers and managers. As a result, in 1977 the Nigerian government placed a limitation of five percent on the amount of shares an individual Nigerian may own in a publicly held enterprise.

Conservative economic preferences for qualified skills and scarce resources further complicate the matter. Some African leaders, especially in Francophone Africa, openly admit that they would favor a foreign investor--who can bring management, technology, and needed foreign exchange to a project--over a local partner. Governments are also concerned about losing manpower skills in state institutions. Parastatals, government agencies, and foreign corporations have absorbed most high level manpower; officials do not want to dilute the impact of Africanization already achieved in these institutions.

Political considerations, as always, enter the picture as well. Governments are concerned over the possible political and economic impact of a thriving entrepreneurial class. While some countries, such as Tanzania, have placed strong restrictions on the conduct of the civil service, others are unwilling or unable to control their bureaucratic and military elites, both of which have profited from indigenization efforts. Nor is it clear how an independent business class will assert its influence in the next political generation, a development which appears of real concern in a few states, such as Kenya and Nigeria.

These conflicting motivations have had their impact on the motivation and self-image of indigenous entrepreneurs. In all the countries visited during the course of this study, local entrepreneurs reported that they were perceived as "exploiters" taking advantage of society as a whole, that they had to defend their chosen occupation against negative public attitudes. Public bias against local businessmen is rooted in a complex array of factors, including the colonial experience, post-independence disillusionment with political leadership, and ideology. In some areas, it is a legacy of the identification of capitalism with racism and foreign domination. In others, it is a more recent identification of government with corruption, the public assuming that successful entrepreneurs must have been granted special privileges to get ahead. Because of these lingering feelings, most of which have not been honestly confronted and assessed, many governments are of two minds on the question, encouraging entrepreneurs in principle, but being less than enthusiastic in offering real support in practice.

C. Role of Government and Credit Constraints

Two other closely related beliefs have to do with assumed constraints on African entrepreneurs. The first holds that indigenous entrepreneurs would

flourish once government restrictions are removed. Certainly, government restrictions can depress, if not eliminate, the private sector. Excessive state intervention in the economy has been a major impediment for local entrepreneurship; in some cases, such as in Ghana under Nkrumah, the local private sector was discouraged as a matter of policy. However, simply removing government restrictions and, in the interest of economic nationalism, creating a series of financial incentives or statutory protections will not go very far toward creating entrepreneurs, if other preconditions are not present. Government support may be a necessary, but not a sufficient, condition to develop entrepreneurs. Where the local population has little background or training in production; where there is a large foreign presence, including a resident non-African minority; and where emergent businessmen lack the managerial and technological know-how, legal and financial incentives are likely to be ineffective and futile.

The second commonly cited constraint is a shortage of credit, savings and venture capital to encourage local business. It is true that capital and credit are scarce for local businesses; however, very often this is not a function of inadequate resources as it is a matter of conservative policies. Local banks have little incentive to lend to small or medium-size enterprises, when they can more safely invest their funds in large-scale enterprises with a proven credit rating and managerial competence. The problem, then, is not a lack of capital, but a lack of access to capital.

Traditionally, donor organizations have not allocated a significant part of their resources toward promoting small and medium enterprises or encouraging African governments to adjust their policies to encourage private enterprise. Aid funds are largely invested in rural development to help the "poorest of the poor." While this is an understandable priority, it has been stressed to the point of excluding the local entrepreneurial sector as a factor in development. Local entrepreneurship can contribute to the diversification of African economies, provide a basis for partnership with foreign enterprise, mobilize greater financial and human resources, generate employment, and satisfy the drive for reduced dependency on world markets. The burden for dealing with this issue has thus fallen on African governments. With mixed feelings toward entrepreneurship, scarce resources, and a host of more immediate issues to deal with, the net effect has been to permit this aspect of development to be either ignored or confronted simplistically and ineffectively through state intervention.

The role of government and credit constraints are two factors which African countries have tried to take into account in promoting indigenous enterprise. Three primary approaches have been tried. The first approach to stimulate African enterprise was to nationalize and takeover foreign firms. Between 1960 and 1974, there were 340 cases of expropriation in Sub-Sahara Africa. During the same period, expropriations for the world as a whole numbered 875. Thus, roughly 39 percent of all nationalizations during those years occurred in Africa.[65] A second approach to stimulate the indigenous sector was for African governments to establish public corporations or parastatals in manufacturing, mining, transport, and marketing. Such public enterprises were intended to be rapidly growing, self-supporting institutions of public trust, many of which, it was announced at the time of incorporation, were to be

dissolved at a stage when the private sector was sufficiently developed to take over. The Ivory Coast, for example, had more than 36 such public enterprises, while Uganda increased from 14 parastatals in 1972 to a total of 62 parastatals in 1976.[66] Based on seven countries for which data were available, the Berg Report maintained that, for Africa as a whole, "the public sector now employs between 40 and 74 percent of those recorded in paid employment and that public sector employment has grown much faster than that of the private sector."[67]

A third approach, now increasingly popular, is that of indigenization. S.I. Edokpayi, an official at the ECA Secretariat, defined indigenization as a national policy which "aims at transferring the control and direction of economic power from foreign to indigenous hands, both public and private. This policy is much broader and more complex than the issue of localization or Africanization of the public or parastatal services: it is directed at ownership, control, direction and effective management" of commerce, industry and other economic activities.[68]

Where indigenization of capital by transfer to private interests has been tried, the results have been somewhat disappointing. A representative from the International Finance Corporation (IFC), assessing the rate of entrepreneurial development in Francophone Africa, for example, (where indigenization efforts have been encouraged through promotional efforts rather than through compulsory divestment), concluded that Ivorian entrepreneurs were smaller in number than their counterparts in Senegal, Cameroon and even some Sahelian countries. He attributed this to the lack of a strong trading tradition in the country. "Without a trading tradition, it is hard to diversify into manufacturing. Ivorian businessmen are generally civil servants or property holders who acquire directorships in foreign firms. Basically, they have a farming tradition."[69] A banker stationed in the Ivory Coast concurred: "the Ivorians...are in the minority in every commercial sector, even in retail trade. Voltaics [immigrants from Upper Volta] were so poor that they had nothing when they came to this country, but they have been the ones to prosper. They were willing to work on the farms for next to nothing. They saved every penney. There are about one and one-half million Voltaics in the country. They and others from Benin and Niger have penetrated the business sector, not the Ivorians."[70]

State agencies which have been created to help the private sector by offering capital, credit, management advice, etc., suffer from a number of weaknesses. They often do not discriminate between foreign and local operators, tend to be of low priority in the government's hierarchy of economic objectives, and are crippled by a serious lack of funds to finance feasibility studies, hire staff, or see projects through to implementation. Lacking independent authority, they must contend with stronger political factions in other ministries which are reluctant to yield jurisdiction. As a rule, government agencies devoted to the promotion of the indigenous private sector lack the authority or resources to be effective.

Another form of indigenization is a more forceful program, which limits ownership by foreign firms in certain sectors. The most comprehensive evaluation of government efforts to remove restrictions and support local

entrepreneurs through a compulsory program of this type was conducted by Sayre Schatz.[71] Examining the impact of government measures in Nigeria, Schatz concentrates on a class of entrepreneurs which, he claims, has a role that "is sure to expand." But he questions the efficacy of government plans and refutes the assumptions upon which they were based.

Dealing with the common perception, discussed earlier, that capital shortage is a major impediment to local investment, for example, he argues that this "is an illusion created by a large false demand for capital; and that the major problem for indigenous enterprise is actually a shortage of viable projects."[72] The false demand "exists when an entrepreneur or an aspiring entrepreneur seeks capital for a venture that does not have a reasonably good chance of business success," because it is badly conceived, insufficently managed, or subject to other unfavorable or economically unviable conditions. "For the most part, Nigerian entrepreneurs who have profitable uses for capital have been able to secure it."[73] Beyond Nigeria, he concludes, "the lack of commercially viable projects turns out to be the fundamental problem in country after country in Africa which has tried to promote development by providing capital to indigenous businessmen."[74]

Many other studies support Schatz's conclusion. Citing Ghana, Uganda, Sudan, Liberia, Sierra Leone, Ethiopia (prior to the revolution), Staley similarly found that "no purely financial solution will help" to create an indigenous entrepreneurial class.[75] Collins likewise wrote that "by any standard...the indigenization programs of the kind carried out in the 1970s throughout Africa have cost considerable political and organizational skills on the part of public sector agencies created to manage them. While there has been some progress, generally the lack of such skills has prevented indigenization programs from meeting their intended objectives."[76] Whatever legal or financial incentives were included in these programs, Schatz noted, "...indigenous business did not fare well and contributed little to Nigeria's economic development."[77]

Simply removing government restrictions, where they exist, and promoting or compulsorily requiring indigenization, will not necessarily lead to the emergence of a competent indigenous entrepreneurial class. Entrepreneurship is a highly developed skill or set of skills that must be learned over a long period of time. It is tied to fundamental attitudes toward work, basic motivations to succeed, and built-in capacities to sustain risk. Efforts to promote entrepreneurship must deal with these requirements - by helping aspiring entrepreneurs to conceive, establish and manage ventures - rather than assume that these abilities will develop on their own, once market forces are favorable.

D. Indigenous Entrepreneurs and Foreign Commercial Interests

Another common misperception holds that the indigenous private sector will invariably benefit from a dimunition in the role of the foreign private sector. Again experience has shown, to the contrary, that this is not always the case. Opportunities to acquire shares in expatriate enterprises are often limited to those few who have the income and the information to take advantage of the offer, most commonly members of the bureaucratic and military elites.

"Indigenization has sometimes led to the emergence of a new capitalist [though not necessarily entrepreneurial] class and has exacerbated the skewed income distribution in many developing African countries."[78]

Another major difficulty is the impact a reduced foreign role will have on the economy as a whole. Shaping development strategies so that they benefit the intended target group is one of the most politically sensitive issues in Africa today, especially in countries with resident ethnic minorities.

Kenya decided in the early 1970s, for example, to deny trading licenses to non-Kenyans, a policy which was aimed at the Asian community which had dominated retail trade. "We cleaned up" said one former Kenyan minister in an interview in Nairobi, "but it did not work in the urban areas. We didn't have enough financial backup, nor did we have management skills to operate the shops we pushed the Asians out of. Within three or four years, we had to relent and allow some Asians to buy back some of their businesses."[79]

Today, Asians make up less than one-half of one percent of Kenya's population. But a recent survey estimated that they control 24 percent of the country's $4 billion gross domestic product, even though they are nearly excluded from agriculture.[80] In addition, it is estimated they control three-fourths of the country's retail business, 60 percent of the construction sector, and 55 percent of all manufacturing. Half of the country's doctors and a quarter of the attorneys are also thought to be Asian and they are said to control 40 percent of the insurance and transportation spheres.

Asians have long been a target of criticism in Kenya, as in much of East Africa. In April 1982, President Daniel arap Moi delivered a blistering attack on this community. In his speech, which included a mockery of the Indian accent, Moi asserted that "instead of Asians using their advanced knowledge in business to help Africans to improve their profit margins, Asians in this country are ruining the economy by smuggling currency out and even hoarding essential goods and selling them through the back door. From now on, anyone found hoarding or smuggling will be punished severely. If he is an Asian, he will be deported immediately regardless of whether he is a citizen or not, and if he is an African he will have his [business] license cancelled."[81] Four months later, hostility against the Asian community violently erupted during disturbances in which Asian shops were looted and Asian women raped. Given this background, it would be extremely difficult for the Kenyan government to devise means of rapidly indigenizing the economy without stirring up further racist sentiment, risking more political upheaval and inviting economic collapse.

The problem of indigenizing the private sector by helping Africans compete more effectively remains one of the biggest challenges ahead. The problem should not be cast as one of replacing the ethnic minorities, whether they be European, Lebanese, Greek or Asian, but rather as developing African abilities to compete with equal skill, resources and competence. The essential question in controlling either the MNCs or ethnic minorities is: who benefits? Precipitous actions in the past have shown that, all too often, the beneficiaries of well-intended policies are not African entrepreneurs. They cannot be created overnight by a single stroke of the pen.

E. Prospects for Entrepreneurial Development

Despite the low level of entrepreneurial development in Africa today and the disappointing results of previous efforts to stimulate the private sector, there is no doubt about the fundamental will, spirit, and desire of a number of populations in Africa to become involved in profit making enterprises. Michael Roemer observed that,

> the market is alive and well in Africa, and continues to spawn entrepreneurially gifted people. Most activity centers on trading, agriculture and very small industry, and much of it is in the informal sector. This is simply a condition of underdevelopment: entrepreneurial activity was similarly concentrated in Europe before industrialization. Public enterprise is probably necessary at this stage of African history to pursue certain development goals. But the task before African governments should be to foster African entrepreneurs on a larger scale, rather than to work on the assumption that government enterprise is an adequate substitite.[82]

African traders--particularly the renowned West Africa market women--have shown themselves to be venturesome, resourceful, flexible, and quick to respond to economic opportunity. However, it is a big step to go from trading to a larger commercial enterprise which requires more technological advancement, production standards, organizational skills, marketing strategies, managerial efficiency, financial sophistication and a favorable economic environment. Conditions vary greatly, however, and each country must be evaluated on its own terms.

The economic environment in the Sudan, for example, appears most unfavorable for the development of entrepreneurs, despite the fact that it has a rich trading tradition that continues to thrive in a dual economy. The public sector is on the verge of bankruptcy and the IMF has had to extend emergency facilities in exchange for stiff austerity requirements. But, the lack of foreign exchange in one of Africa's largest debtor nations appears to be no obstacle to the supply of goods in the shops. Textiles, radios, stereos, and a wide variety of other consumer items are readily available. Foreign exchange for these imports is obtained through two sources: private moneylenders, who are legally permitted to sell foreign currencies at a "street rate," and expatriate Sudanese working in the oil-rich Gulf states, who repatriate an estimated $400 million a year into the country. The government tolerates, indeed, even encourages the "brain drain," in order to continue to have access to these foreign earnings. Traders obviously find little financial incentive to shift their activities into risky manufacturing operations which are far more cumbersome, less financially rewarding, more technically demanding and currently dominated by Greek, Armenian and Arab businessmen.

Sudan's "brain drain" problem contrasts with the situation in the Ivory Coast, where other factors constrain entrepreneurial development. Indigenous entrepreneurship in the Ivory Coast is thwarted by the large French presence

in nearly every aspect of the economy except agriculture, and by educated African refugees from Upper Volta, Benin, and other Francophone West African states, many of whom have become outstanding businessmen. Fully one-third of the population of Abidjan is estimated to be of foreign origin. Thus, Sudan and Kenya illustrate the two sides of the problem of human resource allocation, the former having a dearth of experienced manpower, the latter having a surfeit.

These examples underscore the necessity for highly individualized country strategies, focused on the particular needs of each environment, in any assistance program aiming at entrepreneurial development. Based on the interviews conducted in this study and the work of previous scholars, the fundamental impediments to be taken into account in such a strategy are:

- Socio-economic factors (existence of a trading tradition, educational levels, ethnic or regional patterns of economic activities, cultural attitudes toward entrepreneurs, ideological beliefs, etc.).

- Lack of viable projects and shortage of necessary skills to prepare and manage economically sound proposals.

- Structural and institutional barriers (small markets, poor infrastructure, foreign exchange shortages, government policies, political favoritism and corruption).

- The existence of entrenched resident minorities and a large foreign presence in commercial activities.

While the activities of multinationals or the lack of capital and credit should be assessed in each country, the tendency to focus exclusively on these factors in isolation of the larger economic picture has also resulted in misplaced priorities. Competition from resident ethnic minorities and the policies of local lending institutions are at least of equal if not more importance in stimulating entrepreneurial development. Given the lively and dynamic nature of the African market, the emerging consciousness of donors and African governments to the importance of developing the entrepreneurial sector, and assuming the necessary resources will be applied, the long-term prospects for indigenous private sector development are encouraging. It will take time and patience, redirecting efforts at better understanding the real constraints rather than operating on largely untested or unsuccessful premises that have guided efforts in the past. Nor will "success" in this effort be easily measured. The real test of successful programs in this regard will not be the number of small businesses that can be started in a fixed period of time, but in the evolution of an environment more conducive to local enterprise, the development of a genuine entrepreneurial class, and the shift in public attitudes from viewing entrepreneurs as exploitative of society to being constructive partners in development.

V. US INVESTOR POLICIES AND PRACTICES

A. Corporate Characteristics Relevant to the African Environment

Compared to other regions, the level of US investment in Africa is miniscule. Unless there is a special reason for looking toward the continent, a US firm seeking overseas investment would typically turn to Latin America, Asia or the Middle East before it would venture forth into the distant and unknown terrain of Sub-Sahara Africa. Some of the reasons for this lack of interest are based on historical circumstances, economic conditions, and cultural factors, discussed earlier. Part of the explanation for American disinterest in Africa - and, in some instances, for American failure in Africa - can also be found in the policies and practices of US firms themselves. It is to this subject that this discussion now turns.

It goes without saying that due to geographical remoteness and lack of colonial experience, Americans are far less familiar with Africa than are Europeans. As a rule, Americans receive most of their information about the continent through sporatic coverage of sensationalistic or dramatic events in the mass media. As a result, most Americans view Africa in negative stereotypes, overgeneralizing about the continent as a whole. The legendary stories often associated with Nigeria, for example, are frequently taken as representative of the African marketplace generally, although there is a wide diversity of conditions among the 45 countries south of the Sahara and Nigeria is, in many respects, unique.[83]

Beyond Nigeria, the image of the rest of the continent (excluding South Africa) is that it is a collection of small, poor, and commercially unpromising countries. Socialism is another common fear, although there are only a handful of states in the continent that subscribe to a Marxist ideology. Many of them offer a favorable business climate, greater political stability, natural resources and promising opportunities. The failure to make these distinctions, to see Sub-Sahara Africa as a highly diverse region with some potentially rewarding markets, has been a major reason why many American investments and trade opportunities have never materialized.

Another major feature of the US corporate community which explains its low level of involvement in Africa concerns the goals and resources of US business, especially as contrasted with European and Japanese activities. Europeans tend to look for raw materials and seek ways to exploit material-saving technologies to expand into new markets. Americans treat overseas investments as extensions of their already large domestic market. US firms generally venture forth on their own; European and Japanese firms enjoy generous government benefits. US firms tend to be controlled through anti-trust and anti-corruption legislation, regulatory agencies, and congressional oversight; in Europe and Japan, government and business are partners, not adversaries. These differences in goals, outlook, and support constrain US businesses from taking unnecessary risks abroad without unusually high rewards.

A third factor accounting for the low presence of US firms in Africa is the way in which US firms prefer to do business. Routine business practices are often fundamentally incompatible with the imperatives of the African

environment. On the question of ownership, for example, many American firms either prefer wholly-owned subsidiaries, a position which will deny them any significant entry into Third World markets, or object to indigenization policies which restrict the freedom of multinationals. In a study of 96 European and American multinational corporation managers interviewed in Brazil, Malaysia and Nigeria, La Palombara and Blank found that, philosophically, US firms were not resistant to indigenization, but were having difficulties in meeting some of the practical problems associated with such policies.[84] American managers complained of a shortage of skilled manpower or local partners. Nationals educated abroad for specific jobs often refuse to return home or are grabbed by aggressive head-hunting companies that offer incentives out of proportion to the jobs. Many American firms are cautious in indigenizing key positions. The authors found that, "in American firms, the position least likely to be turned over to locals at an early stage is that of chief financial officer. Some companies will appoint locals as managing directors or chief executive officers, but there is also reluctance there."[85]

The positions most readily turned over to local citizens are those in personnel, legal affairs, and public relations, the underlying assumption being that these are areas where knowledge of the local culture is a prerequisite for effective performance. For similar reasons, local people are also likely to acquire managerial responsibilities in marketing. Host country governments have become highly sensitive to these conservative practices and, as a result, are exerting more pressure on multinational firms to indigenize managerial positions across the board.

American firms also exercise very close control over their foreign subsidiaries. The chief executive officer of a large American multinational in Africa reported in exasperation that "I can't even buy a piston without authorization from corporate headquarters."[86] In large multinationals, corporate organization follows global product lines, not regional structures, and corporate policies are correspondingly less sensitive to local conditions, despite pleas from branch offices. As a rule, "control points in US corporate organization are normally remote from host countries," reported La Palombara and Blank.[87]

With few exceptions, the chief executive officer of an American plant in Africa is not very high on the corporate power structure of a large multinational global operation. As Peter Drucker vividly described it,

> A plant employing 750 people and selling $8 million worth of goods is in most developing countries a major employer - both of rank and file and of management - and a big business. For the multinational parent company employing altogether 97,000 people and selling close to $2 billion worth of goods a year, that plant is, however, at best, marginal. Top management in Rotterdam, Munich, London or Chicago can spend practically no time on it...
>
> The discrepancy between the relative insignificance of the affiliate in a developing country and its importance and

> visibility for the host country poses, however, a major problem for the multinationals... Within the developing country, the man in charge of the business with 750 employees and $8 million in sales has to be an important man. While his business is minute compared to the company's business in Germany, Great Britain or the United States, it is every bit as difficult - indeed it is likely to be a good deal more difficult, risky and demanding. And he has to treat as an equal with the government leaders, the bankers and the business leaders of his country, people whom the district sales manager in Hamburg, Rotterdam or Kansas City never even see. Yet his sales and profits are less than those of the Hamburg, Rotterdam or Kansas City sales district. And his growth potential is, in most cases, even lower.
>
> This clash between two realities - the personal qualifications and competence, the position, prestige and power needed by the affiliate's top management people to do their job in the developing country, and the reality of a 'sales district' in absolute, quantitative terms - the traditional corporate structure of the multinationals cannot resolve.[88]

Another major feature of US corporate practice relates to the shorter time frame used for assessing corporate activities. Americans have a get-rich-quick image in Africa, being viewed by African governments and European competitors as firms which want to invest as little as possible, earn quick returns, and repatriate quickly. That image is not far from the truth. Many American firms expect to receive substantial or complete pay back on their investment within three years. They assess their progress on the basis of quarterly budget evaluations, a time frame which makes it nearly impossible for new investments to show profitability within a reasonable period. "Given the inevitable delays in Africa, it is doubtful than an American firm can make a profit fast enough to satisfy the home office," one respondent commented, describing the frustrations that local managers experience. Europeans and Japanese are more concerned with establishing a market presence for the long-term future, understanding the need for constancy and strategic planning. "The existence of the European community has not yet changed the basic European managerial conviction that to be successful requires being in business overseas, on almost any basis."[89]

The shorter time perspective of American firms is also reflected in personnel policies. European managers tend to stay abroad longer, whereas US managers move in and out of managerial positions far more frequently. If they stay abroad too long, American managers may lose the opportunity to move up the corporate ladder. Overseas assignments are desired primarily for the experience; it is regarded as a means to a higher end. By contrast, it is not unusual for European managers to become regional specialists; they will try to learn the local language, may marry local people, and establish a broad range of contacts beyond their own national community. This takes time, an asset which American managers can ill-afford while on two or three year tours. "Frequent turnover of managers is often identified as the most serious hindrance to the advancement of US corporate interests abroad....This...may suggest that the entire international management system requires rethinking at a more basic level," commented La Palombara and Blank.[90]

On the other hand, there are certain disadvantages to longevity. Managers with long tours of duty may be resistant to change, particularly if new governments assume different ideological perspectives. The "old timers," some of whom have lived in Africa since colonial days, may have the advantage of taking the long historical view of things, but they also tend to carry the liability of longing for the "good old days." Former colonial administrators frequently exhibit this characteristic along with many white settlers who crave the time, not so long ago, when they were in charge. US firms sometimes rely on these individuals to provide economic and political intelligence to home offices, not recognizing that the value of longevity must be weighed against the bias of nostalgia.

The personnel policies of American firms and the way they handle disputes also tend to seem harsh or unduly confrontational to host country nationals. Americans hire and fire easily, are prone to litigate, and to limit social benefits for their employees. European and Japanese firms go to the other extreme: loyalty and seniority are given the highest value. They go to great lengths not to dismiss senior personnel or to cause a loss of face or embarrassment among the management; they will engage in long negotiations to settle disputes, and offer a range of benefits covering health, housing, education, vacations, severance pay and numerous other allowances that Americans tend to find patronizing, cumbersome, and costly. Colonial history, the pervasive presence of European firms, and the social orientation of many African governments tend to reinforce African expectations with regard to labor benefits based on the European model.

On the other hand, once established in the country American managers, on a personal level, are frequently more open, friendly, informal and convivial than many other nationalities. In addition to personal ties, they are thought to have superior technology, financial management systems, marketing strategies, safety programs, educational schemes, and community service contributions - programs which can be justified on the basis of increasing productivity, upgrading skills, heightening worker motivation, and enhancing the image of the firm as a corporate citizen.

Probably the most fundamental characteristic of US firms explaining the low American commercial presence in Africa pertains to the lack of what one banker termed a "risk-appetite." A spokesman of a US firm with years of experience dealing with Africa commented that "most Americans have lost a good deal of their notion of entrepreneurship. They are no longer willing to undergo hardships and they lack political sensitivity, even in Europe. They want everything guaranteed. That's not the way to do business abroad, certainly not in Africa. In most companies, it is hard to get the heavies to go out and even take a look at Africa. Decisions are made in corporate headquarters by people who haven't the vaguest idea of what it's like out there."[91] Another respondent, who represents an international institution promoting foreign investment in the LDCs, observed that "for the lead man wanting to sell an investment to his firm, the problem lies in his board. A maze of decisions is needed, and in general the LDCs do not understand how these decisions are made. They think the top man in a single meeting can clinch a deal. They are unaware that it takes years to plan what goes into a business. On the other

hand, US firms lack a long-term view or any notion of a risk. They simply look at the quarterly balance sheet."[92]

The lack of entrepreneurial spirit, especially in large multinationals, is seriously constraining US operations internationally. Executives favor caution and conservatism over creativity and initiative. Large corporations tend to produce inbred, homogeneous managers - people who spend their entire lives at the company and have little sense of international business climates.

General Motors Corporation, for example, has been trying to expand its international operations; its experience is indicative of some of the internal problems American firms face in trying to expand into new markets. "For years," observed the Wall Street Journal, "GM treated its foreign subsidiaries like undeserving orphans, forcing them to finance their own expansion through earnings and local borrowings. But the practice...not only inhibited foreign growth, but also resulted in some pretty weird items on GM's world-wide balance sheet. They had debts in one place at 15 percent interest and debts in another at 10 percent. It made no sense at all."[93]

American firms have a difficult time convincing qualified and ambitious managers to accept overseas assignments. Since many companies treat their foreign operations as the dumping grounds for aging executives or proving grounds for rookies who have not yet acquired power in the organization, overseas assignments still have a stigma attached to them. "International was like the black hole," observed a former GM employee. "People were sent abroad, and you never heard from them again."[94] Hence, "a long-term consequence of GM's inability to groom executives overseas is a shortage of international savvy at the top of the corporation. None of the five members of GM's powerful executives have ever served abroad (one did work in Canada), and none speak a foreign language."[95]

B. Risk Evaluation

Corporate perceptions of Africa are based on the factors which shape their evaluation of "political risk." This is a somewhat misleading phrase, for political instability is only one of several factors which a corporation takes into account in making its decision to invest in the developing world.

In order to get at the heart of the decision making process of American corporations with regard to their perceptions of risk in Africa, interviews were conducted with senior executives of three types of American firms: those currently operating in Africa, those considering investments there, and those which had considered but declined to invest. The basic structural or environmental factors mentioned as part of their "risk assessment," included the following: small markets, poor infrastructure (transportation, water, communications, power, etc.), mismanaged economies (concern that the country can't feed itself, exploding population, mounting debt, import substitution policies, unprofitable public corporations, excessive social expenditures), corruption, host country attitudes, government intervention, political instability, global competition, inadequate support from US agencies, absence of qualified local partners, undesirable living conditions, and operational problems.[96]

The more immediate day-to-day operational concerns included labor problems (high turnover, absenteeism, trade union disputes, government regulations, low productivity, lack of skills), shortage of foreign exchange, haphazard and delayed implementation of regulations, wage and price controls, difficulty of dealing with foreign (especially French) advisors, high local taxes, sharp and sudden economic policy changes, unfamiliar legal and accounting systems, restrictive import policies, the absence of regular procedures for dispute resolution, and harassment.[97]

Sifting through these long lists, it is noteworthy that executives with companies which had made negative investment decisions in Africa cited six primary reasons for their reluctance to go forward: (1) the markets were too small, (2) the response of the host country governments was too slow or requirements were too complicated, (3) the ideology of the host country government seemed hostile to private investment, (4) the prospect of political instability, (5) the lack of creditworthiness (as indicated through mounting debt, a shortage of foreign exchange, sudden import bans), and (6) excessive government intervention in the economy. It is significant that very few firms indicated that they were concerned with nationalization or expropriation, even in Zimbabwe. Instead, companies seem to realize that indigenization is the likely path to be followed by countries seeking greater control of their economy and insurance can be obtained against nationalization. Hence, in evaluating political risk, "the trend is away from studying macro-political stability to studying a country's regulatory process and its likely choices."[98]

As indicated in Chapter III, slow-moving and/or corrupt bureaucracies is the most frequently cited complaint of American firms operating in Africa and one of the principal factors accounting for the reluctance of many firms to expand their operations. It was also a major consideration of new investors. Few business executives question the right of governments to become involved in regulatory processes; their criticisms related instead to the inefficiency and capriciousness of government decisions. As one businessman put it, "for business, the intensity, diversity and quality of government involvement in most decisions that matter add up to delays in the establishment process, delays in expansion, delays in processing imports of vital components, delays in processing profit remittances - in short, to the risk that a basically sound business can take far too long to realize its potential or that it can go through periods of unprofitability for totally exogenous reasons. It is these risks that Americans handle poorly."[99]

Respondents were also asked how they obtained their information in making their risk assessments and investment decisions. By far, the main source of information on Africa for the business community is the mass media, primarily the press. Since the American press selectively focuses on trouble spots, impressions are more negative than positive. It is not unusual for executives considering investment decisions in Africa to be stopped dead in their tracks by a single unfavorable article. The chief executive officer of one American manufacturing company considering an investment in Zimbabwe reported, for example, that he had decided after reading two recent pieces in the press that the threat of civil conflict and a socialist ideology dissuaded him from

further consideration of his project. He made no attempt to corroborate or probe impressions gained in the press, either through contacting US government agencies or sending a company representative to Zimbabwe to verify the judgment.

A second source of information for the business community is the banks, especially those with branch offices in the host countries. The banking community, having made an aggressive push into the continent, probably represents the best independent source of economic intelligence on Africa. However, even "...a banker needs time, not only to build personal contacts but also to come to understand and judge country risk in such diverse regions. Few, if any, bankers have mastered an in-depth understanding of risk in all, or even most, countries in Sub-Saharan Africa."[100]

A third source of corporate information comes from short visits by company representatives or in-house political risk analysts. With a handful of exceptions, such as Gulf Oil Corporation which has an African specialist managing its international studies team and the banking community whose regionally organized offices are usually run by well-informed executives, few US corporations have regionally specialized staff. Thus, they often rely on familiarization trips by existing staff. Depending upon how well prepared the visits are, these investigations are essential for adequate country evaluations. However, such missions could be counterproductive if a businessman comes to Africa cold, without specific names of contacts, scheduled appointments, on-the-ground assistance to cope with inevitable glitches, a liberal time frame in which to accomplish his objectives, a willingness to listen and learn, and a sensitivity to local culture. Indeed, because of inadequate preparation and information, negative investment decisions could be made upon arrival at the local airport, when the newcomer confronts an immigration official trying to shake him down.

Given the complex and volatile environment in the LDCs, the business community has also turned to experts for political risk assessments. A wide variety of expert judgment is available, ranging from a fully qualitative approach, which usually takes the form of a country report based on area expertise, to a fully quantitative approach, that relies on a series of economic indicators or checklist of variables to which mathematical weights are assigned. The value of such services is questionable, especially in a continent where data is scarce and generalizations difficult to substantiate. Moreover, the business community lacks confidence in assessments which are not tailored to their specific needs. Simple numerical forecasting tells a prospective investor little if it is not sector-, product-, or firm-specific. Many of these assessments also apply a misleading quantitative precision that is actually little more than an estimate based on the intuitive impressions of unidentified observers of unknown qualifications.

Personal connections count heavily in African risk assessments. Indeed, it was striking to learn how many investment decisions were influenced by chance encounters, personal contacts, or social links. Rumors or anecdotes from friends, competitors, and acquaintances can either pique waning interest or kill a promising project. If a business decision is not made at the airport of an African country, it may well be made on the golf course, in an executive

dining room, or at a dinner party. Corporate executives tend to attach great importance to advice provided by other corporate executives.

Of the respondents consulted in this study, the most frequently used sources of information among all of the above were country visits by company representatives and personal contacts. Two American firms which recently conducted negotiations on investments in Africa cited contacts in London or South Africa as their initial stepping stones for entry into black Africa. Only two companies indicated they used professional firms in making risk assessments one employing the expertise of the British-based Economist Intelligence Service and another using an American management consulting firm. Firms interested only in sales or distribution generally employ local agents who report on current economic and political events and identify upcoming opportunities.

It is noteworthy that very few firms cited the US embassy or other government agencies as their primary sources of information. The role of the US government in promoting investment is dealt with in more detail in the next chapter. However, there was a general consensus among the respondents that government agencies, including the embassies, play only a peripheral role in influencing corporate decisions.

Obviously, there is no tried and true method of assessing risk nor widespread agreement as to which methods are best. Information is still largely impressionistic and each firm's approach is highly individualistic. Confusing and contradictory reports are not uncommon under these circumstances, and corporate decision making is often influenced by the strength of the key personalities involved or the newspaper article, the chance acquaintance, or the personal experience of the top management. If an investor had been considering a project in the fall of 1981, he might, for example, have been discouraged by a press report which was headlined: "Western Businesses View Africa as a Bad Risk."[101] If that investor waited seven months later, he might have been swayed in the other direction by a report which asserted that "US Businesses, Despite Pitfalls, are Doing a Brisk Trade with Africa."[102] It is as important for Africans to be aware of the highly personal and unsystematic nature of American corporate decision making as it is for Americans to be aware of the same trait in African governments.

C. Corporate Motivations: the Strategy of "Nichemanship"

"Africa is the toughest environment of the LDCs - the toughest area of the world to do business, bar none," commented one of the most experienced American bankers covering the continent.[103] Another respondent with substantial interests in the continent described the commercial climate there as "dismal," a conclusion shared by a number of executives of other international firms with comparable experience. Nevertheless, although the overall level of trade and investment between the US and Africa is low, some firms doggedly pursue opportunities there. David Rockefeller, at the end of a ten nation tour of Africa in March 1982, reported that African Marxism was no threat to American business interests and that there were some very attractive investment opportunities.[104]

Dr. Franceso J. Hernandez, President of Agri Tech International, Inc. of Miami, commented after participating in a trade and investment mission, "I went on the mission with mixed feelings. A small company doesn't get involved with the big fish in government and also in business without thinking that perhaps it's not going to be as successful as you thought. The message I'd like to pass on to companies of my size is that there is a tremendous market in Africa for medium and small-sized companies. We should all try to be more aggressive and to get involved in international business."[105]

Corporations may be drawn to Africa for a number of reasons: the challenge, the problems of dealing with economic conditions at home, the need to expand or diversify international operations, the desire to service domestic customers with overseas branches, to secure bigger markets and to confront foreign competition. Above all, the determination to enter the African marketplace, especially as an investor, requires an adventuresome corporate spirit. It went by many names, but it was clear that a number of respondents were speaking of the same thing. Mihaly argued that, in the case of Nigeria, the absence of this quality will doom prospective businessmen to failure. "Nigeria is for corporate entrepreneurs or for companies that think long-term. The executive who perforce calculates that he has three years or so to show his stuff - meaning to turn in good results during his tenure - is no entrepreneur...For now, only the maverick American companies will be able to handle the kind of planning problems posed by Nigeria."[106] Peter Beneville, a Wells Fargo bank vice president, used a pioneer metaphor to express his point: "Africa really is the last frontier. It is the last place where countries are building major railroads and dams, where there are roads to be built, huge deposits of undeveloped minerals to be mined. No big road projects are going to happen in the United States anymore."[107] This is precisely why Africa is attractive, he maintained.

Executives willing to accept the challenge play down the difficulties and argue that they should be placed in proper perspective. "It's an attitude of doing business," argued Keith Howlett, an assistant director at Morgan Grenfell and Company. "It is area of high risk and, therefore, of high reward."[108] An experienced banker maintained that the proper strategy was one of "nichemanship," the art of identifying a situation or activity specially suited to a company's abilities or character. A representative of an oil company which recently made a breakthrough in the Ivory Coast describes his company's approach in a similar vein:

> Ours was a high-risk operation. It was deep-water drilling where no one else wanted to go. Not until the third well did we hit. But we were confident we had a scheme we knew we could execute mechanically. Not a single other company wanted our concession. There certainly were risks attached to the whole exercise. But the only reason we are here is that we took risks others were not willing to take and we had a strategy to fit that risk.[109]

The pay-offs from such an approach are indeed rewarding, for the return on investment for many can be quite high. For bankers, one analyst

commented that "the once-glamorous market for medium-term Euroloans to Third World borrowers is souring everywhere, so the more secure types of finance, particularly trade finance, seem even sweeter. And nowhere is this truer than in Africa...Exactly what a bank's returns are in Africa compared with those from other regions, bankers do not like to say. But they leave no doubt that margins are appetizing. 'What you can earn from a million dollars in these countries,' admits one, 'is the equivalent of what you can do with ten million dollars in Paris - and don't put my name on that statement.'"[110]

Company executives interviewed during the course of this study confirmed that expected rates of return, due to the high risks involved, generally were in the range of 20 to 30 percent, although there were vast differences in this estimate depending upon the sector, country, or corporation involved.

A USAID study had a dissenting view: "A significant feature of the investment situation is the lower returns indicated for Sub-Sahara Africa, even including petroleum rich Nigeria, than for non-petroleum US investments in developing countries elsewhere. In fact, without Nigeria, the Sub-Sahara shows an overall negative return."[111] This conclusion, based on unidentified sources, was not supported by the data collected in this study. Foreign exchange problems may delay or obstruct remittances and blocked funds may go back into expansion or reinvestment, but, as a rule, companies operating in the four countries covered in this study reported that their return on investment was "acceptable" to "excellent."

D. Three Case Studies: Business Successes and Failures

Whatever the specific motivation, or combination of motivations, that attract US corporations to Africa, success will depend upon a unique set of characteristics, including creative thinking, extensive homework, patience, understanding, good personal relations and "nichemanship." This can perhaps be best illustrated through concrete case studies, two of which are deemed successes and one a failure. Included among the case studies is a hypothetical project based on a composite of actual experiences, as related by a former Vice President and Division Executive for Africa of the Chase Manhattan Bank.

The first case study of Arkel International, Inc., demonstrates how effective management can be brought to Africa in a high-risk environment through a non-equity investment that resulted in an expansion of activities and equity participation in a medium-sized joint venture.

1. Arkel International, Inc.: Kenana Sugar Project and Transport and Materials Handling

Arkel International is an engineering and consulting firm based in Baton Rouge, Louisiana, which has been operating in the Sudan for approximately eight years. In 1973, Arkel obtained an engineering consultancy contract through Lonrho, a large London-based firm with substantial African holdings that

originally provided the management for the Kenana Sugar Project, said to be one of the largest sugar plantations in the world. First brought on as consultants for building the factory, Arkel persuaded Lonrho that they should have a larger role, assuming responsibility for the design, solicitation of contractors, and implementation of plant construction. Arkel became the project managers for implementation under Lonrho's supervision in 1974. Lonrho was removed from the management of the plant due to soaring costs above their feasibility study estimates and seriously delayed implmentation of the construction schedule. Arkel took over as factory managers on a cost-plus-fixed-fee contract worth $2.5 million a year.

Kenana's construction and operation required a total tonnage of some 40,000 tons of materials through Port Sudan. As a result of difficulties encountered in clearing their own equipment, Arkel saw an opportunity for a materials handling venture. They then established a joint-venture operation with a local Sudanese partner known as Arkel-Telab Limited. With an initial investment of $3 million in the joint venture, Arkel handles the lucrative cargo-handling business for Chevron, the lead oil exploration company in Sudan, and other oil companies, including Total and Texas Eastern. In addition to cargo handling, they operate a fleet of trucks for heavy bulk cargo.

Arkel's role in the Kenana project is a critical one, since the Sudanese sugar industry is dominated by the government and has not even been able to satisfy domestic consumption. Kenana is the only one of five sugar estates in the country which is managed by a private sector firm. The shareholders of the $700 million project are the Sudanese government (one-third interest), Arab government or investment organizations (nearly two-thirds interest), and small minority holdings by Lonrho and a Japanese firm. While factory construction and operation have been handled by Arkel, Technip, a French public sector concern, supplied plant equipment. Arkel managers reported that the French won the equipment contracts because they offered the best financial package.

Arkel expects that Kenana will be producing up to full capacity by 1983. Plans are also underway to rehabilitate Sudan's four public sector sugar estates. If all goes well, Sudan could increase production for export, but at current world prices, observers fear that Sudan will be producing a commodity that is far more expensive than prevailing world prices. It is expected that sugar will be exported in spite of high production costs, with the government subsidizing it in order to break into the world market. Even this will be difficult to accomplish, however, because local demand is growing so rapidly, partly as a function of increased smuggling. This is a problem for the Government of Sudan, which markets and distributes all the sugar in the country. Arkel's role is to produce, package and warehouse the commodity.

Arkel represents a model of an American firm entering what most observers would deem to be a highly risky venture. The Government of Sudan has the dubious distinction of carrying one of the biggest debt burdens in Africa. Apart from Arab money, there is very little foreign investment, although the Sudan was once deemed as a potential "bread basket" for the Middle East and Africa. Nevertheless, Kenana offered Arkel an ideal niche. Its initial entry into the Sudanese business community began first as consultants, then as managers, finally as investors.

Kenana is not a government corporation and has only a minority government share; Arkel's funding, therefore, comes from predominantly Arab shareholders. For its cargo handling company, fees are paid by the oil companies in dollars. There are still difficulties in transferring money, estimating costs, dealing with a highly undeveloped infrastructure, and inadequate skilled manpower. Despite these problems, Arkel managers are pleased with their arrangements, and the company has earned a very favorable image in the Sudan, in part because of its longevity and sensitivity to local conditions. "The people of the Sudan represent one of the country's best assets," commented a company executive. "They are easy to get along with and quick to learn. For our part, we are also aware that a firm cannot come in here and look like a big cold corporation, coming to exploit a poor country. We thought it was important to get a local partner, to adapt to the pace of operations here, and to have a significant training program. Our training program implies almost a one-on-one situation, and we're getting real results. We're having no real problems on that score and we're trying to get Sudanese to take over as quickly as possible."

For the Sudan, Arkel's participation provided one of its most desperately needed resources - competent management - in sugar production, transportation, and materials handling for the oil sector, three of the country's most critical industrial sectors.

The second case study, of H.J. Heinz Company, focuses on a large multinational and its successful equity investment in one of Africa's most attractive but uncertain markets.

2. H.J. Heinz Company: Food Processing

With 1981 sales of over $3.5 billion, Heinz ranks among the upper one-third of America's leading food processing companies. After two years of negotiations, the company announced in October 1982, that it had acquired a 51 percent interest in Olivine Industries, a producer of edible oils, soaps, margerine, candles and protein meal. The Government of Zimbabwe purchased the remaining 49 percent interest in Olivine. Although the total cost of the transaction has not been disclosed, the Heinz share is approximately $13.5 million.

The background of the Heinz decision illustrates what factors are important to American investors and how Zimbabwe and its US partners reached agreement. To expand its market, Heinz made the decision to look for opportunities in Africa in 1980, investigating possible projects in Nigeria, the Ivory Coast, Kenya and Cameroon, each of which failed to materialize for various reasons. When the idea to look at Zimbabwe was first presented to the Heinz representatives, the potential seemed promising. Zimbabwe has a fairly sophisticated economy with a rapidly growing population. After considering a number of alternatives, the firm determined that the best way to enter the market was to purchase an existing company. An acquisition would mean quicker start-up time, fewer government permissions, access to an existing market, and less foreign exchange since the plant and equipment were already in place. Olivine owners wanted to sell out, though they had a profitable concern with 1,200 employees. The purchase offered Heinz the opportunity to tap growing consumer demand and expand into exports through related product lines, thereby shortcutting many of the difficult start-up problems associated with first entry into the African market.

A number of issues had to be negotiated over a long period of time. Much to the surprise of many observers who watched this project closely as a bellweather of Zimbabwe's attitude toward the private sector, the govermment granted concessions on a number of issues. Deviating from its announced guideline to prohibit dilution of local control, the government permitted Heinz to obtain 51 percent equity. In addition, it granted Heinz price relief and assured import licenses. Flexibility was also exhibited on payment terms for former owners. But on the question of OPIC (Overseas Private Investment Corporation) insurance, the government stood firm. The decision not to sign an OPIC agreement, and therefore not to offer coverage by an American institution, was a snag which threatened Heinz's participation. Eventually, a compromise was reached, which includes UN-guaranteed arbitration and undertakings by the government of Zimbabwe to adhere to certain preestablished guidelines in the event of a dispute.

One observer, explaining the Heinz decision to move forward, described the company as one that was led by a "corporate crapshooter." That's one way of describing what others term, more favorably, as corporate creativity and entrepreneural spirit which, together with patient negotiations, led to a mutually satisfactory outcome. Heinz officials described Zimbabwean government officials as "very reasonable, particularly Mugabe" with whom direct talks were held throughout the negotiations.

The Heinz acquisition represents a breakthrough for the Zimbabwe government, which is hopeful of attracting more western

investment. The government cites it as an example of the pragmatism they bring to bear in dealing with the private sector and the case-by-case evaluation that is prefered as an alternative to signing an OPIC agreement. The benefits the country derives from the project and its planned expansion include new capital investment, fresh management, increased employment, rural development and a signal to the foreign business community which has adopted a wait-and-see attitude toward Zimbabwe since independence.

The third case study involves the "Afra Sugar Corporation" in the imaginary "Republic of Afra." In a lengthy narrative written by a former banker in Africa, it demonstrates how a hypothetical American investor failed to understand the realities of doing business in Africa. In the words of the author, "through ignorance, indifference, and the tyranny of a misplaced sense of urgency, Agricultural Bio-Chemical went about things all wrong. At the same time, the Afran government was not above blame."[112]

3. The Afra Sugar Corporation: A Hypothetical Case

a. Great Expectations

In 1967, the Republic of Afra at last adopted its First Development Plan (1965-1970), which included a pledge to get an integrated sugarcane plantation and refinery under way by December 1970. The project was given highest priority because, when completed, it would be the country's largest industry as measured by output and employment. It was also essential to the country's first attempt at national planning for its predominantly agricultural economy. A publicity drive was launched throughout Afra to draw attention to the new plan and specifically to the sugar project. Because the plan got off to a very slow start, it soon became a political issue. At a special meeting of the cabinet, the minister of economic planning and national development outlined specific goals the sugarcane project would accomplish. It would

- Exploit the ongoing irrigation program being financed by the International Bank for Reconstruction and Development (World Bank).

- Increase employment, adding 13,000 jobs in growing, harvesting, manufacturing, and transport. Those jobs would be of critical importance when Afran laborers working abroad returned home in a few years.

- Increase agricultural production by six percent a year (as against an annual net population growth rate of 2.9 percent).

- Reduce imports, by producing and refining locally the total domestic sugar requirement.

- Increase exports, making one-third of the total sugar output available to foreign markets.

- Enlarge the industrial base, adding plant and capital equipment.

- Add to the country's infrastructure, even though the sugar project was basically an "enclave project."

- Extend education to new segments of the population by establishing a sugar research school (initially staffed by expatriate agronomists).

- Help to establish a credit rating for the Republic in international capital markets. (In 1967, Afra had little experience in external borrowing on commercial terms.)

- Diversify the country's economic ties abroad, thus decreasing Afra's neocolonial dependence on the European country - the metropole - whose colony it had been until 1957.

The cabinet decided that no more than 50 percent of the export sugar would be sold to the metropole and that the technical partner in the project should not be from the metropole. At the same meeting, the prime minister asked the minister of economic planning to use his contacts made at the University of Chicago Business School to interest a United States sugar company in the project. The first person to come to the minister's mind was Ed Oakes, president of the Agricultural Bio-Chemical Company of St. Louis, who had been a classmate at Chicago. The minister decided to refrain from advertising for technical partners in order to prevent one selected by the metropole from bidding. He didn't want to risk rejecting the metropole without a commercially valid reason, for at this stage of Afra's development correct relations with the former colonizing power required sensitive handling.

Soon the minister made a private approach to the American Embassy. In a meeting with the ambassador and his commerical attaché, the minister mentioned his friend at the Agricultural Bio-Chemical Company and stressed the prime minister's urgent wish for immediate action. The minister underlined several points: "We feel that this project must have a technical partner that is willing to form a <u>real</u> partnership. We don't want a boss; we want a partner who respects <u>our</u> priorities and wishes. We've had our fill of companies that tell us what's best for us. And certainly we don't want this partner to ignore the lowest cost sources of equipment just to give business to companies in his own country. Help us find the right people."

Using normal communication channels, the attaché asked the Department of Commerce to help identify a qualified US investor. At the same time, he approached two private organizations directly: the First Chartered Bank of St. Louis and the Agricultural Bio-Chemical Company. The attaché already knew of Bio-Chemical's prominence as a multinational sugar company, but he took this step primarily because of the minister's personal relationship with the company's president and his knowledge of the company's strength in the US domestic market.

Because the minister wished to appear impartial (he came from the region where the project would be located), he called on three other embassies. At the Japanese Embassy, he and his permanent secretary were enthusiastically received by the ambassador and his economic, commercial, and labor attachés. They were joined by a Japanese sugar expert who had been summoned to Afra soon after the Japanese government had obtained a copy of the Development Plan. The ambassador personally contacted the president of Japan's largest multinational bank and related multinational trading company, and asked another friend, the president of the Japanese Export-Import Bank, to discuss the project with the minister of foreign affairs, the bank, and the trading company. The ambassador promised to follow the situation personally and report promptly to the Afran officials. On leaving the Japanese Embassy, the minister of planning remarked that he was impressed by their reception and believed Afra should consider Japan as a technical partner.

Later calls at the German, British, and Soviet embassies were, in varying degrees, repetitions of the Japanese encounter. The permanent secretary in particular came away with high expectations.

b. Making the Decision

On learning of these talks, the ambassador of the former colonizing power used the occasion of a small dinner with metropole businessmen resident in Afra to discuss how the Afra government could be dissuaded from using a third-country corporation. Long-range metropole planning assumed a steady supply of sugar from Afra, which could be assured only if the state-controlled metropole sugar company invested in and managed the Afra Sugar Corporation.

A coordinated effort was made to sow doubts about the capabilities of other foreign firms. It was pointed out to senior government officials and Afran businessmen that it would be better to deal with "people who know Afra in depth, identify with the government's objectives, have extensive

experience in doing business in Afra, and speak the language." The inverse was true of the Americans, who "have little patience and limited language ability, and demand extensive legal agreements - all of which override their acknowledged expertise in agriculture." The Japanese were basically an unknown quantity in Afra whose efforts to secure and protect export markets amounted to "economic neocolonialism." The Germans were unacquainted with the idiosyncrasies of doing business in Africa. The Russians were characterized as politically motivated and likely to create political unrest. As for the British, they had done well in their former colonies but did not understand Afra. As the metropole ambassador continued to press against the selection of any non-metropole technical partner, he thought of an ace in the hole to use with the minister of planning: A few years ago he had helped the minister's wife buy a fleet of metropole trucks at very favorable prices and terms. Perhaps this would pay off now.

With the pressures building, the prime minister and minister of economic planning decided to approach the Agricultural Bio-Chemical Company. They weighed many factors, including what they considered "excessive pressure" from the metropole, but the decision turned on two simple points: the prime minister wanted to involve a third country, and the minister of planning knew the president of Agricultural Bio-Chemical. Little attention was given to the relative technical expertise of potential partners. Politics overruled economics. The minister of planning called on the president of Agricultural Bio-Chemical in his office in St. Louis, where the two old friends discussed the background and details of the project frankly and openly. That weekend, the minister gave a member of the board of the First Chartered Bank a full briefing on the project.

The president of Agricultural Bio-Chemical had some reservations about joining the project, one of which was his company's lack of experience in Africa. He pointed out that the company's overseas experience was limited to the Far East and Central America, where it had successfully operated refining and plantation companies since just after World War II. The minister discounted this reservation and emphasized Afra's need for sugar industry experience, which he felt was easily transferable to Afra.

For convenience, the final negotiating meetings were held in London. As in other recent negotiations abroad, the Agricultural Bio-Chemical team was headed by a young attorney from the company's legal department, together with a technical staff. No one from the executive office of Bio-Chemical was present at the signing, though regrets were given. Afra was represented by the minister of economic planning, since this

was the most important project in Afra's First Development Plan.

In June 1968, a partnership called the Afra Sugar Corporation was formed with the following ownership:

Agminco, an Afran government corporation	25 percent
Agricultural Bio-Chemical Company of St. Louis	50 percent
Overseas Corporation for Development, an investment corporation of the former colonial power	25 percent

Although it had raised the largest share of the capital, Agricultural Bio-Chemical failed to obtain a controlling interest of 51 percent, primarily because Afran government policy precluded the formation of companies with controlling expatriate participation. ABC received no help in financing the project from the US Agency for International Development or from the Export-Import Bank because First Chartered failed to present the project in a manner acceptable to those organizations. The Overseas Corporation for Development was brought in to satisfy the former colonial government, which may have anticipated that even minor participation would place it in position to pick up the pieces if Agricultural Bio-Chemical should fail.

c. Collapse of the Project

While the negotiations were still in progress, the American ambassador learned of significant changes in Afra's sugar marketing plans. In essence, the new regulations would prohibit the Afra Sugar Corporation from selling to the metropole and would curtail the quantity of sugar available for export. Not wishing to interfere in the negotiations because of his commitment to neutrality relative to American firms, the ambassador did not convey this knowledge to Bio-Chemical. The news was a serious blow, for Bio-Chemical had entered the project with the intent of increasing its market penetration in the metropole with sugar from Afra.

The introduction of the restriction on marketing also caused severe strains with the board of Afra Sugar Corporation. The managing director from Bio-Chemical assumed that the local director of the metropole-affiliated Overseas Corporation for Development had known in advance of the changes through his membership on various corporate and governmental boards - a charge that was emphatically denied. To ease the tension, the director eventually was recalled to Europe and subsequently replaced by an Afran director.

By December 1971, Agricultural Bio-Chemical had spent $24.5 million on the Afra sugar project with no return on its investment. Meanwhile, on the advice of the ministry of finance but without consultation with the ministry of economic development, the Afran government unilaterally increased the tax rate on all companies in which there was foreign participation, including Afra Sugar Corporation, to gain revenue for its Second Development Plan (1970-1975) - and specifically for a second satellite sugar scheme hundreds of miles north of the original project. The tax was imposed by a complicated formula that levied a certain percentage against gross income, thus reducing cash flow for dividends and debt service. A withholding tax that severely hurt foreign lenders was introduced. The government of Afra also imposed strict "indigenization" requirements on managerial employees, along with a progressive income tax that hit very hard at anyone earning more than $6,000. Together, these measures reduced the number of expatriate employees below the level necessary to operate the project efficiently. The tax reduced the net pay of expatriate employees to the point that employment in Afra was unattractive compared to other opportunities in the international sugar industry.

Obviously, Bio-Chemical's negotiators had taken too much for granted, having failed to consider the "worst case." No guarantees of tax concessions or maintenance of the existing tax structure were agreed to before the fact. This inexcusable omission was a major factor in the collapse of the project, and the error was compounded by the fact that other companies doing business in Afra did have "untouchable" tax concessions.

At the end of 1973, Agricultural Bio-Chemical showed a substantial loss on its Afra investment, not including its opportunity costs and negative rate of return on capital. Bio-Chemical sold its shareholdings to Proprietary Holdings Ltd., a conglomerate from the metropole introduced by the Overseas Corporation for Development.

In 1974, the government of Afra announced a new policy of "popular socialism" that called for nationalizing foreign investment. Soon the metropole sent a delegation of high government officials to Afra to promise substantial aid on concessional terms if Afra would protect Proprietary's investment with a grandfather clause. Subsequently the United States recognized a "security" interest in Afra and called attention to assistance that might be available if the government of Afra would limit its socialist revolution to rhetoric. But it didn't suggest to Afra that it should compensate American companies for their losses resulting from Afra's restrictions on marketing and higher taxes.

The collapse of Bio-Chemical's venture in Afra had several consequences. Not only did the American firm lose money, but the investment community as a whole received an unfavorable impression of Afra. The Afran government changed its attitude towards foreign investment, especially American investment. The investment climate in Afra might be far more hospitable today if the sugar project had been handled better. In addition, trade between the United States and Afra was inhibited, and the Afran market remained a preserve of the colonial power which had previously ruled the country.

VI. US GOVERNMENT ROLE AND POLICY TOOLS

A. Policy Position

The emphasis on the private sector as a means of promoting economic development is commonly thought to be a recent initiative. While the private sector is certainly now being accentuated by the Reagan administration, it is not a novel innovation. Foreign aid donors, including USAID, have included it in their programs in the past. During the 1960s, the private sector was an integral component of USAID policy. "AID alone has supported over a thousand projects which involved reinforcing the private enterprise sector in 75 countries during the past 20 years. Owing to their more attractive economic environments, Asia and Latin America have been the largest recipients of such assistance. The Africa region's lower potential for private enterprise development...caused it to have the fewest and smallest projects."[113]

USAID financed a range of private sector projects, including intermediate credit programs, joint ventures, and training programs. The former Cooley Loan Program, authorized in previous PL480 legislation, permitted the lending of up to five percent of Title I local sales proceeds to US firms for investment abroad. There were also projects designed to get the US business community more deeply involved. Consulting firms were hired to identify and promote specific investment projects. At a cost of $3.5 million, for example, Arthur D. Little, Inc. was commissioned to provide a broad range of industrial development advisory services to Nigeria from 1961 to 1966. In another project, extending from 1967 to 1969, MAB Associates, Inc. performed a similar service throughout Africa. They identified 435 investment opportunities in 25 countries, involving over half a billion dollars worth of potential investment; however, only eight, representing an investment of $19 million, were actually committed by the end of the project.

The indigenous private sector was also included in USAID's mandate, an area where it is probably most relevant. For approximately a $5 million investment, an amount that was matched by state governments in Nigeria, the ILO, the Ford Foundation, the Peace Corps, some private banks, the Netherlands and the UK, an eleven-year project to encourage Nigerian entrepreneurial development was implemented from 1961 to 1972. In addition, at a cost of approximately $20 million, a program that is still operating provides financing, advisory services, and technical support to small scale entrepreneurs in the five Francophone countries (Ivory Coast, Benin, Niger, Togo and Upper Volta) that comprise the Entente Council. While both projects have had their problems, the Nigerian entrepreneurial project was recently judged to be "the largest and perhaps most successful African private enterprise project that AID has supported in the past" while the Entente program has been evaluated as a "phenomenal success."[114]

Following passage of the 1973 "New Directions" legislation which shifted the emphasis in foreign assistance to basic human needs and the poorest of the poor, resources for private enterprise development were significantly reduced. In a survey of USAID projects with a private enterprise component in the Africa region from 1950 to 1981, it was shown that out of the total of

$136 million worth of projects over the past three decades, less than one-quarter were obligated after the "New Directions" legislation was enacted (see Table 5).

Experience with the "New Directions" approach has not been entirely satisfactory. In the words of Assistant Secretary of State for African Affairs Chester A. Crocker,

> All too often,...foreign aid in the last decade has created elaborate pilot projects which foreign countries can barely keep in operation, much less replicate. The maintenance costs of complex service-oriented projects, and, indeed, of much of the basic infrastructure that was created, in the absence of economic growth, have become unmanageable... Without throwing out all we have learned about the basic human needs of food, health and education, nor abandoning all the programs we have now underway to build up African institutions, we must look afresh at the way our aid reaches or does not reach the productive sectors and how we can link social and humanitarian concerns once again with sound growth policies.[115]

The private sector has been revived as a centerpiece of the current administration's economic policy toward Africa. An outpouring of official statements has demonstrated how strongly the Reagan administration feels about this issue. The President set the tone at the summit meeting of developing and developed states in Cancùn, Mexico in 1981. In essence, the developing nations were told that they must rely on their own individual initiative, stimulate private enterprise at home, take a good deal of the responsibility for their poverty on their own shoulders, rely less on foreign aid, change their domestic policies, and put their own economic house in order for further assistance. In the summer and fall of 1981, in speeches, congressional testimony, and personal appearances, administration spokesmen repeated that theme. This was not, Crocker argued, "to convey the impression that our foreign economic policy toward the Third World consists in large part of stuffing multinational capitalism down the throats of reluctant socialists,"[116] but to urge rational policy approaches to remedy what is an alarming economic decline in the continent.

Secretary of State Alexander Haig, Assistant Secretary for Economic and Business Affairs Robert Hormats, and the Administrator of the Agency for International Development M. Peter McPherson, all presented similar arguments in this vein. Cables were sent to ambassadors at all diplomatic and consulate posts urging more aggressive pursuit of private sector activities, although the major activity stressed was export promotion. In a widely-noted cable, the State Department declared that "each ambassador must contribute to this commercial dimension...As ambassador, you set the standard and the example by your personal leadership and individual effort. I look to you to involve yourself personally in leading the US Government commercial effort in your country. While post commercial and economic offices will be your primary resources, you should engage your entire mission in this important cause.

TABLE 5

AID PROJECTS WITH A PRIVATE ENTERPRISE COMPONENT IN THE AFRICA REGION
1952 TO PRESENT--BY NUMBER OF PROJECTS AND AMOUNT OBLIGATED BY COUNTRY IN THE REGION

SUMMARY

Country	Number of Projects Before 1974	Number of Projects 1974 to Present	Total Number of Projects 1952 to Present	Amount Obligated Before 1974 (US$000)	Amount Obligated 1974 to Present (US$000)	Total Amount Obligated 1952 to Present (US$000)
Botswana	-0-	2	2	$	$ 2,999	$ 2,999
Cameroon	1	2	3	3,229	851	4,080
Ethiopia	11	1	12	3,843	725	4,568
Djibuti	-0-	1	1		553	553
Ghana	3	2	5	44,092	3,453	47,545
Guinea	2	-0-	2	3,270		3,270
Ivory Coast	4	-0-	4	5,186		5,186
Kenya	-0-	2	2		860	860
Lesotho	-0-	1	1		500	500
Liberia	6	2	8	1,955	1,415	3,370
Madagascar	3	-0-	3	106		106
Malawi	2	-0-	2	51		51
Mali	-0-	1	1		500	500
Niger	3	-0-	3	504		504
Nigeria	4	-0-	4	8,701		8,701
Senegal	2	1	3	142	1,758	1,900
Sierra Leone	1	-0-	1	4		4
Somalia	3	-0-	3	583		583
Sudan	5	-0-	5	10,728		10,728
Tanzania	3	1	4	121	13,945	14,066
Uganda	2	-0-	2	50		50
Upper Volta	1	3	4	6	2,901	2,916
Central/West Africa Regional	3	1	4	17,518	1,880	19,398
Africa Regional	12	1	13	553	2,584	3,937
TOTAL	71	21	92	$100,642	$34,924	$135,575

SOURCE: Mark C. Wentling, "The Development of African Private Enterprise: Discussion Paper," Office of Regional Affairs, Africa Bureau, USAID, Oct. 1981. Survey prepared by Devres Associates, Inc.

This goal will not yie' to half-hearted, unsustained efforts or to lip service. It must be a conviction and a major purpose in your ambassadorial stewardship."[117]

McPherson sent a similar message to USAID missions world-wide, stating that "I expect every mission to think creatively on how they can incorporate private sector development into their existing programs and how the mission can work creatively in fostering conditions in the country for which you are responsible...You should not expect the private sector initiative to come only from Washington. You must be responsible for it in your respective countries."[118]

Crocker followed suit, telling African posts that "I want...to tell you of my personal interest and concern for the activities of the private sector in Africa...There is considerable lattitude for devising creative and innovative ways to be supportive of US business in Africa, to be responsive to its needs. I want you to take a personal interest in export promotion activities at your post and assure you and your staff the support of the Bureau in those efforts."[119]

In an attempt to mobilize USAID missions in the private sector effort, Africa mission directors were asked to respond to a discussion paper, written by the agency's Office of Regional Affairs, that proposed various recommendations to stimulate the African private sector. This was separate from the efforts of the agency's newly-created Bureau for Private Enterprise (PRE), headed by Assistant Administrator Elise du Pont. PRE has targeted ten selected countries around the world, including three in Africa (the Ivory Coast, Kenya and Zimbabwe) for special attention. In addition, State, USAID and Commerce have generated a great deal of debate: conferences have been held, seminars conducted, survey missions dispatched, private consultants hired, and new legislation proposed, including a recently enacted tax policy for overseas residents, revision of the Foreign Corrupt Practices Act, and legislation permitting the formation of Japanese-style export trading companies. A high-level trade mission, headed by Commerce Secretary Malcolm Baldridge and Agriculture Secretary John Block, was dispatched to Nigeria, Cameroon, Ivory Coast and Morocco, along with 25 business participants, in January 1982. The Joint Agricultural Consultant Committee (JACC), established as a committee of US and Nigerian government and agribusiness firms to promote agribusiness, is also being encouraged.

Finally, and perhaps most importantly, the Reagan administration has advised the international financial institutions, notably the World Bank, the International Monetary Fund, the International Financial Corporation (IPC), and the African Development Bank (ADB) to strengthen its private sector activities. In a policy statement contained in a report by the Department of the Treasury, the administration urged that support for the multilateral development banks should be designed to encourage "adherence to free and open markets, emphasis on the private sector as a vehicle for growth, minimal government involvement, and assistance to the needy who are willing to help themselves...Lending policies and programs should increasingly emphasize attention to market signals and incentives, to private sector development and

to greater financial participation by banks, private investors, and other sources of private financing (with particular emphasis on the IFC's approach and type of program).[120]

B. Responses to the Private Sector Initiative

"Real live businessmen," Fortune magazine observed recently, "have learned that the big challenge isn't concocting strategy but making it work."[121] This is as true in the public sector as in the corporate world.

Having laid so much emphasis on the private sector, the basic problem to be faced by this administration now is to give it substance and credibility. The private sector theme is a policy in search of implementation. Hopes have been raised, new guidelines issued, and legislation enacted. But on the ground, there is little to show for all this activity.

In fact, the private sector initiative has run up against resistance from the host countries, the American business community, Congress, and implementing agencies. Even within the administration, there is no meaningful coordination, with the result that each agency, bureau, or mission is doing "its own thing." Nor is there a comprehensive interagency strategy striving for specific objectives or clear goals. The post of Deputy Assistant Secretary for private sector activities in the State Department's Africa Bureau had remained vacant for the first two years of the Reagan administration; military assistance increased while development assistance levels were disappointingly low, and the fundamental motives of the Reagan team in pushing the private sector have been called into question. As Fortune, aptly summarized the situation, "the President will have to counter the impression that his policy is just an elaborate cover-up for slashing the US foreign aid budget. To convince skeptics, he must follow up with words and actions that demonstrate how the policy will work."[122] Even foreign observers who might be expected to be sympathetic are skeptical. The Economist wrote that the "world recession has felled commodity prices and left many primary producers destitute. They need help from the rich, not well-meaning schemes for tinkering with free markets."[123]

The African governments have, predictably, been the most critical of all. They argue that while mistakes have been made, the blame for their economic dilemma does not rest exclusively, on what the Berg Report termed, "domestic policy inadequacies." African decision makers feel that the private sector objectives stressed by US and other donors fail to take into account external problems and the priorities of African countries. Responding to the recommendations in the Berg report, for example, they argue that "the goals, objectives and characteristics of the strategy contained in the report are in many ways inconsistent with those of the LPA [Lagos Plan of Action]." Adopted in April 1980, the LPA represents the economic objectives of Africa as defined through a series of meetings of OAU ministers and heads of state and government. "It attaches importance to increasing production from all economic sectors and to fostering the interrelationships among these sectors as a means of achieving faster growth and accelerated development...This means that, unlike the World Bank report, the concept of market in the LPA focuses on national, sub-regional and regional markets rather than on external

markets...The authors of the [World Bank] report grossly discount the controlling influence of unpredictable external factors...The implication of the recommended approach is to make Africa more dependent on external markets for its agricultural and mineral products and for its essential factor inputs."[124]

Behind this tug-of-war over who and what is to blame for Africa's economic woes lurks a deeper political sentiment that shapes the style and tone of the debate. A Kenyan banker stressed the importance of politics in any new initiative in Africa and the linkage between economic and foreign policies. "There is no way you can separate the private sector initiative from America's foreign policy as a whole. An African looking at the United States today sees a warming relationship with South Africa, frustration in Namibia, increased military supplies, reduced economic assistance, and an emphasis on private sector reforms. All of this looks to us like America is withdrawing, failing to see our needs, or to meet our objectives. We may reach an agreement on an issue here or a problem there, and we may say all the right things to each other at high level meetings, but underneath it all, we are wondering just where you are going in this continent. The private sector emphasis cannot really be separated, in our minds, from your policies in southern Africa or your stance on foreign aid."[125]

Congressional critics voiced other concerns, revolving around on the question of aid priorities and the drift away from the "New Directions" congressional mandate. In reviewing the FY82 foreign aid bill, the House Foreign Affairs Committee found "AID's Private Enterprise Initiative to be somewhat lacking in descriptive detail and policy guidance and unclear in its total funding from the various accounts. The Committee expects the activities to be fully compatible with the 'New Directions' mandate which Congress issued in the aid law of 1973." The Senate Foreign Relations Committee was equally critical, earmarking at least half of the funds for traditional development projects. It specified that "the President shall not use less than 50 percent of the funds made available annually for development assistance to finance assistance which will directly benefit those living in absolute or relative poverty as defined by the World Bank."[126]

Some of the strongest agnostics regarding the private sector policy were to be found in the American business community. While a number of respondents were supportive and praiseworthy of particular individuals, the consensus was that the officials who should be out front leading the private sector initiative were least committed to doing so. Historically, commented one, "the general experience is that the US Embassy is useless to the US businessman. So any action that strengthens the posture of the government would be helpful. Europe and Japan are way ahead of us on that score."[127] The Pretoria-based spokesman of an American mining company, whose experience in trying to get established in Zimbabwe was recounted in Chapter II, was asked if he had ever contacted the US Embassy during the course of his difficulties. "No," he responded, "I was too darned busy. Besides, how could they help me? I could handle operations here from South Africa. We were also hearing that the Americans were too pushy, too demanding, and we didn't want to identify with that perception."[128]

On the other hand, an executive of a firm which recently concluded an investment indicated that the US Embassy was, on the whole, helpful. "But there is only so much they can do. Moreover, they're not responsible for where we are at. They didn't open up any doors for us."[129] Another observed that "the embassies are an obligatory step for many businessmen making their first tour of Africa. Generally, however, there is poor information available. What the embassies tell me is from their latest report to the desk officer. I can get better information from the banks: they give it to you straight. I know a business operating in Nigeria for 15 years. They haven't been to the embassy in the last five years. And they won't go near it. There is also the feeling that the embassy sometimes exploit businessmen; they use the information given to them to write up their reports to Washington."[130]

Companies which avoid dealing with US government representatives do so for a variety of reasons: they may have been burned in the past, fear an unwanted political association, are frustrated by a politically-inspired interpretation, are discouraged by a sheer lack of responsiveness, or are acting on the basis of the embassy's past reputation. In any event, the new private sector initiative has made only a negligible impact on the operation of embassy staff. "God and the State Department are not interested in commercial activities," commented one alienated businessman who has little faith in the system. Typical of the views which seemed to be characteristic of large firms, especially in extractive industries, one representative stated that, in his opinion, "it's not quite proper for US firms to get too close to embassies. There are a lot of companies out there and I wouldn't feel that the embassy had to open up secret files and tell me what's going on. Besides, I would not need embassy information or advice because I have so much contact with the government already. In addition, if we had too much contact, if we were too close, it would be uncomfortable for us. People here would think we were up to something."[131]

On the other side of the issue, a former ambassador to Africa emphasized how critical an ambassador's role can be, a view which most business representatives supported, but found, with few exceptions, to be unfulfilled in practice. "The role of the ambassador in commercial activities is key in certain countries," he argued. "There is no continent where it is more useful than Africa, in part because officials of a local government often ask our ambassadors for advice and information."[132] An American banker in Abidjan concurred: "Information is the key resource for a businessman. The essential question is: what do you get when you get off the plane? It should include practical human problems, an information package. However, the embassy is not organized for this. It focuses on macroeconomic analysis which is not very useful to the investor. In addition to information, the role of the embassy is to provide access to public officials. A businessman should get good advice on who to tap. But the embassy is often unwilling or unable to extend this service. It also lacks good language skills. There are exceptions. Occasionally you get an individual in the embassy who is a self-starter, but this is not the rule. As a consequence, most or our clients don't go to the embassy. They feel it is ineffectual. When the embassy does get involved, generally they use staff at too low a level to really get results."[133]

An intersting example of how deeply business distrust of government runs can be seen in an USAID-sponsored project conducted by MAB Associates in the late 1960s. The contractor took pains to implement the project, designed to stimulate greater US industrial participation in Africa, as a completely private endeavor. Operationally, the single most important factor, the final report noted, was the specific instruction to all field personnel not to affiliate in any way with the official United States government establishment. In order to avoid the "clannish" attitude associated with many of the overseas personnel, the "arrogant attitude of many American personnel stationed overseas" and "the superior attitude of such personnel, when in a surprising number of cases, that individual is less competent than his local counterpart," the field staff were directed "not to have any association with the official United States Government communities in any country. Only courtesy calls were to be made and any connections with the United States Agency for International Development in the countries was to be done quietly and for informational purposes only. Field offices of USAID were specifically not to be given information on any investment identification or information relative to any local sponsors." When these instructions were violated in three instances in previous work, the contractor reported, "any hopes of implementation of the projects concerned were lost due to the direct interference of AID personnel or the direct uninformed public statements of AID officials. At least on the continent of Africa," the report concludes, "it may be categorically stated that the vast majority of all USAID personnel did not and do not have a realistic understanding of the Private Enterprise Investment Opportunities Project. This project, being contrary to their normal concept of direct aid, has...proved that an orientation of this approach for closer working relationships would be necessary before any close link to AID sponsorship would be advantageous."[134]

Further evidence of dissatisfaction by the private sector with the responsiveness of US government agencies provided in a letter sent by Richard Hofstad, President of Land O'Lakes, Inc., to USAID Administrator M. Peter McPherson on April 16, 1982. Land O'Lakes is an American food and agricultural cooperative owned by 350,000 farmers. It had been working with officials of the Egyptian government on a project designed to develop the Egyptian dairy industry. In his letter to McPherson, a reasonable facsimile of which was forwarded to 42 congressmen who represent the seven states which make up the area served by Land O'Lakes, Hofstad wrote:

> Our relationship [with many American associations] has been very good - and in the case of OPIC very productive in that OPIC has financed 75 percent of the cost of our feasibility study in Egypt and has agreed to finance 50 percent of a feasibility study we are conducting in Jamaica. We have been particularly impressed at how quickly OPIC responds when we ask them for assistance.
>
> Unfortunately, we have been less successful in our dealings with the Private Enterprise Bureau; with the Office of Private and Voluntary Assistance (sic) and occasionally with

> the missions. All have been congenial, but it has been difficult to get a quick response or to develop any meaningful relationships.
>
> For example, for over a year now we have been patiently waiting for a decision on a proposal we submitted to the Bureau for Food for Peace and Voluntary Assistance area...for a grant which Land O'Lakes and USAID would use to explore and establish some cooperative technical assistance projects. We have followed all of the suggestions given us...yet nothing happens. It is difficult for us to understand why it takes so long to provide funding for a proposal which we were told over a year ago "had a good chance for funding."
>
> One wonders why this particular arm of AID takes so much longer to respond than OPIC. I mention this particular case not to criticize but in the hope that our continuing efforts with AID will prove more fruitful in the years ahead.

Reflecting on the larger issue of business-government relationships, and echoing a refrain repeated by many respondents during the course of this study, Hofstad wrote, "I'm afraid that in the United States we still haven't really figured out how our public and private sectors can most effectively work together in promoting, planning and implementing effective technical assistance and export trade activities. Sometimes the two sectors approach each other as adversaries rather than associates. This bothers me because both sectors are capable of bringing so much to the table and, together, the efforts can be much more effective than if they go their separate ways."[135]

The business community's distrust of government was evident in a range of other remarks by respondents interviewed in this study. A typical sampling: "AID talks; that's about it"; "the on-site people are pretty impractical"; "they are not really interested in commercial ventures." Regarding embassy staff, respondents singled out individual ambassadors for commendation and a handful reported a discernable shift in the attitude of particular embassies over the past two years. However, the majority of comments were negative: "The Embassy will not extend itself"; "Ambassadors don't want to get their hands soiled in such matters"; "We would never rely on them"; "The Embassy almost never delivers"; "the embassies have competent staff that represent their country very well, but they have more important fish to fry than to deal with commercial activities." These sentiments underscore the extent to which the private sector initiative has failed to instill confidence in the American business community, despite the shift in emphasis by the Reagan administration. "The general impression," summed up one private sector representative, "is that the Reagan administration is posturing - there is no teeth in its policy with regard to private sector activities in Africa."[136]

C. Policy Tools: A Selected Review of Key Agencies

Some of the greatest obstacles to the successful implementation of the private sector initiative seem to reside in the structure and operation of the major institutions designated to take a lead in this direction. There is cynicism,

suspicion, and resistance evident among a number of officials, including some who philosophically are behind the initiative but doubt that it will have any meaningful impact. In addition, there is inadequate coordination and planning, insufficient resources, and a lack of consistent political support from Washington. Regardless of the alleged "magic of the marketplace," the private sector strategy is not one which will blossom on its own.

The following review of the most pertinent institutions identifies some of the major problem areas.

1. The World Bank and its Affiliates

In spite of the administration's support of the Berg Report, which included a recommendation to double aid to Africa, resources allocated to the international development institutions are dwindling. The World Bank had to reduce by $200 million the amount of no-interest loans to Sub-Sahara Africa made available by its affliate, the International Development Association (IDA), due to rescheduling of US contributions over four years instead of three. The International Finance Corporation (IFC) is another World Bank affliate which specializes in private sector projects. It has singled out Africa for special attention and announced a new effort in co-financing, but has exhibited little progress to date. "Nobody does much with the private sector in Africa," an IFC spokesman said. "Our effectiveness is very limited when countries have not put themselves in order. These countries need to begin to build up their basic infastructure before we can help." Another IFC official contended that "when Reagan cuts IDA funds, it also hurts the effectiveness of the IFC. The only way to make a big difference in Sub-Sahara Africa in the end will be to have the whole World Bank group increase the money flow to the region."[137]

A review of the regional distribution of IFC investments for FY81 revealed that only 15 percent of the value of these investments went to Africa as compared to 53 percent to Latin America and the Caribbean and 22 percent to Asia. These comparatively low figures affirm the difficulties of changing priorities. As the World Bank official quoted above, commented, "Sub-Sahara Africa is the least likely candidate for co-financing, the one region in which this approach is not likely to take off."

2. The Export-Import Bank

America's government-supported export finance agency has likewise had to defend its budget against sharp cuts, despite the Reagan administration's strong emphasis on export promotion. In FY82, Ex-Im's new loan authorizations were limited to $4.4 billion, from $5.4 billion in FY81. In the words of Senator John Heinz, the administration has tended to regard the Ex-Im Bank as "just another distortion of the market place, or food stamps for rich corporations," disregarding the importance of competitive financing in boosting American exports.[138]

The role of the bank is especially critical in Third World areas, where an attractive financial package is often the most important variable dictating the award of contracts. A top-level civil servant in Zimbabwe, for example, discussing the issue of financing, advised that "the US government must step in and walk both sides of the street. It must do what other countries are doing or else it will be left out."[139] By the same token, an oil executive in the Ivory Coast advised that "the most practical way to reduce risk in Africa is through financing. The French will bankroll their former colonies to maintain their trade and for the balance of payments. The United States should do more in the way of financing and it will be able to get a foothold."[140]

In 1980, Ex-Im exposure was $1.5 billion as compared to $1.8 billion in the ECGD, the British export guarantee agency, and an estimated equal amount for COFACE, the French counterpart whose figures are not published. Sometimes Ex-Im facilities are pivotal in gaining access to markets in areas where the US would otherwise be excluded, such as Angola. In 1981, Ex-Im loaned some $584 million to seven African countries, the largest going to Nigeria to support imports of US goods and services for a major fertilizer plant.

An expansion of Ex-Im's activities in Africa could go a long way toward contributing to the private sector initiative as a whole. Expansion of activities could result not only from increased financing, but through a revision of bank policies. Ex-Im facilities could be revamped with a view toward providing credit terms to the poorest Third World borrowers that are more competitive with its European counterparts. In addition, Ex-Im should evaluate opportunities project-by-project instead of country-by-country. This would permit exporters to take advantage of internationally financed projects in countries, such as the Sudan, whose governments are not creditworthy, but which nevertheless attract large-scale investments with significant opportunities for US suppliers. Each project should be evaluated on its own merits, instead of writing off an entire country market.

3. <u>The Overseas Private Investment Corporation</u>

Financial support for OPIC is being similarly constrained at a time when its volume is reaching a record high. In 1981, $1.48 billion worth of risk insurance was underwritten by the agency. OPIC offers political risk insurance against war, expropriation, non-convertibility of currency, and civil strife. It also finances feasibility studies, provides loans and loan guarantees, and pre-investment assistance in identifying and establishing investment projects. Given the high regard most business respondents had for OPIC, a relatively small but responsive agency specializing exclusively in promoting US overseas investment, there is much room for expansion of its activities. It should be

considered one of the top agencies upon which the private sector initiative in Africa rests.

At present, OPIC's resources are severely limited. The $1 million which OPIC had set aside for feasibility studies in 1982 had been expended in roughly the first three months. Its policies also need to be reviewed for more flexibility. The restriction on insuring acquisitions should be lifted. The definition of "political risk" should be expanded to cover events under the category of "force majeure," unexpected or unanticipated forces over which the investor has no control. Following the French practice, OPIC might also consider dropping the requirement of a bilateral agreement before insurance can be offered, bypassing an unnecessary political entanglement. Host countries can receive their right to deny entry to a potential investor on a case by case basis, a right they exercise now. Obviously, umbrella agreements between the US and host countries are preferable and existing arrangements should stand. But that should not prevent OPIC from offering insurance on individual projects in countries, such as Zimbabwe, where such an agreement raises sensitive questions of sovereignty.

4. The Commerce Department

There are a number of constraints on Commerce Department activities, the first being its policy of neutrality with regard to overseas investment. The official US government position, as articulated by the Commerce Department, is that the US neither encourages nor discourages foreign investment, a stance contradicted by many other statements articulated by administrative spokesmen of other agencies. "The feeling is that we should not interfere with the market mechanism," explained a Commerce Department official. "To interfere with trade is okay, because you can show clear benefits to the US economy. The benefits coming from overseas investments are not at all clear."

Although some units within the Commerce Department follow investment issues, and an interagency group is drafting a clarifying investment policy statement to resolve some of these contradictions, the main raison d'être of Commerce is to promote US exports. This overwhelming preoccupation with exports limits the department's potential effectiveness. The department sponsors trade missions, puts US suppliers in touch with overseas clients, and operates the Foreign Commercial Service, which three years ago had been taken from the jurisdiction of the State Department. But because of the stress on export promotion, Commerce has been very neglectful of Africa, largely because of the small size of its markets. The Foreign Commercial Service, for example, has only five posts in Africa (Lagos, Kaduna, Kinshasha, Nairobi, and Harare), plus two posts (which are vacant or about to become vacant) which will not be filled (Monrovia and Accra).

A third constraint is the lack of coordination between Commerce and other institutions, a condition worsened by the shift of the Foreign Commercial Service from State to Commerce. This is an issue over which inter-departmental rivalry still festers. Some have maintained that the effect of the change has been to diminish the role of the State Department, bypassing ambassadorial involvement and divorcing commercial activities from the local political context. (For example, a high level official in the Foreign Commercial Service could not understand why the State Department would not encourage expansion of its operations in South Africa.) Others criticize Commerce for not being responsive from the field, not being timely in its reaction, and failing to provide adequate follow-up.

This was brought home through an example cited by the Director of Projects of the Arab Authority for Agricultural Investment and Development (AAAID), a Pan-Arab organization established in the Sudan in 1978 by 12 to enhance the food security of Arab states. AAAID is completely independent of the Sudanese government, backed by the currencies of the Gulf states, and exempted from all foreign exchange regulations in the country. It plans to finance 13 projects at a cost of $2.1 billion, of which $100 million worth of tenders, as of October 1982, had already been awarded. The director complained of the lack of responsiveness of US firms in bidding on a series of large-scale projects in agriculture and livestock. "When we call for proposals, we always include US firms," the director observed. "But they either are not sufficiently aware of the terms of reference and the procedures we follow or the embassy is not responsive when we publish our request for proposals in the newspaper." When this deficiency was conveyed to the embassy staff, they reported that they promptly forward information onto the Department of Commerce, which has the responsibility of contacting US contractors and suppliers. But their procedures are not efficient and Africa is not of major interest. "In the UK," the Director of the AAAID reported, "our requests are distributed all over the country in a couple of days through a computerized system which reaches all parties quickly. European firms respond much faster and appropriately and the difference in response rests, in my opinion, on the way in which your government acts."[141]

5. <u>The Bureau for Private Enterprise</u>

USAID Administrator M. Peter McPherson announced before Congress, that the PRE Bureau is the "prototype of the AID of the future." It has been given a mandate to develop and implement a global private sector strategy for USAID. With meager resources, institutional resistance, and interagency rivalry, this is a mission which will be impossible to accomplish.

With an FY82 budget of $26 million and a staff of 18, PRE began its operations by targeting ten countries in which to concentrate. Even within these parameters, however, its effectiveness still stands in question. Its "reconnaisance missions" to the ten targeted countries were sometimes disorganized and ill-prepared. In Africa, some country missions complained of a lack of coordination and an absence of sensitivity to local conditions. Other agencies similarly criticized the bureau for being "too narrow in its perspective," "incapable of taking the lead" in "an area about which they knew little," and "not sufficiently serious" or systematic in its approach to the issue.

A new bureau is bound to run up against interagency resistance. However, even the officials of the PRE bureau recognize the especially difficult uphill battle it has before it. Asked what, in his opinion, the greatest measure of success of the bureau would be, a senior member of the staff answered that he would consider the bureau a success if the "mindset of AID personnel against the private sector initiative were changed."

In its 1982 policy paper, the bureau proposed to use "debt instruments" such as co-financing, convertible debentures (loans that can be converted to equity), capitalization of private intermediate financial institutions, and direct lending to selected projects in its targeted countries. With little or no discrimination among objectives, PRE set forth to (1) identify, develop, promote, package and finance private sector projects, (2) help set up or improve private institutions that provide capital and management expertise to private enterprises, (3) make investments in individual private enterprises, (4) encourage the growth of capital markets, (5) counsel host countries, (6) interest other capital-exporting nations in making investments, (7) help establish training schools and programs, and (8) promote, and where appropriate, finance organizational links between US and host country business groups and associations. On paper, it would appear that there was little more that any other bureau or agency could do. In practice, neither PRE or any other USAID bureau is capable of doing all that is intended. This "charter" is exemplary of the kind of problems that have developed from an ill-considered policy for which there is no coordinated strategy of implementation.

6. Diplomatic Corps: The Ambassadorial Role

As indicated earlier, the role of ambassadors as "economic statesmen" is vital to the private sector initiative. Many respondents reported a recent improvement, and there were still great variations from country to country. However, for the most part, the situation remains largely one of personal preference: some ambassadors put commercial activities as a top priority; others ignore it or delegate the responsibility to junior staff. Even among those who include commercial activities as part of their

agenda political priorities invariably take precedence. As with USAID, career patterns and institutional traditions set the framework within which the diplomatic corps operates. It will take considerable effort to expand the role of diplomats beyond political preoccupations to make economic issues an integral part of US policy toward Africa.[142]

D. The Need for a Regional Strategy: Leadership by the State Department

To sum up, while the policy position of the administration has been loud and clear, the organizational, financial and attitudinal prerequisites necessary for implementing that policy leaves much to be desired. A State Department official observed that, in the final analysis, "the biggest difficulty we have is communication and coordination. There are difficulties within the embassies and outside. Sometimes we send requests for information from Commerce and get no response. State and Commerce even work at cross-purposes. USAID has been designated the lead agency, when very few people in that organization really believe in the thrust of the program in the first place. In fact, we can ask: how many people within the United States Government really know how to do business in Africa? It is a continent that is neglected dreadfully and, despite the rhetoric, there is a real question of sincerity in the whole private sector effort from the top down."[143]

In the final analysis, the success of the initiative will depend not simply on clear policy statements backed by good intentions, but on the political support it receives from Washington and the adoption of a coherent regional strategy. The administration's private sector initiative needs consistent support from senior levels in the regional bureaus concerned. For Africa, where the obstacles are so great, a concerted effort must be made for a coordinated regional strategy embracing all relevant institutions and dealing with all the major "constituencies" - the host country governments, the indigenous entrepreneurial sector, the US business community, other government agencies, and the US Congress.

Nowhere has the importance of political support been made clearer than in a cable which a US ambassador recently sent to Washington on this very point. Although refering to the PRE Bureau, his remarks apply to the fundamental question of the absence of political support and the lack of a general strategy:

> The impression that this administration was interested in increasing involvement in the private sector in the developing world was one of its outstanding features. I'm certain I was not the only newly appointed ambassador to speak of this factor in interviews both prior to and following arrival at the country of assignment. Thus it was with deep regret that I read the Bureau for Private Enterprise will be interested in only ten countries and the remainder of us are to develop private sector involvement on our own. I can see nothing in this advice which differs from what we have been doing. Our problem has been that there has been no support from Washington and this program

promises none either, except for ten nations, all of which already have considerable private sector involvement.

All the ideas which we can generate come to little without active support from Washington. Unfortunately, many of these ideas require money and we find other governments are happy to support proposals which help their businessmen. An example of this was given me by a US customs official visiting West Africa as leader of an international customs team assessing the needs of these nations for training and assistance in the customs field. The officer pointed to the placement in the customs offices of virtually every Francophone nation of several French customs advisors. This puts these people in a perfect position to watch out for the interests of French business, not only to see to it the goods are handled properly, but to provide intelligence on opportunities and deals.

We have been extremely busy attempting to drum up investments in business opportunities but when these come to the point at which stateside action is required the response is faint to nonexistent. For instance, we revved up some proposals in response to an OPIC request for business possibilities only to learn sometime later (and only in response to our request for follow-up information) that OPIC had decided to limit the field to a few nations in the Far East and our material had been turned over to the Department of Commerce for normal handling. Resources here are limited and, while the AID mission and embassy are working together to the best of their ability to promote further involvement of the private sector, we had hoped we would be able to rely on something more than Washington's "normal" support. What is needed is imagination and energy. Normal support is what has gotten us where we are.

Not to simply point at the warts, let me pose some suggestions which could be of help to you as business efforts in this part of the world at least: a regional market approach...travel for African entrepeneurs...a business volunteers program. These ideas cost much money yet one or two could have a tangible, immediate impact on private enterprise development. Why not spread some resources beyond the "saintly seven"? The African Bureau's Office of Regional Affairs is developing a private enterprise project which would be an excellent way of spreading resources to the smaller countries. A little creative thinking could conjure up regional pots of money which embassies and US aids could tap. I urge you to make every effort to support its early approval so that we do not lose momentum...

In short there is a multitude of things which could be done ranging in cost from virtually nothing to a considerable sum. The countries which need this kind of attention will not be affected by the new program. Rather, the effort seems to be going toward those nations where American businesses are already well established--a case of "them as has, gits."[144]

VII. CONCLUSIONS AND RECOMMENDATIONS

From a strictly economic perspective, this is not the best time to try to stimulate private sector activities in Africa. Two decades of economic decline, a world recession, diminishing foreign aid, and dissension between the US and its allies over unfair trade practices are all constraints on private sector development overseas. It would therefore be unrealistic to expect quick or dramatic results. The recommendations of this study are intended to be a foundation upon which long-term policy objectives and resources can be organized and planned. The real payoffs will come not in the immediate future, but over the course of the years ahead when economic conditions improve, there is a better understanding and willingness to work together, and an explicit regional strategy is in place.

Having stated the drawbacks, it is important to note that the picture is not all gloomy. There are solid reasons for being optimistic about the prospects of a well-organized and balanced private sector strategy. First, a dialogue with African leaders on economic policies has begun, stimulated in large part by the World Bank, the IMF, and bilateral donors. Secondly, many African governments are actively seeking Western trade and investment, including a number of states which had heretofore been hostile to foreign private enterprise. Third, the political climate in Africa has changed, with a notable decline in the stridency and orthodoxy with which ideological principles are promoted. Finally, there have been some notable breakthroughs and successes--in indigenous training programs, investment projects, and in efforts to promote policy reform. Provided there is a political commitment to go forward, there is reason to relieve that real progress can be made.

The recommendations suggested by respondents thoughout this research varied greatly. Some advised the creation of a new cabinet level Department of International Trade and Investment. Others urged a "grand design" for Africa, comparable to the Caribbean Basin Initiative. There may be merit in these suggestions but at this time and under existing budgetary constraints, they would neither be politically desirable nor particularly effective. Instead, the recommendations contained in this study are limited to proposing ways in which existing capabilities and institutions can be better utilized, by expanding their scope, revising their programs and policies, or increasing their resources. Stimulating private sector activities in the world's poorest continent is an enormous task that will require painstaking and tedious work lacking glamour, political appeal, and widespread popularity. A coherent and realistic policy must take these factors into account. It must also recognize that under current circumstances, the private sector initiative lacks a base of support among the principal beneficiaries and has not been effectively implemented.

To address these problems, it is recommended that the State Department take the lead in developing a coherent and comprehensive regional strategy that will bring under one roof all the major agencies, resources and creative ideas pertaining to this effort in Africa. The regional strategy should be centralized in a coordinated interagency drive vested in an African Regional Coordinating Committee, comprising representatives from USAID, OPIC, Ex-Im

Bank, the Commerce Department, the Treasury Department and other interested agencies. The regional strategy pursued by this centralized unit should encompass trade, aid and investment issues focusing on five key objectives:

- Promote US global competitiveness
- Encourage host country policies and practices conducive to commercial activities
- Strengthen indigenous entrepreneurs
- Assist the US business community, and
- Increase the efficiency and effectiveness of US government agencies in stimulating and coordinating private sector activities.

An organizational plan should be worked out for a more rational division of labor among the principal institutions. For example, State should work with OPIC, Ex-Im Bank and Commerce to devise a plan of action to promote US global competitiveness. State should take the lead in host country policy reform, coordinating its efforts with USAID and Treasury. USAID should be the lead agency in adopting a strategy to strengthen the indigenous entrepreneurial sector through training and education. OPIC, Commerce and Ex-Im Bank are the most relevant agencies to assist the business community. State and Treasury should together formulate a policy with regard to the international development agencies.

The major responsibility for this initiative should reside in the State Department's Africa Bureau and be directed by a senior officer. The State Department is deemed the logical choice as the lead agency for this initiative, first, because political input from Washington is a fundamental requirement, second, because State will probably be sensitive to the wishes of African states, third, because an all-encompassing regional perspective is necessary, and finally, because State has an overseas network of embassy personnel who, together with the USAID missions, have the ability to coordinate directly with African leaders, local entrepreneurs and the American business community.

However, the success of the State Department in such an initiative is by no means assured. It will depend upon how well State can mobilize its own resources in conjunction with those of other agencies, how serious a political commitment is made to the initiative, and how much economic issues are brought in as an integral part of US policy toward Africa. Historically, economic and commercial issues have been the most neglected area of US policy, either ignored for the sake of political expediency or shunted aside to be dealt with by other agencies. It is time to stop passing the buck, to remove the policy from partisan political battles, and to raise the level of effort beyond routine commercial work or standard economic reporting.

The main obstacles in each of the five targeted areas of a new regional strategy were discussed in earlier chapters. To overcome these impediments, the following specific recommendations are offered. Some of these proposals

have already been previously considered but not acted upon, some are currently pending, while still others have never been given serious consideration. They are presented here not as a definitive list of "do's" and "don't's," but rather as items to be included in a new regional agenda to be more definitively discussed and enacted upon by the African Regional Coordinating Committee.

A. US Competitiveness

- Inadequate financial support for USAID, OPIC and Ex-Im Bank makes it difficult for the US to exert much policy influence or to be genuinely competitive. Funding levels are declining in these agencies at the very time when their importance in US global competition is increasing. A concerted effort should be made, in coordination with other regional bureaus, to increase the budgetary support of these agencies which have the concrete tools to put teeth into the private sector initiative.

- Review the policies of the major agencies involved in the private sector effort with a view toward providing greater flexibility and creativity. For example, Ex-Im should offer financing on more competitive terms, taking into account Third World conditions and the rates of European competitors. It should also raise its threshold of risk acceptability, perhaps by shifting from a country-by-country risk assessment to a project-by-project evaluation, allowing financing of internationally funded projects. OPIC should consider ending its restriction against acquisitions. It should broaden its definition of "political risk" to include insurance for "force majeure." OPIC might also consider the possibility of dropping its requirement of an umbrella bilateral agreement with host countries before insurance can be offered for new investments, retaining the requirement that each project should receive host country approval on a case-by-case basis. This would encourage flexibility by the host country without compromising its right to restrict entry.

- Competitive financing, the single greatest shortcoming of the US private sector, is a problem which must be confronted directly. Current US policy is to campaign for the elimination or reduction of subsidized export financing practices worldwide. However, export finance and mixed credits are critical factors in Africa's capital scarce economies. US business is greatly disadvantaged by not being able to match favorable financing packages backed by other governments. To try to get our competitors to end their so-called "predatory financing" practices is asking them, and African consumers, to act against their own best economic interests. We must use mixed credits if we do not want to be shut out of major Third World markets.

- The lack of information on Third World investment and trade opportunities is another serious handicap of the business community. Our economic intelligence system must be modernized, including computerized sourcing and more extensive circulation of investment opportunities beyond the relatively slow procedures currently used by the Commerce Department of identifying and contacting individual firms. Consideration should also

be given to the establishment of a one-stop information center where prospective investors or contractors can find out what government facilities are available to help them.

- Increase commercial promotion by expanding the Foreign Commercial Service in Africa beyond its current five posts and including investment promotion as part of its mandate. Perhaps this could be done on a regional basis, with Commerce Department representatives covering West Africa, Francophone Africa, East Africa and Southern Africa. In addition, the commercial role of embassy staff, including the ambassadors, should be more clearly spelled out. The Assistant Secretary of State for African Affairs must make it plain, through more than an occasional cable, that the commercial role of the diplomatic corps is essential, not only for export promotion, but for investment promotion, management contracts, etc. Career advancement incentives should be provided to reward commercial activities, giving weight to performance in this area in future postings, promotions, and job evaluations.

B. Host Country Policies and Practices

- Expand the dialogue with African elites and coordinate among all agencies so that the same message is getting through. Every opportunity should be used to raise key issues at bilateral meetings, debt rescheduling talks, and USAID planning sessions to discuss basic economic issues of particular concern to each country. African ambassadors in Washington, D.C. should also be included in this effort.

- USAID should develop country strategies focusing on particular objectives, such as training entrepreneurs or privatizing parastatals, rather than focus exclusively on identifying particular private sector ventures. These strategies should be sufficiently flexible so they can be tailored to suit the conditions of each country. USAID's activities should emphasize: (a) host country policy reform, (b) entrepreneurial training and education, (c) research and analysis of socio-economic and cultural factors affecting private sector activities, and (d) providing management services. In some of the poorer countries, the key strategy might simply be to construct a good all-weather road, build an efficient telecommunications station, or rehabilitate a railroad. In other countries, a wholesale effort to achieve progress in all the spheres defined above may be in order.

  The essential goal of USAID should be to improve the environment for the private sector, not do the work of the entrepreneur. For example, where appropriate, USAID could finance experts to write or improve upon investment codes, to prepare regulations for standardization of technical specifications, to help make customs procedures more efficient, to streamline government purchasing practices, and to clear numerous other hurdles or bottlenecks which impede the activities of the private sector. At another level, management expertise could also be supported for macroeconomic advice and consultation, including designing a private sector strategy to be adopted by the host government. (A British firm recently conducted a similar study in Botswana, identifying bureaucratic

impediments to private investment which were promptly accepted by the government.) In countries wanting to know the image it has abroad and the concrete steps it might take to attract more foreign investment, USAID should bear the costs of independent assessments conducted by US firms.

- Explore the possibility of concluding bilateral tax and investment treaties, such as those now being explored by the Office of the Special Trade Representative. Such treaties, while difficult to negotiate, would add a measure of security and lower the risk for US investors.

- There should be more in-country educational programs focusing on economic policy, including seminars, trade missions, distribution of data, surveys, etc. in Africa. The object of these exchanges would be to raise the level of host country understanding of complex policy and operational questions and to encourage reform from within, as opposed to the present pattern of imposing painful conditionality requirements from external sources. USIA and USAID could both be helpful in these kinds of programs. Finally, in conjunction with these promotional efforts, USAID could sensitize host government officials to the private sector by sponsoring research and symposia by indigenous institutions on economic policy issues, such as those now sponsored on population policy reform. The results of the research and symposia should be widely disseminated to African ministries to assist elites in better understanding the private sector and to stimulate rational economic management.

- Emphasize regional integration and cooperation in our USAID programs, an economic goal which Africans have identified for themselves in the Lagos Plan of Action, but find it difficult to achieve in practice. USAID might provide incentives for regional economic cooperation through existing institutions, such as the Entente, ECOWAS, or SADCC (Southern Africa Development Coordinating Conference), by offering concessional assistance for projects that increase intra-African trade or which lower barriers to intercontinental trade and investment. A $50 million ECOWAS regional telecommunications project is an illustration of a lost opportunity of this type. In 1982, USAID turned down a direct appeal by ECOWAS to support this regional project, with the result that $35 million in equipment and infrastructure contracts went to European competitors.[145]

- State, USAID, and USIA should finance research on pragmatic policy-oriented proposals. For example, research should be conducted on finding ways to develop regional trade areas as preferential markets for African products, on reviewing the possibility of selectively easing duties or tariffs on critical African exports, on developing strategies for US corporations to pool their resources in common regional marketing and distribution efforts, on studing ways to standardize technical requirements and measurements, on assessing domestic credit institutions and their impact on indigenous and foreign private sector development, or on analyzing local tax structures and their impact on private enterprise in particular countries. These topics constitute a suggestive list of

the kind of specific, policy-oriented research that still is badly needed in Africa - problem-solving research directed toward eliminating existing obstacles to development.

C. Indigenous Entrepreneurial Sector

- This is the area in which USAID is perhaps best qualified. USAID should build upon the mistakes and experience gained from the Entente Fund project which focuses exclusively on Francophone West Africa. Expansion of this project, or other similar endeavors concentrating on the indigenous entrepreneur, into other areas of Africa should be a high priority. Programs should include assistance and training for local entrepreneurs in the preparation of feasibility studies, loan applications, bookkeeping, inventory control, management strategies, marketing plans, etc., being careful, however, not to exacerbate the "brain drain" in areas which already have that problem. Some argue that the special characteristics of an enterepreneur cannot be taught and that such training programs are therefore irrelevant. This raises the problem of appropriate recruitment of participants and establishing screening criteria which can identify those candidates that can best take advantage of improving their skills to increase their productivity. Training programs cannot make entrepreneurs, but they can give those with the aptitude the critical skills needed to convert their talents into productive occupations.

- Middle-level American executives should be recruited for short term assignments in Africa, following the example set by the International Executives Service Corp (IESC) which recruits retired executives for overseas assignment. An expanded program of this type, providing hands-on experience and management, would provide technical assistance, training, management and increased productivity for local ventures. Various approaches to this type of program could be considered. For example, Peace Corps volunteers are exceptionally qualified to work one-on-one with emerging businessmen. Alternatively, USAID could work with private voluntary organizations or private corporations, topping up the salaries of volunteers from US firms interested in penetrating the African market. To gain a foothold overseas, US corporations might be willing to permit their executives to accept two-year overseas assignments, provided the government helped finance the cost.

- As a resource for future planning, a data bank on the empirical experience of indigenous entrepreneurs should be created. The emphasis should be on compiling a series of case studies of successful and unsuccessful local entrepreneurial projects, with a view toward identifying the critical determinants accounting for successful operations.

- Local counterpart funds from the Commodity Import Program (CIP) could be used as venture capital for small indigenous businesses. These funds could be deposited in the local branches of US banks, provided they

agreed to co-finance and oversee the management of emerging commercial operations, thereby providing a vehicle for the US government and US banks to jointly share the risks.

D. The US Business Community

- A strong promotional effort backed by concrete actions is required to instill confidence in the US business community, identifying those opportunities in Africa which are relatively safe for investment. This includes affording US business representatives access to top officials wherever possible, regular and frequent consultations with senior government personnel, and more responsiveness by US embassy personnel to private sector inquiries and concerns. The commitment of US ambassadors to neutrality relative to American firms should not be translated into paralysis regarding US competitiveness. US agencies must search for ways to reduce the risks, minimize problems, and ease day-to-day barriers of doing business in Africa.

- The Africa Bureau, through the embassies, should poll US businesses operating in Africa to obtain their suggestions on how to improve private and public sector interaction and remove obstacles to trade and investment opportunities. These recommendations should be evaluated, coordinated, and promptly translated into specific actions wherever feasible.

- Work closly with the US Chamber of Commerce, local chambers of commerce, and other trade organizations across the country to promote commercial activities in Africa. The Commerce Department's domestic network should be utilized by the State Department in this regard. In addition, a promotional effort should be mounted with regard to educating trade unions and labor about the domestic benefits of overseas investment, with a view toward removing the political constraints which make the Commerce Department irrelevant in international business except for exports.

- An overseas investment policy relevant to all agencies needs to be formulated to remove the contradictions which now exist between some agencies which are "neutral" on this issue and others which actually seek to "promote" investment. Once the policy is changed and clarified, appropriate resources should be brought to bear to implement that policy, including utilizing the facilities of the Commerce and Treasury Departments more effectively.

- The State Department's African economic and commercial data base needs to be greatly improved. Without violating confidences, records should be compiled on the commercial environment, host country practices, governing elites, and individual corporate experiences (including, where possible, experiences of other nations) in each major market. There is no institutional memory available in this sphere of operation in local embassies. With a tour of duty lasting no longer than two to three years, each foreign service or commercial officer must start afresh in each new post. It takes two years to get to know an area and then he is reposted, taking his knowledge and experience with him. Periodic

analyses, data reviews, and case studies should be available, on an unclassified basis, to potential investors. The existence of such information would be a major incentive for the US business community to consult more closely with the embassies.

- Better servicing of the US private sector, particularly those who are visiting the host country to assess trade or investment prospects is necessary. This servicing should include the supply of more practical information to supplement the macroeconomic analyses used in the routine reporting to Washington, the personal support of embassy staff where appropriate, and a more aggressive defense of US economic interests in circumstances where harassment or political manipulation is being exerted against individual Americans.

- Improve and expedite the process of getting information to US corporations regarding upcoming commercial opportunities in host countries and internationally funded projects supported by such agencies as the World Bank, the African Development Fund, the Arab Authority for Agricultural Investment and Development, and other similar organizations. Few businessmen are aware, for example, of the World Bank and UN publications which publicize their projects well in advance. The Development Forum, published by the World Bank, includes international procurement notices from the World Bank, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank and Fund, the Commission of the European Committees, and the UNDP. The World Bank's Monthly Operational Summary is another business supplement, providing information about projects contemplated as much as 24 months before a loan or credit comes up for board presentation. Embassies should screen these publications and have the latest information on the projects contemplated in their posts. In addition to apprising companies of upcoming opportunities, American firms need to be advised on acceptable procedures, the level of effort expected, funding guidelines, and evaluation criteria used in international competitive bidding by these organizations, most of which are European-oriented. In general, US firms are neither plugged into this international network nor sufficiently familiar with competitive procedures to present their proposals in a manner acceptable to these organizations.

- In the dialogue with host country governments, a means should be provided for the private sector to have a voice in the exchange, preferably through direct access to host country officials at appropriate meetings. American firms, in turn, should be briefed about the best way to be effective, keeping local country sensitivities in mind. Often US firms do not receive adequate feedback on the impressions or impact they make overseas. Follow-up calls by the embassy staff, especially for corporations which do not have local agents or representatives in the country, is almost always appreciated.

- Conduct non-petroleum natural resource and mineral surveys in Africa, focusing on areas of US commercial and national security interests. The

results of such surveys should be widely circulated to attract US industrial involvement in sectors that could enhance the host country's foreign exchange earnings and solidify US economic ties to the continent.

- Encourage a revival of the US Chamber of Commerce Task Force on Africa by giving it a more substantial role, through regular meetings and consultations, with United States officials. The first regular meeting of the Task Force convened in April, 1980, with 18 full fledged members. It became moribund, in part, because of low interest and its likely ineffectiveness in influencing government policies. Instead, the Chamber is encouraging the development of bilateral business councils, presently with Egypt, the Sudan, and Nigeria. While these can be useful, a Task Force dealing with the continent as a whole would make a strong contribution to US policy endeavors, especially if its mandate was broadened to include trade, aid, and investment issues.

E. Effectiveness of US Government Agencies

- The State Department's Africa Bureau should take the lead in coordinating and sustaining all facets of the private sector initiative suggested herein. Working closely with the Commerce Department, USAID, OPIC, the Ex-Im Bank, the Treasury Department and multilateral development institutions, the Africa Bureau must develop a coherent regional strategy to bring consistency and rationality to an initiative which, thus far, has spawned countless projects, guidelines, and promises that have no coordination or clear policy direction. Even within some agencies charged with implementing the policy, deep resistance has emerged to this confusing array of projects. Unless this disorder and disarray is corrected, the private sector initiative has little prospect of generating widespread political support, long-term impact, or recognizable economic payoffs, certainly not within the lifetime of this administration.

- The role and organization of USAID in private sector development should be reassessed, in particular, the role of the Private Enterpise Bureau. Creating a global strategy, as PRE is attempting to do, is an overly ambitious task that should properly go beyond USAID, much less be vested in a small component of it. Third World conditions vary too much for a global approach to have lasting benefits. Even within the ten target countries, the approach has not been well thought out, the goals are not discreet, and the resources are inadequate. By concentrating on countries with presumed viable private sectors, PRE also neglects more deserving or promising countries.

  PRE's functions should be folded into the larger USAID operation, either by dissolving the bureau or by restructing its mandate to concentrate on more selective goals. Working through existing bureaus and the country missions, USAID should confine its efforts regarding the private sector to six types of activities: (1) education and training, (2) policy reform, (3) the provision of management services, (4) research and analysis, (5) the financing of modest infrastructure projects (in

transportation, communication, agriculture), and (6) continuation of its traditional development activities in food, health and population, all of which impact on the private sector.

- Serious consideration should be given to introducing new legislation to broaden the existing foreign aid mandate, including expanding the definition of "basic human needs." Alternatively, the administration should do a better job of engaging Congress in a dialogue on changing Third World needs, drawing more attention to the interrelationship between development and private sector activities. The objectives and structure of a new regional strategy, should it be undertaken, must also be widely discussed with Congress whose support is essential if the initiative is to be sustained.

- Collaborative projects (to be distinguished from co-financing or cost sharing) should be encouraged in which USAID funds can be used in coordination with commercial investments for parallel efforts at development. For example, the US government could support the training, management, or infrastructure (irrigation, feeder roads, farms) costs associated with an agribusiness, livestock or seed-multiplication project provided the host country agreed to a US investment in which private funds would pay for the construction, labor, equipment, and other commercial costs. Development-oriented criteria could be worked out for such collaborative projects including, but not limited to, projects that result in rural development, employment generation, increased productivity, or export expansion.

- Above all, the private sector initiative requires concrete and consistent support from Washington. At present, there is no program or agency exclusively responsible for trade, aid and investment links with Africa. Nor can one agency do it alone. Unless the State Department takes this responsibility seriously by adopting a coherent regional strategy, providing consistent political backing, and mobilizing other agencies to be more aggressive, the privater sector initiative may never get beyond the stage of rhetorical enthusiasm. The private sector initiative must be seen as part of overall US policy which provides more attention and resources to the development priorities of Africa and the economic interdependence between America and the Third World as a whole.

APPENDIX A

METHODOLOGY

This report identifies and analyzes the fundamental constraints, both visible and perceived, which inhibit the development of private sector activities in Africa. The research includes analysis of both foreign private enterprise and the indigenous entrepreneurial sector. A variety of data collection methods were employed, but the principal data was collected through in-depth interviews with some 150 respondents. A literature review and documentary research was also undertaken to integrate past research efforts and official government analysis with the current data.

Field work was conducted in seven countries, including five African states, France and the United States. Four African countries were selected for concentrated analysis: the Ivory Coast, Kenya, Zimbabwe and the Sudan. South Africa was also included for a small number of interviews with respondents having knowledge of or interests in Zimbabwe. However, South Africa itself was not included as part of the major focus of the study.

The decision to focus interviews in these four African countries was taken after numerous discussions with government officials, including consultations with various representatives at an interagency meeting held on October 26, 1982, for review of the research design. The country selection criteria were (1) geographical, ideological and cultural diversity, (2) inclusion of market-oriented and socialist states, and (3) countries of political and economic importance to the United States.

The following categories of respondents were interviewed:

(1) African government officials

(2) African private sector representatives

(3) Executives of American firms and other foreign commercial interests operating in Africa

(4) Officials of the US government

(5) Officials of European and Japanese governments

(6) Other knowledgeable respondents

Prior to the field work, interview protocols were prepared for three categories of respondents: US business representatives, African government officials and African business representatives. Copies of these protocols are attached as Appendices B, C and D. In order to establish rapport and encourage candid responses, these protocols were used as general outlines. Respondents were also encouraged to comment at length and on the basis of confidentiality on any relevant topic about which they felt strongly or on which they were particularly qualified. Interview protocols for other respondents were not appropriate since their areas of competence or jurisdiction was too specialized.

As much as possible, American business representatives contacted were managing directors or other comparable senior officers of firms in a range of sectors, including oil, mining, manufacturing, agribusiness, banking, law and accounting. African government respondents were likewise contacted at the highest possible level, either ministers or senior civil servants. Similarly, ambassadors, USAID mission directors, embassy staff, and senior officials of relevant agencies in Washington, D.C. were interviewed.

From 25 to 35 interviews were conducted in each of the four African countries. In addition, there were some group discussions in which majority or consensus views were obtained. Of the total 150 interviews, over three quarters, or about 115, were conducted in Africa. Of that number, approximately a quarter were conducted with the foreign (principally US) business community, a quarter with African government officials, a quarter with US government officials, and the remainder with representatives of the African private sector, the European and Japanese diplomatic corps, and various other respondents (academics, journalists, economists). Documentary research included review and analysis of the professional and academic literature as well as various government reports, memoranda, cable traffic, and correspondence made available by a number of officials who, like the private sector respondents, will remain anonymous.

Numerous individuals supplied written materials, afforded access to top decision makers, provided historical background, and contributed their thoughts and time to this project. A research assistant, Scott Wylie, contributed valuable assistance in the early stages of the research. Although the conclusions and recommendations are solely the responsibility of the author, this report is in large measure a collection of the accumulated wisdom, experience, and reflections of all those who, directly or indirectly, were associated with this project.

APPENDIX B

INTERVIEW PROTOCOL FOR US BUSINESS REPRESENTATIVES IN AFRICA

Introduction

I represent the Battelle Memorial Institute, a not-for-profit research organization, which is conducting a US government-funded study of obstacles to private sector activities in Africa. Its purpose is to make concrete policy recommendations to improve the climate for both American private investment and for indigenous private enterprise. You are one of a number of business representatives who will be interviewed, along with members of the diplomatic corps, and government officials in the US and Africa. We want to obtain your candid and honest views on this issue, together with any recommendations you care to offer.

Questions

Section I: Major Obstacles to Private Sector Activities

1. What were some of the major problems you have encountered in doing business in this country?

   Probe 1.1
   Are the problems economic, regulatory, socio-cultural or political in nature?

   Probe 1.2
   Can you give me some concrete examples (foreign exchange controls, wage/price controls, licensing/permissions, infrastructure deficiencies, living conditions, political problems, trade union activities, manpower recruitment, bureaucratic delays, lack of economic incentives, taxes, export/import difficulties, government policies, etc.)?

   Probe 1.3
   What are the usual means of coping with these problems? Do you turn to particular government officials, US embassy, commercial institutions, community groups, other firms in some situations? In what circumstances?

Section II: Major Incentives for Private Sector Activities

2. What are the major attractions/benefits of doing business in this country? What attracted your firm here?

   Probe 2.1
   Are the major attractions economic, political, socio-cultural (as compared to other African states, other LDCs)?

   Probe 2.2
   Are these attractions peculiar to your firm? To an economic sector or industry? To a particular foreign group?

Probe 2.3
How could these attractions/benefits be improved upon or expanded for other prospective US investors?

Section III: Investor Attitudes

3. In your opinion, what are the future prospects for this country with regard to:

   (a) attracting private foreign investment?
   (b) encouraging indigenous private enterprise?

   Probe 3.1
   What is the basis for this assessment (Policies and practices of host government, long-range assessment of country's economic prospects, policies of external investors, number of incentives)?

   Probe 3.2
   Do you perceive differences in attitude among the various ministerial departments and agencies of the host country government regarding private investment? If so, what are these differences? Do you feel that US investment, in particular, is sought? If so, why?

   Probe 3.3
   (if not covered in 2.3) What policies or incentives would be most effective in this country (or in Africa as a whole) to encourage more US investment? Specifically, what can/should the host government do? The US government? International institutions? The Private Sector?

Section IV: Determinants of Investor Attitudes

4. Some observers are optimistic about the prospects for American investment in Africa and say that such factors as Marxism or a state-controlled economy are not real barriers to doing business in the continent. Others are more pessimistic, citing such factors as economic unpredictability, smuggling, lack of skilled manpower, corruption, small markets, etc. In your judgment, and based on your experience in this country, what are the most critical factors that influence US firms considering investment decisions here?

   Probe 4.1
   Are there concrete examples you can cite of go/no-go decisions traceable to these factors?

   Probe 4.2
   How do US firms obtain their information and evaluate these criteria (through the press, consultation with US agencies in Washington, D.C., US embassy in host country, on-site visits, investment risk analysts)?

   Probe 4.3
   In your own case, what has been your experience and background in business? In Africa? How much experience has your firm had in operating

in Africa as whole? In the LDC's? Are there particular policies of your firm which relate to your operations here (e.g. policy of 100% equity ownership)?

Section V: Evaluation of Policy Initiatives

5. The administration has made the promotion of private sector activities a central component of its policy in the LDCs. International institutions have also stressed a private-sector strategy. How do you react to these initiatives and what would you recommend to implement these policies effectively?

   Probe 5.1
   How would you evaluate the activities of the US government? (Role of State Department, USAID, Commerce Department, Ex-Im Bank, US embassy, etc.)

   Probe 5.2
   What role do you feel international agencies, such as the World Bank, can play?

   Probe 5.3
   How does the US stand in competition with other foreign commercial activities here? What are the key resources that the Europeans and Japanese have which diminish our competitiveness? What measures would most enhance US competitiveness?

APPENDIX C

INTERVIEW PROTOCOL FOR AFRICAN GOVERNMENT OFFICIALS

Introduction

I represent the Battelle Memorial Institute, a not-for-profit research organization which is conducting a US government-funded study of the obstacles to private sector activities in Africa. Its purpose is to make concrete policy recommendations to improve the climate for both American private investment and for indigenous private enterprise. You are one of a number of government officials who will be interviewed, along with representatives of the private sector and the diplomatic corps. We want to obtain your candid and honest views on this issue, together with any recommendations you care to offer.

Questions

Section I: Host Country Policies and Practices

1. In your own words, how would you characterize your government's current attitude toward private sector activities? What are the most significant steps that your government has taken to define the role of (a) foreign private investment and (b) the indigenous private sector?

   Probe 1.1
   What would you consider to be the main incentives to attract foreign investors to your country? Do you think they are adequate? What are the main disincentives?

   Probe 1.2
   What are the major factors affecting the development of domestic private enterprise? On balance, would you say the growth of local entrepreneurs and a strong indigenous private sector is helpful or harmful to your country's overall economic development?

Section II: Global Competition

2. How important is US investment? Is it any different from private investment from other countries? Generally speaking, what would you say are the major advantages and disadvantages of dealing with US corporations as opposed to firms from other countries?

   Probe 2.1
   Can you cite some specific examples to support your impressions of US commercial activities?

   Probe 2.2
   What policies or practices would you recommend to improve the climate for US investment? What should the private sector, the US government, or the host country government do to work out major difficulties?

Section III: US Government Role

3. President Reagan and other US government representatives, as well as international institutions like the World Bank, have stressed the importance of private enterprise in the future economic growth of the LDC's. In addition, they have pointed to the importance of host country policy reform, to encourage commercial activities. How do you react to these policy prescriptions and how, if at all, do they impact on your country?

   Probe 3.1
   How much direct contact do you have with foreign embassies and the diplomatic commuity for guidance on this question? How much interaction do you have with foreign ambassadors and their staffs on specific projects? How would you compare the style and content of the various commercial promotion activities of different foreign embassies?

Section IV: The Decision Making Elite

4. How would you compare your country with others in Africa and in the other LDCs with regard to official attitudes toward private enterprise?

   Probe 4.1
   In your opinion, what are the major factors that shape these attitudes (e.g. colonial history, pattern of coming to independence, infrastructure, experience and education of leaders, current market forces, ideology or doctrine, political conditions)?

   Probe 4.2
   If you were asked to identify one or two significant steps that the USG could take to improve commercial relations between the US and your country, what would they be? How would they affect official attitudes and/or official policy? Have these ever been discussed between the two governments? What is your evaluation of the likelihood of these measures coming into force?

APPENDIX D

INTERVIEW PROTOCOL FOR AFRICAN BUSINESS REPRESENTATIVES

Introduction

I represent the Battelle Memorial Institute, a not-for-profit research organization, which is conducting a US government-funded study of obstacles to private sector activities in Africa. Its purpose is to make concrete policy recommendations to improve the climate for both American private investment and for indigenous private enterprise. You are one of a number of business representatives who will be interviewed, along with members of the diplomatic corps, and government officials in the US and Africa. We want to obtain your candid and honest views on this issue, together with any recommendations you care to offer.

Questions

Section I: Major Obstacles to Private Sector Activities

1. What were some of the major problems you have encountered in doing business?

   Probe 1.1
   Are the problems economic, regulatory, socio-cultural or political in nature?

   Probe 1.2
   Can you give me some concrete examples (foreign exchange controls, wage/price controls, licensing/permissions, infrastructure deficiencies, living conditions, political problems, trade union activities, manpower recruitment, bureaucratic delays, lack of economic incentives, taxes, export/import difficulties, government policies, etc.)?

   Probe 1.3
   What are the usual means of coping with these problems? Do you turn to particular government officials, commercial institutions, community groups, other firms in some situations? In what circumstances?

Section II: Major Incentives for Private Sector Activities

2. What are the major incentives offered to the local private sector by the government? How do these compare with the incentives for foreign interests?

   Probe 2.1
   By and large, would you say that the incentives offered to foreign and local enterprises should be the same or do local businesses have special problems that need to be addressed? Examples?

   Probe 2.2
   How could the incentives for indigenous enterprises be improved upon or expanded?

3. In your opinion, what are the future prospects for this country with regard to:

   (a) attracting private foreign investment?
   (b) encouraging indigenous private enterprise?

   Probe 3.1
   What is the basis for this assessment (policies and practices of host government, long-range assessment of country's economic prospects, policies of external investors, number of incentives)?

   Probe 3.2
   Do you perceive differences in attitude among the various ministerial departments and agencies of this government regarding private investment? If so, what are these differences?

Section IV: Determinants of Investor Attitudes

4. Some observers are optimistic about the prospects for private enterprise in Africa. Others are more pessimistic, citing such factors as economic unpredictability, smuggling, lack of skilled manpower, corruption, small markets, etc. In your judgment, and based on your experience, what are the most critical factors that shape the business environment here? Examples?

   Probe 4.1
   What is your prognosis for the future of private enterprise in your country?

   Probe 4.2
   What has been your experience and background in business? How much experience has your firm had?

   Probe 4.3
   How much cooperation and interaction do you have with foreign firms (ownership, management, technical assistance, raw materials supply, marketing and distribution, credit financing, etc.)? Are these firms mostly British, French, German, US, Japanese, etc.? How do you make contact or learn about the foreign connections?

   Probe 4.4
   What are the major characteristics of the different nationalities in doing business in Africa? Which are the most successful? Why?

Section V: Evaluation of Policy Initiatives

5. The US government has made the promotion of private sector activities a central component of its policy in the LDCs. International institutions have also stressed a private-sector strategy. How do you react to these initiatives and what would you recommend to implement these policies effectively?

Probe 5.1
How would you evaluate the activities of the US government thus far? Have you had any direct benefit? Do you expect to?

Probe 5.2
What role do you feel international agencies, such as the World Bank, can play?

Probe 5.3
What role do you think the US should play in promoting private sector activities in Africa in the future?

FOOTNOTES

[1]Wall Street Journal, August 26, 1982, p. 10.

[2]"The New International Economic Order Already Set by Bankers," African Business, February 1982, p. 13.

[3]Business International, January 29, 1982, p. 33.

[4]"The Effects of US Corporate Foreign Investment: 1970-1980," as summarized in Business International, April 9, 1982, p. 118.

[5]Ibid.

[6]See "The Menace of the Multinationals," in Africa, No. 128, April 1982, pp. 98-99, for an example of these African perceptions. For a report on changing attitudes, see the International Herald Tribune, August 8, 1980, which maintains that "multinational corporations and the Third World countries...have dropped some of their mutual suspicion and hostility, and are learning - of necessity - to live together."

[7]For a discussion of dependency theory and its critics as it pertains to Africa, see the several articles contained in Daedalus, Spring 1982.

[8]Chester A. Crocker, "The African Private Sector and US Policy," November 19, 1981, Current Policy No. 348, p. 1.

[9]Chester A. Crocker, "Africa: Economic Prospects and Problems," address before the National Business League, Dallas, Texas, September 17, 1982, Current Policy No. 422, p. 3.

[10]See, for example, Colin Leys, "African Economic Development in Theory and Practice," Daedalus, Spring 1982, p. 120. Leys he defines the "African industrial capitalist" as one who is either "buying an import agency in Accra, establishing a factory in Nairobi, or owning a block of apartments in London."

[11]See the 1981-82 African/American Directory, a reference book on US business interests in Africa, published by Cooper/Lang Marketing, Washington, D.C.

[12]"US Direct Investment Position Abroad, Year End March 19, 1982" (Washington, D.C.: Department of Commerce), 1982.

[13]Interview in Abidjan, April 1982.

[14]The IMF, for example, defines private direct investment as an investment in enterprises located in one country but effectively controlled by residents of another country. Effective control is defined as an investment firm having: (1) 50 perent or more ownership of the voting stock, or (2) 25 percent or more ownership by a single holder or organized group of holders in a foreign country, or (3) existence of specific groups of residents in an

investor country represented on the board of directors. (IMF Balance of Payments Yearbook, Vol. 16, Washington, D.C., November 1964.) The US Department of Commerce, by contrast, defines US private foreign investment as the net book value of equity and loans to foreign affiliates which control only ten percent of voting securities.

A World Bank study of private foreign direct investment in developing countries examines the differences in data between the OECD and the IMF as well as differences among different contributing countries. OECD data includes reinvested earnings which are partially estimated by the secretariat, while IMF reinvested earnings data are based on statistics collected for their yearbook as reported by the companies surveyed. Concerning ownership shares, the IMF data reflects the Canadian practice of considering as part of their investment records controlling interests only, while the United States includes in its investment data total investment by residents in a foreign enterprise, whether by the controlling interest or others. In some developing countries, the World Bank study pointed out, loan guarantees by parent companies are treated as private investment, while others regard them as "errors and omissions" in balance of payment statistics. See Private Foreign Direct Investment in Developing Countries, World Bank Staff Working Paper, No. 348 (Washington, D.C.: The World Bank), July 1979.

[15]Interview with Gerald Feldman, US Commerce Department, Industry and Trade Administration, April 1982.

[16]The Effects of US Corporate Foreign Investment, 1970-1980, Business International Corporation, New York, New York, May 1982, p. 1. Despite BI's studies, the literature does not indicate a consensus on this question.

[17]Sunday Times, October 10, 1982, p. 11.

[18]Africa Confidential, Vol. 23, No. 25, December 15, 1982.

[19]Carol Lancaster, "ECOWAS: Problems and Prospects," Africa Notes, No. 4, October 10, 1982, p. 1.

[20]Ibid., p. 2.

[21]"Final Study on Procurement Practices of the African Development Bank and the African Development Fund," USAID paper, 1982.

[22]Interview in Paris, October 1982.

[23]Africa Confidential, Vol. 23, No. 25, December 15, 1982.

[24]P.J. Nichols, "The West African Monetary Union: An Appraisal," unpublished paper, Abidjan, December 4, 1980, p. 1.

[25]Alex Rondos, "Franc Zone in French Africa," West Africa, September 8, 1980.

[26]Unclassified cable from American Embassy, Abidjan, "Ivory Coast French Connection: The Commercial Relationship," No. A-54, December 23, 1980, p. 5.

[27]Interview in Abidjan, April 1982.

[28]Ibid.

[29]Ibid.

[30]Jane Baird, "The Assault on the Last Banking Frontier," Institutional Investor, May 1982.

[31]Interview in Paris, April 1982.

[32]L'Industrie Ivoirienne en 1980: Liste des Entreprises Industrielles (Abidjan: Chambre, d'Industrie de Côte d'Ivoire), Mai 1981.

[33]Marchés tropicauz, April 30, 1982.

[34]Interview in Abidjan, April 1982.

[35]Ibid.

[36]Joseph La Palombara and Stephen Blank, Multinational Corporations in Developing Countries, a Research Report from the Conference Board, No. 767 (New York), n.d., p. 203.

[37]Information provided by the USAID Mission in Kenya.

[38]A conversation with Sekou Touré, Africa Notes, No. 2, August 15, 1982, p. 6. For an excellent analysis of African ideology and economic policy, see Crawford Young, Ideology and Development in Africa (Madison: University of Wisconsin Press), 1982.

[39]Address by President Felix-Houphouët-Boigny before the National Council of the Ivory Coast, November 16, 1981, in Fraternite Matin, November 17, 1981, p. 8.

[40]African Business, July 1982, p. 75.

[41]Interview in Nairobi, October 1982.

[42]Richard J. Faletti, "Investing in Nigeria - the Law, Good Intentions, Smoke and Substance," unpublished paper prepared for the JACC meeting, July 1981.

[43]Interview in Johannesburg, April 1982.

[44]Ibid.

[45]Interview in Abidjan, April 1982.

[46]Isaiah Frank, Foreign Enterprise in Developing Countries (Baltimore and London: The Johns Hopkins University Press), p. 95.

[47]Transnational Corporations in Developing Countries: New Policies for a Changing World Economy, a statement by the Research and Policy Committee of the Committee for Economic Development, April 1981, pp. 6 and 7.

[48]For a typology of different investment programs, see Richard D. Robinson, Foreign Investment in the Third World: A Comparative Study of Selected Developing Country Investment Programs, Washington, D.C., US Chamber of Commerce, 1980.

[49]Interview in Harare, April 1982.

[50]Ibid.

[51]Zimbabwe's First Five Years, London: Economist Intelligence Unit: November 1981.

[52]Interview in Harare, April 1982.

[53]International Herald Tribune, April 19, 1982, and the Zimbabwe Herald, February 22, 1982.

[54]Interview in Harare, April 1982.

[55]Ibid.

[56]Unclassified State Department cable from American Embassy, Nairobi, "US Private Business in Kenya - 1981," No. A-9, March 8, 1982.

[57]Interview in New York, May 1982.

[58]One respondent complained of his failure to obtain an import license for a new machine as an addition to an existing manufacturing operation that would have earned Kenya foreign exchange. The request for an import license was denied on the ground that it probably could be obtained locally, a conclusion made by a civil servant who had no knowledge of the availablility of such equipment or of the technology required to build it. In another instance, a US investor had planned a $12 million expansion program but was denied government approval becasuse his firm had obtained an exclusivity provision which gave it a monopoly on production up to a fixed amount. The expansion program would have exceeded that production level and a waiver was not granted, despite the fact it would have increased Kenya's exports.

[59]Wall Street Journal, July 12, 1982. Also, see the List of Nigerian Firms of Questionable or Unknown Reliability, US Department of Commerce, International Trade Administration, Office of African Affairs, Washington, D.C., August 1982.

[60]Chester A. Crocker, "Africa: Economic Problems and Prospects," address before the National Business League, Dallas, Texas, on September 17, 1982.

[61]Accelerated Development in Sub-Saharan Africa: An Assessment by OAU, ECAS and ADB Secretariats (ADB edited version), n.p., n.d., pp. 21 to 22.

[62]Frank C. Ballance, "Possibilities for Small Enterprise Development in Zimbabwe," paper prepared for USAID Mission in Zimbabwe, April 1982, p. 3.

[63]See footnote 59.

[64]Ballance, op.cit., p. 23.

[65]Adebayo Adedeji, Indigenization of African Economies (New York: Africana Publishing Co.), 1981, p. 30.

[66]Ibid.

[67]Accelerated Development in Sub-Saharan Africa: An Agenda for Action (Washington, D.C., World Bank), 1981, p. 40.

[68]S.I. Edokpayi, "Administrative and Managerial Implications," in Adedeji, op. cit., p. 353. P.D. Collins has noted that "there has been three distinct approaches to indigenization in Africa. First, an ad hoc approach involving state protection and patronage (e.g., Zambia and Kenya). Second, a systematic policy of protection and patronage overseen by a regulatory authority (e.g., the 1970 Ghana Business Promotion Act and the 1975 Ghana Investment Policy Decree). Third, a disorganized style involving expulsions and expropriations and no machinery to oversee transfer (e.g., Uganda). See P.G. Collins, "The Management and Administration of Parastatal Organizations for the Promotion of Indigenous Enterprise: A West African Experience," Public Administration and Development, Vol. I, 1981, p. 126.

Typically, African governments use a variety of mechanisms to encourage local entrepreneurship. These include (1) preferential access to certain areas of the economy (land, trade, and sectors of manufacturing and distribution are transfered through resettlement schemes, licensing and either outright prohibition of the activities of foreign interests, or required participation of indigenous interests up to certain fixed levels), (2) exchange control (remittances are subject to government approval, a fixed percentage of loans are set aside for indigenous applicants, or a ceiling is placed on the amount of loans available to non-residents), (3) government participation in foreign-owned banks or extension of state credit institutions (to make more loans and credit available to local enterprises), (4) the establishment of other business-assisted projects (creation of industrial estates, setting aside a percentage of government procurements for local firms, tax incentives, restriction on expatriate quotas, and various other licensing authorities).

African governments which adopt these well-intended schemes generally have not understood what it takes to develop the private sector, with the result that many of these incentives have not worked. In a study of the Ivory Coast, den Tuinder noted that, in 1962, measures were taken by the Ivorian government to Ivorianize forestry, industry and commerce, sectors largely controlled by foreigners. The government set up SONAFI (the Société Nationale de Financement) to acquire equity in foreign-controlled enterprises that, in turn, were to be disseminated by means of a stock exchange. See Bastiaan A.

den Tuinder, Ivory Coast: The Challenge of Success, report of a mission sent to the Ivory Coast by the World Bank (Baltimore and London, the John's Hopkins University Press), n.d., p. 152. Four years after the establishment of the stock market, 64 percent of all capital stock in business enterprises in the Ivory Coast was held by Ivorian interests, more than half by the state, a 20 percent increase from the year before. The promotion of capital stock owned by private Ivorians was down by two percent from the year before. See L'Industrie Ivoirienne en 1980: Liste des Entreprises Industrielles (Abidjan: Chambre d'Industrie de Côte d'Ivorie), Mai 1981, p. S1.

[69]Interview in Abidjan, April 1982.

[70]Ibid.

[71]Sayre Schatz, Nigerian Capitalism (Berkeley and Los Angeles: University of California Press), 1977.

[72]Ibid.

[73]Ibid., p. 69.

[74]The shortage of viable projects thesis is supported by a number of other authors, notably John Harris, Industrial Entrepreneurship in Nigeria, unpublished Ph.D. dissertation, Northwestern University, Evanston, Ill., August 1967; Wayne Nofziger, "The Market for Nigerian Enterprises," in Sayre F. Schatz (ed.) South of the Sahara: Development in African Economies (Philadelphia: Temple University Press), 1972; Gerald Foust, "Small Industries Credit Schemes in Northern Nigeria: An Analysis of Operational and Lending Patterns," Nigerian Journal of Economic and Political Studies, XI:3 (July 1969); M.G. Smith, The Economy of Hausa Communities in Zaria, Colonial Research Studies, No. 16 (London: HNSO), 1955.

[75]Eugene Staley, "Development of Small Industry Programmes," in A. Winsemius and J.A. Pincus (eds.), Methods of Industrial Development: With Special Reference to Less Developed Areas (Paris: OECD), 1962, p. 222.

[76]Collins (1981), p. 126.

[77]Schatz, op. cit., p. 214. In Nigeria, these programs included, in 1955, the Approved Manufacturers Scheme to stimulate domestic production. It required all departments of the federal government to purchase their supplies from domestic firms which are designated as Approved Manufacturers rather than from importers. Similar schemes in other parts of Africa were adopted. See Theodore Teiger and Winifred Armstrong, The Development of African Private Enterprise, Planning Phamphlet No. 120 (Washington, D.C.: National Planning Association), 1964. Other Nigerian schemes included (1) the Aba Industrial Estate, opened in 1958 to provide essential services, and (2) an extensive series of loan programs administered at the regional and federal level for projects that could not get financing through normal commercial channels.

A full exposition of the problems inherent in these incentive schemes, and the reasons for their going astray, is contained in Schatz's 1977 study. They include the fact that indigenous enterprises could not meet the requirements

on quality, price, and delivery; purchasing procedures got bogged down in red tape; coverage was limited to favor government-owned enterprises; and the granting of licenses was subject to political manipulation. The industrial estate also ran into problems. Sites became difficult to acquire, rents became too high for Nigerians, the government was unable to collect the rents effectively, the engineering workshop was underutilized, the industrial officers were technically inadequate, and the estate did not cover the costs of the operations, even with the subsidized support. A limited number of tenants grew beyond the "nursery stage" (only two of approximately 28) and found it difficult to make the transition beyond the estate without subsidized support. A similar conclusion was made with regard to a case study of an industrial estate in Kenya. See Deepak Lal, Appraising Foreign Investment in Developing Countries (New York: Holmes & Meier Publishers), 1978.

[78]Adedeji, op. cit., p. 391.

[79]Interview in Nairobi, October 1982.

[80]Washington Post, April 3, 1982, p. A19.

[81]Ibid.

[82]Michael Roemer, Economic Development in Africa: Performance since Independence, and a Strategy for the Future," Daedalus, Spring 1982, p. 137.

[83]For a fuller discussion of some of the business problems specific to Nigeria, see Eugene B. Mihaly, "Private Investment in Sub-Saharan Africa: Where are the Americans?" paper presented at the African Studies Association meeting in Washington, D.C., November 5, 1982; and "The Most African Country," Economist, January 23, 1982, Special Survey on Nigeria.

[84]Joseph La Palombara and Stephen Blank, Multi-National Corporations and Developing Countries, a research report from the Conference Board, report number 767 (New York), n.d.

[85]Ibid., p. 161.

[86]Interview in Abidjan, April 1982.

[87]La Palombara and Blank, op. cit., p. 168.

[88]Peter F. Drucker, "Multi-Nationals in Developing Countries: Myths and Realities," Foreign Affairs, October 1974, pp. 123-124.

[89]La Palombara and Blank, op. cit., p. 153.

[90]Ibid., p. 162-163.

[91]Interview in New York, May 1982.

[92]Interview in Washington, D.C., July 1982.

[93]Wall Street Journal, July 19, 1982.

[94]Ibid.

[95]Ibid.

[96]These factors are not listed in rank order of importance. Many are discussed in more detail elsewhere in this report and need no further elaboration here. On the question of the cost of living in Africa, estimates vary. However, most respondents agreed that, at a minimum, the cost of an expatriate manager would be at least three times his base salary. In the Sudan, one US firm reported that the cost of an American manager is approximately $200,000 a year, while a document prepared for the USDA estimated that the fixed cost of maintaining an employee in Nigeria would be approximately $500,000 for the first year and $200,000 thereafter. See "Agricultural Investment in Nigeria: The Opportunities and Realities for US Agribusiness Companies," Part 1, prepared for OICD/USDA under a grant from the Trade and Development Program, US Department of State by Agribusiness Associates, Inc., Wellesley, Massachusetts, January 1981.

[97]Unlike Latin America, Africa does not present the corporate community with life-threatening situations arising from political terrorism. However, there exists a number of "hassles." These includes such difficulties as getting through the airport, obtaining a room at the hotel, finding transportation, getting necessary visas, settling old grudges, alleged CIA connections, and disruptions associated with political instability and a change of government. Harrassment often is dismissed by US officials as arbitrary or unique situations requiring little or no attention; however, it occurs with sufficient regularity that a number of corporation executives mentioned it as an impediment. During the course of this study, for example, a representative of an American firm was put in detention due to visa problems while on a short visit to Kenya. Harrassment is not universally present throughout the continent and, ironically, seems to be notably absent or negligible in socialist countries.

[98]Business Week, December 1, 1980, p. 69.

[99]Mihaly, op. cit., p. 3.

[100]Jane Baird, op. cit., p. 246.

[101]Chicago Tribune, October 4, 1981.

[102]Christian Science Monitor, May 6, 1982.

[103]Interview in New York, June 1982.

[104]Washington Post, March 3, 1982.

[105]Business America, February 8, 1982, p. 24. The Trade and Investment Mission was headed by Secretary of Commerce Malcolm Baldridge and Secretary of

Agriculture John R. Block. The mission, involving 25 business participants went to the Ivory Coast, Cameroon, Nigeria, and Morocco from January 8 to 21, 1982.

[106]Mihaly, op. cit., p. 6.

[107]Baird, op. cit., p. 245.

[108]Ibid.

[109]Interview in Abidjan, April 1982.

[110]Baird, op. cit., pp. 243 and 245.

[111]"On Increasing Private Sector Involvement in African Development," USAID paper (AFR/DP/PPEA: C. Gleason), April 24, 1981, pp. 2-4. Rates of return, in 1978 were said to vary considerably. Nigeria's percent of return on investment was said to be 56.6 percent, Kenya's 20.4 percent, Gabon's 14.9 percent, Liberia's 14.1 percent, Zaire's 3.1 percent, Zambia's 2.8 percent, Zimbabwe's 2.8 percent, and Ghana's 0.6 percent. Cameroon was said to have an unspecified negative rate of return. These figures, and the conclusion upon which it is based, are highly suspect. The author provides no substantiation for his data.

[112]David L. Buckman, "An American Banker Looks at Africa," in Helen Kitchen (ed.), Africa: From Mystery to Maze (Lexington, Massachusetts, and Toronto: Lexington Books), 1976, pp. 311-340. This case study points out how disputes and disappointments arose over ownership, equity valuation, conflicting investment goals, investment incentives, concessional finance, and personal and cultural differences.

[113]Mark C. Wentling, The Development of African Private Enterprise: Discussion Paper, Office of Regional Affairs, Africa Bureau, USAID, October 1981, p. 2.

[114]Ibid., Annex A, p. 3.

[115]Chester A. Crocker, "The African Private Sector in US Policy," op. cit.

[116]Ibid.

[117]Unclassified State Department cable No. 149172, June 1981, "Your Role in Export Promotion."

[118]Unclassified State Department cable No. 988314, April 1982, "Private Sector Initiatives."

[119]Unclassified State Department cable No. 18316, August 1981, "Export Promotion: Commercial Activities Report." This cable was sent to the American Embassy in the Cameroon in response to a commercial activities report. Similar messages were later sent to all Africa posts.

[120]United States Participation in the Multilateral Development Banks in the 1980s (Washington, D.C.: Department of the Treasury), February 1982, p. 7.

[121]"Corporate Strategists Under Fire," Fortune, December 27, 1982, pp. 34-39.

[122]Robert Lubar, "Reaganizing the Third World," Fortune, November 16, 1981, p. 81.

[123]Economist, June 26, 1982, p. 80.

[124]See footnote 61.

[125]Interview in Nairobi, October 1982.

[126]Report of the House Foreign Affairs Committee on the International Security and Development Cooperation Act of 1982 (H.R. 6370), p. 24, and the report of the Senate Foreign Relations Committee on the International Security Enhancement Act of 1982 (S. 2508), p. 28.

[127]Interview in New York, May 1982.

[128]Interview in Johannesburg, May, 1982.

[129]Interview in Pittsburgh, June 1982.

[130]Interview in Washington, D.C., June 1982.

[131]Interview in Abidjan, April 1982.

[132]Interview in Washington, D.C., March 1982.

[133]Interview in Abidjan, April 1982.

[134]Private Enterprise Investment Opportunities Project: Final Report, prepared for USAID by MAB Associates, Inc. on behalf of the African Development Corporation and the Pan-African Development Corporation, July 1969, pp. 24-26.

[135]Another American busiunessman contemplating an investment in Africa recounted his experience in trying to obtain assistance through the new Bureau for Private Enterprise (PRE). PRE responded that they would consider co-financing a feasibility study provided (a) a US firm was recruited to do it, (b) the investor agreed to buy 25 percent of his equipment from the US if the project went forward, and (c) the investor agreed to bear the full cost of the feasibility study if it was successfully concluded. "Things are tough enough in Africa without these restrictions," he complained. "Americans don't know much about Africa and we prefer to finance our feasibility study ourselves, contracting it out to someone in whom we can have some trust." In addition, the investor felt it was unreasonable to require 25 percent of the equipment for the project to be bought from the United States, if it could be found cheaper elsewhere.

[136]Interview in New York, April 1982.

[137]Interview in Washington, D.C., June 1982.

[138]Congressional Record, May 27, 1982, p. S6385.

[139]Interview in Harare, April 1982.

[140]Interview in Abidjan, April 1982.

[141]Interview in Khartoum, October 1982.

[142]The institutions and agencies discussed thus far are the most influencial ones dealing with commercial activities in Africa. Other relevant institutions likewise have an impact. Through their role in Africa is not as prominent, the Trade and Development Program (TDP), for example, offers project planning services leading to the sale of US technology and operates the reimbursable USAID program where government-to-government technical assistance is provided on a payback basis. In Africa, TDP has been active in providing for the technical training of thousands of Nigerian students and establishing a synfuels project in Zimbabwe. Most of TDP's work, however, is concentrated in the middle-income countries.

The office of the Special Trade Representative (STR) is also active in exploring the possibilities of concluding bilateral investment treaties (BITS) and agreements on trade and tax matters. Here again, Africa does not figure prominently in its activities.

The Treasury Department is very important to the private sector program, especially through its dealings with the multilateral banks, but there is considerable resistance toward providing adequate resources. One top Treasury official said frankly that "the private sector emphasis will not be the "white knight' in Africa as it might be elsewhere. We must work on building institutions first. Nor will subsidies help much. We must keep in mind that our opposition to subsidies is a reflection of the fact that we are not actually a pro-business administration, but a pro-market one."

[143]Interview in Washington, D.C., May 1982.

[144]Unclassified cable from American Embassy, Ouagadougou, "Private Sector Initiatives," No. 89314, April 9, 1982.

[145]In a letter dated April 30, 1982, to the USAID Administrator, Gordon W. Evans, Director, REDSO/WA wrote: "If we really want broader opportunities for the introduction of US private enterprise to potential new markets, then we must not fail to underwrite and support the efforts of these regional institutions to create the very sorts of markets that we seek. The ECOWAS telecommunications arena is a sad example of a private sector opportunity lost."

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